



The Pakistan Credit Rating Agency Limited

Rating Report

EFU General Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Jun-2023	AA++ (ifs)	-	Stable	Maintain	-
17-Jun-2022	AA++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA++ (ifs)	-	Stable	Harmonize	-
25-Jun-2021	AA+	-	Stable	Maintain	-
21-Aug-2020	AA+	-	Stable	Maintain	-
24-Dec-2019	AA+	-	Stable	Maintain	-
25-Jun-2019	AA+	-	Stable	Maintain	-
24-Dec-2018	AA+	-	Stable	Maintain	-
29-Jun-2018	AA+	-	Stable	Maintain	-
30-Dec-2017	AA+	-	Stable	Maintain	-
30-Jun-2017	AA+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned rating takes into account EFU General's leading position in the general insurance sector, where it underwrites a varied range of non-life business segments. The Company's importance to its sponsors is demonstrated by the presence of a brand name and successful track record of operations in the country. In addition to that the rating of EFU portrayed the Company's ability to meet its liability towards policyholders. The rating interprets the company's vision to lead both in terms of size and profitability. Its market dominance is being achieved over the years through the effective utilization of technology to manage claims and the provision of customized services that cater to the diverse needs of customers. Comprehensive risk management mechanisms are deployed to mitigate risk and maintenance of reinsurance treaties with international reinsurers-built confidence on rating. Efficient administration of liquidity position and generation of cash flows from core business provides a strong base to honor its obligation promptly. The healthy contribution of investment income further augmented the profitability. In window takaful, EFU General Insurance remained the leader, with Participant's Takaful Fund and Operator's Fund both in surplus. This furnishes strength to the brand and the ability to serve diverse client needs.

The company's rating dependent on its ability to maintain competitiveness, which is heavily influenced by effective risk management and growth in business volumes, both of which are crucial in the current industry landscape.

Disclosure

Name of Rated Entity	EFU General Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Rating Modifiers(Jun-22),Methodology General Insurance Rating(Mar-23)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure EFU General (EFU) was established in 1932. It is listed on the Pakistan Stock Exchange with the symbol "EFUG".

Background The Company is pioneer of Insurance Industry in Pakistan, with the initiation of insurance services in the early 1930s. In the nationalization of Life Insurance in the year 1972, EFU segregated its life insurance operations, ultimately, originating EFU General Insurance as a separate entity.

Operations EFU General offers a wide range of non-life insurance products can be categorized into Fire, Engineering, Marine, Aviation, Motor and Miscellaneous segments. The Company diversified into Takaful Operations in May 2015 and has been operating through a network of 55 branches throughout the country.

Ownership

Ownership Structure Shareholding structure of the company is majorly distributed between the Bhimjee Group and the JS Group. JS Group owns a 38.18% stake in the company, with prominent shareholding by Jahangir Siddiqui & Co. Ltd. at 21%, whereas Bhimjee Group owns a 28.21% stake in the company, with prominent shareholding by Rafiq R. Bhimjee at 13.75% and Muneer R. Bhimjee at 14.44%. The remaining shares are distributed between EFU Life Assurance, various institutions and individuals.

Stability The Jahangir Siddiqui Group, a Pakistani financial services company, founded in 1992, provides security trading, investment banking, and underwriting facilities and has established itself as a reputable financial organization.

Business Acumen EFU General has 2 core sponsors, the Bhimjee Family and the JS Group, both having strong footings within business industry. Bhimjee family has strong presence in General Insurance, Life Insurance & Health Insurance, with EFU General, EFU Life, and Allianz EFU Health Insurance holding prominence among peers. The JS Group is a well-renowned business group in country, with varied operations in asset management, financial advisory, stock brokerage and banking services.

Financial Strength The financial profile of the sponsoring groups is quite sound, reflected by their highly successful business ventures in various sectors.

Governance

Board Structure The Board of EFU General consists of 10 directors – out of which three are independent, including one female director. Three board level committees have been established for smooth operations throughout the organization, namely; i) Audit Committee ii) Investment Committee iii) Ethics, Human Resources and Remuneration Committee.

