



The Pakistan Credit Rating Agency Limited

THE UNITED INSURANCE COMPANY OF PAKISTAN LIMITED (UIC)

IFS RATING REPORT

	NEW [SEP-17]	PREVIOUS [MAR-17]
Insurer Financial Strength (IFS) Rating	AA-	AA-
Outlook	Stable	Stable

SEPTEMBER 2017

Profile & Ownership

- The United Insurance Company of Pakistan Limited (UIC), a member of the United International Group (UIG), was established in 1959 and the company is listed on Pakistan Stock Exchange
- UIG controls 92% holding in the company. Mr. M. A. Shahid established UIG in 1999, and effectively controls ~46% holding in UIC through group companies
- UIG group mainly has business interests in Insurance, Tracking, Microfinance Banking and Technology

Governance and Management

- The overall control of the company vests in seven-member BoD. Two members represent UIG, four are non-executive including chairman and one is independent director
- Group Chairman, and main brain behind the company, Mr. Mian. M. A. Shahid is the advisor to the board
- The CEO, Mr. Rahat Sadiq, a qualified chartered insurer from UK has been associated with the company for nearly a decade

Business Risk

- In terms of GPW, UIC has seen highest growth in industry (30%) in 1H17, clocking in at PKR 2,735mln, and the company's market share stood at 7% (CY08: 0.52%)
- UIC has a well-diversified GPW portfolio mix; miscellaneous (37%), Crop (18%), motor (16%), Fire (13%), and Marine (5%). The Miscellaneous segment showing the highest growth (85%), in turn consists of health (59%), Engineering (13%), bond (10%), and livestock (9%) other varied small sub segments
- Window Takaful contributes 11%, to the topline, and occupies 13% takaful market share in 1H17
- The company's loss ratio has improved (1H17: 40%, 1H16: 43%), while Expense ratio remained steady as expenses increased in line with business volumes
- Company reported third highest underwriting profitability in industry at PKR 503mln in 1H17.

Business Strategy

- Going forward, the company would continue its aggressive growth strategy by banking on its high profile marketing staff. Although the management envisages growth invariably in all segments, bond, livestock, healthcare, and travel insurance would remain the main areas of focus

Financial Risk

- At end-June 17, UIC's investment book (PKR 1,743mln) constituting 0.64 times of equity base, comprises liquid investments (72%), and strategic investments (27%) – APNA Microfinance bank (shareholding – 46.92%). Apna Bank is in losses and has booked loss of RS. 250mln at end June 17. The sponsors have increased their stake almost to 80% lately. One right issue has been made, inducing Rs 500mln into the capital. Another right issue is in the pipeline. As subordinated debt of PKR 40mln is also being invested in the bank. The sponsors intend to enhance profitable loan book while increasing the current account deposit of the bank. With this, the bank is expected to break even by Dec-17. This is indeed crucial for the sustainability of the group.
- The liquid investment book predominantly comprises government securities (27%) followed by bank deposits (52%) and listed equity (13%)
- The market value of strategic investments in Apna Microfinance Bank is significantly higher as at end June 17 (PKR 649mln) than its book value (PKR 485mln)
- The liquidity position of the company, vis-à-vis growing business size, needs strengthening; liquid investments (PKR 1,256mln) cushions to net claims stands at one-to-one
- The company's reinsurance panel constitutes Swiss Re (Rated 'AA-' by S&P), Korean Re (Rated A by S&P), Trust Re (Rated 'A-' by S&P), Labuan Re (Rated 'A-' by A.M. Best), Malaysian Re (Rated 'A-' by A.M. Best), Pakistan Reinsurance (Rated AA locally), Hannover AG (Rated 'A+' by S&P) and GIC Re (Rated 'A-' by A.M. Best)
- These non-proportional treaties, having large capacity, allowed the company to enter large business, although this also entails high risk retention on company's books. As the company has grown significantly, this has become a requisite step, though this must be handled carefully.

RATING RATIONALE

The rating of United Insurance takes into account continued performance of the company reflected by steadily increased market share, improved underwriting results and structured reinsurance treaties. The company has shown highest growth in industry at end June 2017. The bond business is one of the growth drivers: its risk management should be harnessed while bringing transparency to claims settlement, considering the circular arrangement in design of the policy. Herein, improvement in the performance of UIC's strategic investment in Apna Microfinance Bank; wherein UIC is expanding its ownership stake.

