



The Pakistan Credit Rating Agency Limited

EFU GENERAL INSURANCE LIMITED

IFS RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Insurer Financial Strength (IFS) Rating	AA+	AA+
Outlook	Stable	Stable

DEC 2017

RATING RATIONALE

EFU Group continues to enjoy leadership in insurance industry – General and Health while securing second position in Life Insurance. In window takaful, EFU General Insurance remained leader, with Participant’s Takaful Fund and Operator’s Fund both in surplus. This furnishes strength to the brand and ability to serve diverse client needs and ability to capture large client base in the market. The company has posted strong profitability from underwriting and investment portfolio. The rating interprets the company's vision to lead both in terms of size and profitability. Sponsors (Bhimjee family and JS Group), board and the management are aligned on this, enabling a better focus in strategy and efforts. Increasing emphasis on customer service including concerted efforts to bring efficacy in claims settlement process with support from technology helps in sustaining market share. Strong liquidity and sound cash flow generation ability provide strength to the rating. The business strategy, going forward, is envisaging substantial benefit emanating from CPEC related projects and overall dynamism in the economy.

KEY RATING DRIVERS

The rating is dependent on sustained competitiveness of the company. Keeping in view heightened competition in the industry, increase in insurance pie and penetration thereof is a pre-requisite for sustaining the growth rate particularly for large companies. Claim settlement process with high transparency and customer convenience is required to boost policy holder confidence and growth in business volume.

INDUSTRY SNAPSHOT

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.

Profile & Ownership

- EFU General, incorporated in 1932; largest general insurance company in Pakistan, listed on Pakistan Stock Exchange.
- Among EFU companies are EFU General, EFU Life and Allianz EFU Health Insurance, with EFU Group premium clocking in at PKR 44bln at end-Dec 16.
- Significant shareholders of EFU General include Bhimjee Group and JS Group.

Governance & Management

- A nine member board, including the CEO, is chaired by Mr. Saifuddin N. Zommkawala, the ex-CEO of the company. He has been associated with EFU Group since 1964.
- Mr. Hasanali Abdullah, the company's CEO & MD, associated with the EFU Group since 1979.
- Team comprises experienced professionals, long associated with the company.

Business Risk

- Largest General insurance Company 28% market share at end-Sep17 (9M16:24%)
- GPW portfolio is dominated by Property segment (58%) followed by Motor (23%), Marine & Aviation (11%) and Miscellaneous (8%)
- EFU has observed 26% growth in GPW which is mainly in fire segment (46%) & motor (11%) and marine has also shown growth by 5%.
- Motor claims as percentage of net premium revenue reduced to 49% as against 53% in Sep 2016 due to improved law and order situation.
- Sustained improvement in combined ratio (9M17: 78%, 9M16: 76%).
- Investment income clocked in at (9M17: PKR 1.3bln); majority includes share of profit from associate related to Investment in EFU Life Assurance (PKR 513mln).
- Window Takaful launched in May'15; for 9M17 GPW was PKR 1,182mln leading the market with 25% share in takaful market in 3rd year of operations.
- Participant’s Takaful Fund reported surplus of Rs.95mln at end Sep 17 as against loss of Rs.10mln at Sep 16 and operator’s fund also reported profit of Rs.27mln (Sep16: 0.197mln).

Business Strategy

- Holding top market position, while following moderate growth strategy.
- Sustain profitability; ensure prudent underwriting and risk management.
- Information Technology initiatives for improvement include; optimization data centre, network security by deploying state of the art firewall, enhance MIS to improve controls over the operations.

Financial Risk

- Proportional and non-proportional treaty arrangements with strong international players; Scor Global P&C (A), Swiss Re (A+), Allianz Re (A), Trust Re (A-), Lloyd’s Underwriters (A) by AM Best.
- Sizeable investment book PKR 22bln at Sep 17 (CY16: PKR 20bln), a major portion of this investment is in an associate (~52%).
- Strong risk absorption capacity with liquidity cover to claims liabilities clocking in at 2 times.



GENERAL INSURANCE
Financials [Summary]

EFU Insurance Limited (EFU General)

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
Investments				
Liquid Investments	13,393	10,916	9,345	7,843
Investment in Associates	11,837	11,949	11,571	9,325
Other Investments	240	259	191	213
	<u>25,471</u>	<u>23,124</u>	<u>21,106</u>	<u>17,381</u>
Insurance Related Assets	8,172	7,629	5,534	6,576
Other Assets	8,852	6,713	5,518	5,269
TOTAL ASSETS	<u>42,495</u>	<u>37,466</u>	<u>32,158</u>	<u>29,227</u>
Equity	17,118	17,033	15,850	13,111
Underwriting Provisions	11,009	8,282	7,066	6,660
Insurance Related Liabilities	12,490	9,903	7,938	8,274
Other Liabilities	1,878	2,248	1,304	1,182
TOTAL EQUITY & LIABIL	<u>42,495</u>	<u>37,466</u>	<u>32,158</u>	<u>29,227</u>
INCOME STATEMENT	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-14
Net Premium				
Gross Premium Written (GP) ¹	16,459	16,100	15,214	14,514
Net Premium Revenue (NPR)	6,745	23,628	6,704	6,532
Net Claims	2,664	(2,694)	(3,007)	(2,973)
Net Operational Expenses	2,573	(2,930)	(2,845)	(2,835)
UNDERWRITING RESULT¹	1,509	18,003	853	724
Investment Income	1,297	2,031	4,039	1,553
Other Income/ (expense)	29	19	(71)	(16)
PROFIT BEFORE TAX	<u>2,628</u>	<u>20,053</u>	<u>4,820</u>	<u>2,262</u>
RATIO ANALYSIS	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Loss Ratio	39%	11%	45%	46%
Combined Ratio	78%	24%	87%	89%
Performance				
Operating Ratio	58%	15%	28%	65%
Investment Yield	6%	9%	22%	9%
Liquidity & Solvency				
Liquidity Ratio – times	2.0	1.9	2.1	1.4



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.