Members' Profile The position of the Board's Chairman is held by Mr. Saifuddin N. Zoomkawala, a reputed insurance professional and former CEO of EFU General. Mr. Zoomkawala has been associated with EFU Group since 1964.

Board Effectiveness The audit committee and investment committee meetings are conducted on quarterly basis while ethics, human resources and remuneration committee meet on semi-annual basis with minutes of the meeting being documented extensively.

Transparency The Company's External Auditor, M/s EY Ford Rhodes issued an unqualified opinion on the financial statements for the year ended CY22.

Management

Organizational Structure The Company has instituted a detailed organogram, having established clearly demarcated reporting lines to accommodate its extensive operations. There are four committees, falling under the ambit of the Management committee, namely; a) Underwriting Committee, b) Claims Settlement Committee, c) Re-insurance/Co-insurance Committee d) Risk Management and Compliance Committee.

Management Team Mr. Hasanali Abdullah is the Chief Executive Officer and has been serving the Company since 1979. Mr. Hasanali is assisted by a competent team of professionals. After his retirement, Mr. Kamran Arshad Inam will be appointed as new CEO of the Company with effect from July 10, 2023.

Effectiveness The management committees meet on quarterly basis with minutes of the meeting being documented extensively.

MIS A Business Intelligence Tool has been implemented by EFU, to provide aid in decision making, meet the business challenges, enhance controls and provide better services to customers. The management information system provides a quarterly report to the BoD, which contains a segment-wise quarterly analysis (YoY and QoQ) of Premiums and Claims.

Claim Management System The claims management system structures the claims on a basis of its characteristics i.e., size, strength and capacity of the branch, with a claim review system, to assess settlement claims limit reached by different branches, built-in place by the head office. The claim settlement occurs after a thorough assessment and review of the Survey Report, along with its complete documentation.

Investment Management Function A formal IPS statement provides the primary guidelines for investment decisions. The investment committee of the board further oversees the management of the investment portfolio and makes the final decision. An investment department manages the investment portfolio, under the direct supervision of the CFO.

Risk Management Framework The Company has a comprehensive risk management system consisting of three lines of defenses. i) HODs manage risk at department level ii) internal audit function independently audits the controls and risk management system iii) The ERM function.

Business Risk

Industry Dynamics During 9MCY22, general insurance industry has a total GPW size of PKR ~114bln (9MCY21: PKR~89bln), registering a growth of ~28% YoY basis.

Relative Position With a market share of ~21% as of Sep'22, EFU General is classified as the largest player in the General Insurance Industry of Pakistan.

Revenue Company underwrote gross premiums of PKR ~31,957mln (conventional and takaful) during CY22 as compared to PKR 24,657mln in last year (CY20: PKR 22,639mln; CY19: PKR 22,023mln); showing an increase of ~30%. This increase in GPW is due to higher inflationary pressure, reflected a spike in asset prices. The GPW of the Company remained concentrated towards fire, with the segment contributing 64.5% of GPW. Followed by motor 18.3%, marine contributing 11.5%, and miscellaneous 5.8%.

Profitability The Company's underwriting income depicted a decrease during CY22 to PKR 359mln (CY21: PKR 1,805mln; CY20: PKR 1,019mln). The deterioration in underwriting results is due to the increase in insurance claims coupled with reinsurance expenses. Moreover, the bottom line was further supported with an increase of other income amounting to PKR 241mln during CY22 (CY21: PKR 122mln; CY20: PKR 128mln) and investment income amounting to PKR 2,436mln during CY22 (CY21: PKR 2,206mln; CY20: PKR 2,481mln).

Investment Performance The Company witnessed a growth of 10.4% in investment income amounting to PKR 2,436mln during CY22 (CY21: PKR 2,206mln; CY20: 2,481mln). The Company reported an investment yield of ~7.7% for CY22 (CY21: 7.2%; CY20: 8.3%). This trend depicts political and economic uncertainty since CY19.