Improved core underwriting results reflected positively on the bottom line of the company and income from investment portfolio also support the bottom line. UIC had a conservative stance towards investments as the risk profile of the investment portfolio remained low with half of the liquid funds deployed in low risk bank deposits. Though liquid profile of the company is considered adequate. Going forward, strengthening of liquidity management is considered crucial.

KEY RATING DRIVERS

Continuation of prudent underwriting policies in core insurance business would be amongst the key rating drivers; ability to demonstrate a consistent and track of good quality business in underwriting performance, sustaining market share and a strengthening trend in liquidity maintenance will continue to be trailed. Implementation of "Claims Tracking system", along with planned intelligence tools, should improve MIS system; hence, claims turnaround time. The company is expected to improve its governance framework, with enduring emphasis on compliance.

INDUSTRY

Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.

The Pakistan Credit Rating Agency Limited

The United Insurance Company of Pakistan Limited

Balance Sheet

	1H17 PKR mln	CY16 PKR mln	1H16 PKR mln	CY15 PKR mln
A. LIQUID INVESTMENTS				
1 Cash and Bank Deposits (including TDRs)	663	617	484	518
2 Government Securities (including money market funds)	339	495	557	550
3 Equities - Listed (including stock based mutual funds)	172	48	148	74
4 Mutual Fund Units	-	-	-	-
5 Debt Securities - Listed (including income funds)	82	-	-	-
<i>Liquid Investments</i>	1256	1160	1189	1142
B. STRATEGIC INVESTMENTS				
1 Listed	485	611	445	426
2 Unlisted	-	-	-	-
<i>Strategic Investments</i>	485	611	445	426
C. OTHER INVESTMENTS				
1 Equities – Unlisted	0	0	0	0
2 Debt Securities – Unlisted	0	0	0	0
3 Investment Properties	3	3	3	3
4 Others	0	0	0	13
<i>Other investments</i>	3	3	3	16
D. TOTAL INVESTMENTS (A+B+C)	1743	1773	1637	1584
E. INSURANCE RELATED ASSETS				
1 Premiums Due but Unpaid	1114	719	821	722
2 Amounts Due from Other Insurers/Reinsurers	556	635	495	615
3 Reinsurance Recoveries Against Outstanding Claims	631	595	646	696
<i>Insurance related assets</i>	2301	1949	1962	2033
F. OTHER ASSETS				
1 Deferred Commission Expense	246	233	302	208
2 Prepaid Reinsurance Premium Ceded	674	641	632	562
3 Others	283	337	306	274
<i>Other Assets</i>	1203	1211	1240	1044
G. FIXED ASSETS	933	926	889	759
H TOTAL ASSETS (D+E+F+G)	6,180	5,860	5,728	5,421
I EQUITY				
1 Paid-up Capital	2,002	1,803	1,803	1,288
2 General Reserve	75	75	75	75
3 Capital Reserve	-	-	-	-
4 Statutory Reserve	-	-	-	-
5 Waqf/Participant's Takaful Fund (PTF)	(9)	(51)	(13)	2
6 Reserve for Exceptional Losses	-	-	-	-
7 Reserve for Issue of Bonus Shares	-	-	-	-
8 Surplus/(Deficit) on Revaluation	82	82	39	39
9 Unappropriated Profit/(Loss)	573	677	668	882
<i>Equity</i>	2,722	2,587	2,572	2,287
J UNDERWRITING PROVISIONS				
1 Provision for Unearned Premium	1,773	1,646	1,572	1,545
2 Premium Deficiency Reserve	20	22	11	11
3 Commission Income Unearned	125	92	118	113
<i>Underwriting Provisions</i>	1,918	1,760	1,701	1,669
K INSURANCE RELATED LIABILITIES				
1 Provision for Outstanding Claims (including IBNR)	874	851	796	828
2 Amounts Due to other Insurers/Reinsurers	128	200	137	152
3 Commission Payable to Agents	0	17	10	25
<i>Insurance related liabilities</i>	1,002	1,068	942	1,005
L OTHER LIABILITIES				
1 Premiums Received in Advance	-	-	-	-
2 Creditors, Accruals and Other Liabilities	443	364	405	350
<i>Other liabilities</i>	443	364	405	350
M BORROWINGS	94	81	108	111
N TOTAL LIABILITIES (J+K+L+M+N)	3,458	3,273	3,156	3,134
O TOTAL EQUITY AND LIABILITIES (I+O)	6,180	5,860	5,728	5,421

