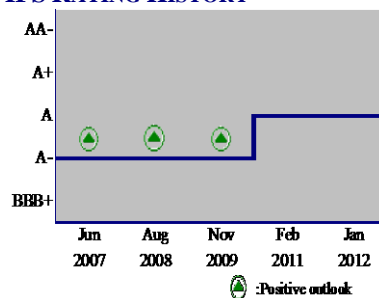


**RATING (JANUARY 2012)**
**THE UNITED INSURANCE COMPANY OF PAKISTAN LIMITED (UIC)**

	New	Previous
<b>Insurer</b>	A	A
<b>Financial Strength</b>	A	A

**IFS RATING HISTORY**

**FINANCIAL DATA**

PKR (mln)	Sep-11*	Dec -10
Total Assets	1,360	1,238
Equity	738	667
GPW	630	715
Net Income	83	85
Underwriting Income – adjusted	69	120
Loss Ratio%	28.3	31.9
Operating Ratio%	68.5	75.7
Liquidity Ratio** (x)	^ 2.1	2.7
Solvency Ratio*** (x)	^ 3.2	4.2

\* Unaudited ^ Annualized

\*\* Liquidity Ratio: Adjusted liquid assets/Net Claims Expense

\*\*\* Solvency Ratio: Financial Base/ Net Claims

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**RATING RATIONALE AND KEY DRIVERS**

- The rating reflects UIC's strong risk absorption capacity emanating from a robust financial base that adequately supports the company's high growth stance. The company's business plan predominantly focuses on wide-spread small sized business volumes. Although this has led to high business acquisition cost, the benefits are accrued in the form of low loss ratio, engendering superior underwriting performance compared to peers. The rating incorporates improved control environment supplemented by real time IT platform.
- The rating is dependent on management's ability to successfully execute its business strategy of diversification and growth, while preserving underwriting profitability. A more structured approach towards claim handling, thereby bringing clarity as to the claims processing and reporting mechanism, would remain critical for the rating. Meanwhile, strengthening of governance framework, bringing further oversight to the corporate strategy, and compliance with regulatory matters are important.

**ASSESSMENT**

- Ever since the economic downturn in 2008, the insurance industry, like other sectors of the economy, has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments in traditional products, exploring new avenues and taking steps to improve its operating platform to offer an improved level of services.
- UIC's has gradually built a diversified GPW mix. The portfolio, at end Sep-11, comprises Fire (29%), motor (23%), recently added crop/ livestock insurance (15%), bond insurance (9%), and others (15%). Meanwhile, concentration level, in term of top ten clients, is very low in all segments except marine (55%). This is attributable to company's strategy of underwriting small risks.
- During 9M11, UIC achieved 16% growth in its topline (CY10: 18%) invariably in all segments. The company maintains low cession level because its majority business falls under low risk bands. The cession rate has further declined in 9M11 to 27% (CY10: 35%) as the company has increased emphasis on small size business of crop and livestock insurance. The diversification strategy helps the company to maintain low loss ratio as compared to industry's average. However, in 9M11, the loss ratio increased to 42% (CY10: 32%), majorly due to flood losses to crops covered under insurance. The company retains most of the marketing staff on permanent basis, whereby, increase in topline benefited the company in the form of decline in expense ratio (9M11: 43%; CY10: 46%). Though higher losses translated into a drop in combined ratio (9M11: 85%, CY10: 78%), it remained significantly better than peers. The underwriting profits of UIC are supplemented by stable stream of investment income, mainly coming from bank deposits, deployed at lower rates to facilitate business induction.

▪ UIC's risk management operations are centralized, supported by real time and integrated ERP solution – recently implemented – developed by Cyber Solutions. UIC has followed a high growth strategy with commensurate strengthening of control environment. However, the use of upgraded MIS by the management requires further sophistication and more clarity, in tandem with growing business operations. Meanwhile, the company practice of claims processing needs further refinement.

▪ Going forward, the company intends to continue its growth strategy by capitalizing on its high profile marketing staff. While crop, livestock, healthcare, and travel insurance would remain the main areas of focus, the company targets corporate sector and big size business to augment its top line. This would signify a gradual shift from hitherto strategy of tapping small ticket diversified customer base and would require careful handling. UIC needs to evaluate the incremental gain it may derive from business expansion to justify its growth. Meanwhile, the management eyes geographical diversification by penetrating in provinces other than Punjab.

▪ UIC's reinsurance arrangements comprise a combination of quota share and surplus treaties with optimal capacity limits. The company's reinsurance panel constitute Mitsui Sumitomo Reinsurance (Rated 'AA' by S&P), Sampo Japan Reinsurance (Rated AA- by S&P), Malaysian Re (Rated 'A-' by AM BEST), Labuan Re (Rated 'A-' by AM BEST), and Best Re (Rated 'A-' by S&P). UIC has recently enhanced its treaty capacities in all segments commensurate with business expansion.

▪ UIC's investment book constitutes 57% of its equity base at end-Sep11. The low proportion is an outcome of major investment in vehicles (24% of equity), while drawing distinction from market practices. The investment book is mainly invested in liquid avenues (PKR 380mln), and predominantly comprises bank deposits (72%), followed by government securities (25%).

▪ UIC has strong risk absorption capacity reflected by solvency and financial base. At end Sep-11 the financial base of the company declined, yet, stands at three times to net claims expense and is higher than most peers. Meanwhile, at end Dec-10, admissible assets of the company are significantly above the statutory requirement. Although, the liquidity position of the company is in comfortable range, (9M11: 1.4, CY10: 1.7), the business expansion would necessitate that resources are diverted to liquid avenues to maintain strong liquidity.

**PROFILE**

▪ UIC, established in 1959, is listed on the Karachi Stock Exchange. It is operating through an extensive network of 110 branches – highly concentrated in the North region. Aside from the three major types of insurance products available in the market (Fire, Marine and Motor), the company is also doing Crop, Livestock, and other micro insurance. Majority ownership (93%) of the company is held by family and associates of the chairman of BoD, Mian M.A. Shahid. This represents diverse number of individuals, making ownership structure complex. Despite the owners' intention to consolidate the ownership structure, with simultaneous improvement in the governance framework including induction of independent directors, no tangible progress has so far been seen.

▪ Mr. Shahid, a law graduate having extensive insurance industry experience, chairs the BoD and actively participates in management functions and heads various management committees. He is assisted by the CEO and a team of experienced professionals, most of them have been engaged from other insurance companies and financial institutions. The CEO, Mr. Khawas Khan Niazi, was promoted to this position in 2009. He has been associated with UIC since 2002.