Sustainability EFU aims to sustain and improve their financial results through sustainable profits, consistent performance improvement and rise in underwriting and risk management.

Financial Risk

Claim Efficiency Insurance & Takaful Claims / Liquid Investments stood at 40.0% during CY22 (CY21: 30.8%; CY20: 30.8%; CY19: 29.7%) depicting an increasing trend which means Company is able to meet the claims quickly with its liquid assets that may arise during the period.

Re-Insurance EFU General maintains re-insurance treaties – mix of Surplus, Quota share and XoL - with international reinsurers mostly having S&P and or AM Best rating of 'A+' and 'A-' including Swiss Re (AA- by S&P), Scor (A+ by S&P), Hannover Re (AA- by S&P) and Malaysian Re (A- by A.M Best).

Cashflows & Coverages EFU General has maintained a sizable investment book of PKR 32,983mln as at end-Dec22, a major portion of this investment is in liquid investment to ensure availability of funds when the need may arise (CY21: PKR 30,072mln; CY20: PKR 30,943mln).

Capital Adequacy The total equity of the Company currently stands at PKR 20,699mln. Whereas the paid-up capital of the Company is PKR 2,000mln as at end-Dec22 which is well above minimum capital requirement.



PKR mln

EFU General Insurance Limited Listed Public Limited	Dec-22	Dec-21	Dec-20	Dec-19
	12M	12M	12M	12M

A BALANCE SHEET

1 Investments	32,983	30,072	30,943	29,086
2 Insurance Related Assets	22,399	15,652	13,530	14,368
3 Other Assets	2,906	2,158	1,953	1,725
4 Fixed Assets	3,104	2,890	2,820	2,969
5 Window Takaful Operations	-	-	-	-
Total Assets	61,392	50,771	49,245	48,149
1 Underwriting Provisions	15,873	12,021	10,766	10,709
2 Insurance Related Liabilities	20,516	13,885	13,708	13,767
3 Other Liabilities	4,304	3,658	3,542	3,004
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	40,693	29,564	28,016	27,481
Equity/Fund	20,699	21,207	21,229	20,668

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	31,957	24,657	22,639	22,023
2 Net Insurance Premium/Net Takaful Contribution	12,381	11,799	10,495	9,378
3 Underwriting Expenses	(12,022)	(9,993)	(9,476)	(8,734)
Underwriting Results	359	1,805	1,019	643
4 Investment Income	2,436	2,206	2,481	2,534
5 Other Income / (Expense)	608	162	226	733
Profit Before Tax	3,403	4,173	3,727	3,910
6 Taxes	(1,110)	(1,151)	(1,083)	(1,219)
Profit After Tax	2,293	3,023	2,644	2,691

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,932	2,697	2,398	2,289
2 Net Takaful Contribution	1,146	1,218	1,205	1,259
3 Net Takaful Claims	(1,127)	(1,047)	(949)	(1,101)
4 Direct Expenses Including Re-Takaful Rebate Earned	51	(38)	(80)	(160)
Surplus Before Investment & Other Income/(Expense)	70	133	176	(2)
5 Investment Income	217	88	97	85
6 Other Income/(Expense)	(0)	1	0	(0)
Surplus for the Period	287	221	273	83

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	941	774	673	659
2 Management, Commission & Other Acquisition Costs	(722)	(653)	(569)	(519)
Underwriting Income/(Loss)	219	120	104	141
3 Investment Income	170	66	82	74
4 Other Income/(Expense)	(1)	(1)	(1)	(1)
Profit Before tax	388	186	186	214
5 Taxes	(136)	(54)	(54)	(62)
Profit After tax	252	132	132	152

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	54.3%	45.1%	50.6%	49.6%
Combined Ratio (Loss Ratio + Expense Ratio)	97.1%	84.7%	90.3%	93.1%
2 Investment Performance				
Investment Yield	7.7%	7.2%	8.3%	8.8%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.8	2.0	2.0	2.1
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	145.9%	126.0%	122.5%	121.0%

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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