The Pakistan Credit Rating Agency Limited**The United Insurance Company of Pakistan Limited****Profit and Loss Account**

	1H17							CY16							1H16							2015				
	PKR mln							PKR mln							PKR mln							PKR mln				
	Fire	Marine	Motor	Crop	Others	Aggregate		Fire	Marine	Motor	Crop	Others	Aggregate		Fire	Marine	Motor	Crop	Others	Aggregate	Fire	Marine	Motor	Others	Aggregate	
A. PREMIUM REVENUE																										
Growth	-17%	-16%	-31%	41%	85%	30%		38%	-7%	8%	#DIV/0!	-8%	21%		24%	-4%	23%	#DIV/0!	-16%	26%						
Mix	13%	5%	16%	18%	37%	100%		28%	8%	35%	16%	40%	128%		20%	7%	31%	16%	26%	100%						
1. Gross Premium Written	349.1	130.2	445.1	481.1	1,006.9	2,735	1	953.4	280.6	1,165.9	547.0	1,363.9	4,311	1	419.2	155.3	646.2	341.7	545.4	2,108	1	690.2	301.9	1,083.9	1,489.9	3,566
2. Adjustment for Unearned Premium																										
a). Opening Unearned Premium Reserve	-	-	-	-	-	-		335.4	129.7	505.7	93.2	481.1	1,545		335.4	129.7	505.7	93.2	481.1	1,545		294.4	115.7	273.1	743.4	1,427
b). Closing Unearned Premium Reserve	-	-	-	-	-	-		(406.7)	(34.3)	(502.9)	(74.8)	(627.1)	(1,646)		(281.0)	(39.2)	(564.3)	(241.4)	(445.7)	(1,572)		(335.4)	(129.7)	(505.7)	(743.4)	(1,545)
Premium Earned	349.1	130.2	445.1	481.1	1,006.9	2,735	#	(71.3)	95.4	2.8	18.3	(146.1)	(101)	#	54.4	90.5	(58.6)	(148.2)	35.4	(27)	#	(41.0)	(14.0)	(232.6)	169.2	(118)
3. Reinsurance Ceded	170.3	25.2	163.7	62.0	252.2	729	#	882.1	376.0	1,168.7	565.3	1,217.8	4,210	#	473.6	245.8	587.5	193.4	580.8	2,081	#	649.2	287.9	851.3	1,659.0	3,447
4. Adjustment for Prepaid Reinsurance								456.0	110.3	302.0	121.7	419.9	1,410		(205.2)	(74.4)	(286.2)	(115.3)	(32.6)	(714)		(387.1)	(183.9)	(147.1)	(234.6)	(953)
a). Opening Prepaid Reinsurance Ceded	-	-	-	-	-	-		245.0	89.6	81.1	13.6	133.1	562		(245.0)	(89.6)	(81.1)	(13.6)	(133.1)	(562)		(127.4)	(69.3)	(7.5)	(384.4)	(589)
b). Closing Prepaid Reinsurance Ceded	-	-	-	-	-	-		(229.4)	(8.8)	(107.0)	(3.2)	(292.4)	(641)		233.6	18.9	254.4	55.9	69.2	632		245.0	89.6	81.1	146.8	562
Reinsurance Expense	170.3	25.2	163.7	62.0	252.2	729		15.7	80.7	(26.0)	10.4	(159.3)	(78)		(11.4)	(70.7)	173.3	42.2	(63.9)	70		117.6	20.3	73.6	(237.6)	(26)
Net premium Revenue	178.8	105.0	281.5	419.1	754.8	2,006		471.6	191.1	276.0	132.1	260.6	1,331		(216.6)	(145.1)	(112.9)	(73.1)	(96.5)	(644)		(269.5)	(163.6)	(73.5)	(472.3)	(979)
								410	185	893	433	957	2,879	##	257.0	100.8	474.7	120.4	484.3	1,437		379.7	124.2	777.8	1,186.8	2,469
B. CLAIMS																										
1. Claims expense	209.5	63.0	186.8	30.2	592.4	1,170	##	683.8	68.1	379.5	41.9	668.4	1,842		(304.7)	(94.1)	(201.3)	(29.1)	(271.4)	(901)		(177.0)	(266.5)	(259.1)	(628.9)	(1,332)
2. Reinsurance and Other Recoveries	64.9	13.8	22.9	4.6	225.7	374	##	479.4	15.5	32.4	-	188.8	716		159.4	57.2	19.5	2.9	38.9	278		140.1	194.4	6.4	119.3	460
Net Claims Expense	(145)	(49)	(164)	(26)	(367)	(797)	##	(204)	(53)	(347)	(42)	(480)	(1,126)		(145.3)	(36.9)	(181.8)	(26.2)	(232.6)	(623)		(37.0)	(72.2)	(252.6)	(509.6)	(871)
C. PREMIUM DEFICIENCY EXPENSE					1.7	2		(9.0)	-	-	-	(1.9)	(11)		-	-	-	-	-	-		-	-	-	(11.0)	(11)
D. MANAGEMENT EXPENSES	38.3	14.3	80.7	52.8	110.4	372	##	67.7	18.0	179.6	56.0	130.0	451		(54.0)	(19.3)	(81.5)	(48.5)	(75.6)	(279)		(76.8)	(36.4)	(218.4)	(167.3)	(499)
E. COMMISSION																										
1. Commission Expense	64.4	11.6	52.2	27.6	66.3	258	##	155.6	47.9	134.8	100.0	90.8	529		(69.9)	(29.4)	(64.9)	(36.2)	(26.6)	(227)		(109.0)	(35.6)	(80.8)	(144.1)	(370)
2. Commission from Reinsurer	13.0	0.7	35.4	13.6	43.2	117		73.7	29.1	56.6	23.9	66.5	250		44.4	26.1	22.5	12.6	20.2	126		39.3	24.9	12.6	70.6	147
Net Commission Expense/(Revenue)	(51)	(11)	(17)	(14)	(23)	(141)	##	(82)	(19)	(78)	(76)	(24)	(279)		(25.4)	(3.2)	(42.4)	(23.6)	(6.3)	(101)		(69.7)	(10.7)	(68.3)	(73.4)	(222)
F. UNDERWRITING INCOME/(LOSS)	(55)	31	20	327	255	696		56	95	288	259	323	1,022	##	32.2	41.4	169.1	22.0	169.9	435		196.2	5.0	238.4	436.4	876
	-8%	4%	3%	47%	37%			6%	9%	28%	25%	32%														
G. General and Administrative Expenses						(193)	##						(324)							(131)						(249)
H. UNDERWRITING INCOME/(LOSS) - adjusted						503							698							303						627
I. INVESTMENT INCOME																										
1. Return on Deposits/COIs/Placements						50							6							5						5
2. Return on Government Securities						20							43							46						44
3. Dividend Income						-							2							10						11
4. Profit from associate						-							(277)							(11)					(11)	
4. Loss on Disposal of investments						-							1							-					(1)	
Gain on Disposal of investments						-							26							7					5	
5. Surplus/(Deficit) on Revaluation						(3)							5							(4)					(4)	
6. Rental Income						5							(1)							1					1	
Net Investment Income						73							(195)							54						51
J. TOTAL OPERATING INCOME/(LOSS)						576							503							357						678
K. Financial Charges						(8)							(10)							(9)						(12)
L. Other Income/(Charges)						(56)							22							38						93
M. PROFIT/(LOSS) BEFORE TAX						511							514	##						387						759
1. Current						(40)							58							(45)					(84)	
2. Prior						-							(2)							-					8	
3. Deferred						2							24							1					17	
						(38)							80							(44)					(60)	
N. PROFIT/(LOSS) AFTER TAX						474	##						594							343						699
O. Unappropriated Profit/(Loss) Brought Forward						145							984							984						678
P. Adjustments to the accounting																										
Q. AVAILABLE FOR APPROPRIATION						619							1,578							1,327						1,377
R. APPROPRIATIONS																										
1. General Reserve						-							-							-						-
2. Reserve for Bonus shares						-							(515)							(515)						(368)
3. Dividends						-							-							-						-
						-							(515)							(515)						(368)
S. Unappropriated Profit/(Loss) Carried Forward						619							1,062							811						1,009

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Ratio Analysis

	1H17	CY16	1H16	CY15
A. MARKET PENETRATION				
1. Market Share	6.9%	5.5%	5.2%	5.3%
2. Industry's GPW growth	-1% #	16%	33%	18%
B. GROWTH				
1. Gross Premium Written (GPW) Growth Rate	30%	21%	26%	40%
2. Net Premium Revenue (NPR) Growth Rate	40%	17%	24%	60%
C. UNDERWRITING RESULTS				
7. Gross Reinsurance Ceded as a % of GPW	27%	33%	34%	27%
Fire Reinsurance Ceded as a % of Fire GPW	49%	48%	49%	56%
Marine Reinsurance Ceded as a % of Marine GPW	19%	39%	48%	61%
Motor Reinsurance Ceded as a % of Motor GPW	37%	26%	44%	14%
Crop Reinsurance Ceded as a % of Health GPW	13%	22%	34%	37%
Others Reinsurance Ceded as a % of Others GPW	25%	31%	6%	16%
8. Net Commission (income) as a % of NPR	7%	10%	7%	9%
Commission Expense as a % of premium earned	9%	13%	11%	11%
Commission from Reinsurer as a % of Reinsurance premium Expense	16%	19%	20%	15%
9. Management and Admn. Expense as a % NPR	28%	4%	29%	30%
10. Loss Ratio [Net Claims Expense / NPR]	40%	39%	43%	35%
Fire Loss Ratio [Net Claims Expense / NPR]	-81%	-50%	57%	10%
Marine Loss Ratio [Net Claims Expense / NPR]	-47%	-28%	37%	58%
Motor Loss Ratio [Net Claims Expense / NPR]	-58%	-39%	38%	32%
Crop Loss Ratio [Net Claims Expense / NPR]	-6%	-10%	22%	33%
Others Loss Ratio [Net Claims Expense / NPR]	-49%	-50%	48%	43%
11. Expense Ratio [Management and Admn. Expenses+Net Commission / NPR]	35%	14%	36%	39%
12. Combined Ratio [Loss Ratio + Expense Ratio]	75%	53%	79%	75%
D. PROFITABILITY				
1. Investment Yield	7%	-13%	4%	4%
2. Net Investment (Income)/ loss as a % of Total Operating Income	13%	-39%	15%	8%
3. Investment Income Ratio	4%	-7%	4%	2%
4. Operating Ratio	75%	60%	73%	69%
[(Combined Ratio - (Net Investment Income+Other Income-Other Expenses)/NPR)]				
5. Return on Equity	36%	24%	53%	35%
6. Return on Assets	16%	11%	24%	14%
E. LIQUIDITY				
1. (Liquid assets at MV less borrowings)/provision for outstanding claims (times)	1.3	1.3	1.4	1.2
2. Liquid assets and strategic investments at MV less borrowings/provision for outstanding claims (times)	2.5	2.5	1.9	1.8
Liquid assets*/NPR (times)	0.8	0.5	0.4	0.5
Adjusted liquid assets**/NPR (times)	1.9	1.1	1.2	1.3
Liquid assets*/Net Claims Expense (times)	1.5	1.0	1.0	1.3
Adjusted liquid assets**/Net Claims Expense (times)	4.7	2.8	2.7	3.8
3. Days Premium Outstanding (Premium due but unpaid/ GPW * 365)	148.7	60.9	71	73.9
4. Receiveables days from other insurers (Due from other insurers reinsurers/ GPW * 365)	74	54	43	62.9
5. Reinsurance recoveries receivable / Reinsurance and other recoveries during the period x 365	616	304	425	552.3
6. Claims outstanding days (provision for outstanding claims/ claims expense * 365)	-273	-169	161	227.0
F. SOLVENCY				
Solvency Ratio (Liquid investment/ Equity)	0.5	0.4	0.5	0.5
1. Risky assets (TFCs and equity) as a % of equity	0.1	0.0	0.1	0.0
2. Equity / NPR	1.4	0.9	0.9	0.9
3. Financial Base / NPR	1.9	1.2	1.2	1.3
4. Financial Base / Net Claims	4.7	3.1	2.7	3.7



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC CC C	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

The United Insurance Company of Pakistan Limited (UIC)
 Insurance - General
 Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Dissemination Date	Rating	Outlook	Action
-	AA-	Stable	Maintain
9-Mar-17	AA-	Stable	Upgrade
25-Nov-16	A+	Positive	Maintain
1-Dec-15	A+	Stable	Maintain
2-Dec-14	A+	Stable	Maintain
20-Jan-14	A+	Stable	Upgrade

[Related Criteria and Research](#)

Methodology:
Research:

Insurer Financial Strength Rating
 Insurance Sector Study | Nov-16

[Rating Analysts](#)

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