



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
29-Jun-2018	AA+	-	Stable	Maintain	-
30-Dec-2017	AA+	-	Stable	Maintain	-
30-Jun-2017	AA+	-	Stable	Maintain	-
30-Jun-2016	AA+	-	Stable	Maintain	-
30-Jun-2015	AA+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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. 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 (23% market share), 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 is dependent on sustained competitiveness of the company. High growth in business volume, the industry leaders are expected to enhance their risk retention appetite with the emphases on risk management practices.

Disclosure

Name of Rated Entity	EFU General Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
Rating Analysts	Muhammad Noor ul Haq muhammad.noorulhaq@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

EFU GENERAL INSURANCE COMPANY LIMITED PROFILE	
Incorporated	1932
Major Business	Insurance
Legal Status	Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT
Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.

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 54bln at end-Dec17.
- Significant shareholders of EFU General include Bhimjee Group and JS Group.
- The group has varied interests in the financial sector, including asset management, financial advisory, stock brokerage, banking, textile, media services, and transport.

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

- EFU is the largest general insurance company in Pakistan with market share of ~ 24% at the end of Dec17; decreased from ~ 25% in CY16.
- The company witnessed (19%) rise in GPW during CY17 majorly in Motor (12%), Marine segment growth of (3%) and in Misc. (2%) decline.
- The improvement in claims ratio (CY17: 40%, CY16: 38%) and expense ratio (41%), translates into strong combined ratio (CY17:81%, CY16:78%).
- The investment income for the year declined at PKR 1,864mln as compared to PKR 2,034mln in 2016.
- Net profit stood at PKR 2bln.
- Contribution written under takaful business was PKR 1,087mln, while participants takaful fund surplus for the period was PKR 112mln and profit from operator's fund for the year was Rs. 47mln as against Profit of Rs. 6mln last year.
- Window takaful business written was dominated by motor segment (84%) followed by fire (8%), miscellaneous (6%) and marine (2%).

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 center, 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 26bln at Dec 17 (CY16: PKR 20bln), a major portion of this investment is in an associate (~47%).
- EFU General's financial risk is characterized by sound liquidity position, providing 2.3 times cushion to gross outstanding claims at end-Dec17.
- The insurance related assets coverage to liabilities stands at 0.6 times. The premium outstanding days were 55 days (CY16: 88 days).
- The outstanding claims for the year 2017 were (368 days) as compared to previous year 2016 (362 days).



GENERAL INSURANCE
Financials [Summary]

EFU Insurance Limited (EFU General)

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Investments			
Liquid Investments	13,726	10,916	9,345
Investment in Associates	12,131	11,949	11,571
Other Investments	160	259	191
	26,016	23,124	21,106
Insurance Related Assets	6,702	7,629	5,534
Other Assets	8,421	6,713	5,518
TOTAL ASSETS	41,139	37,466	32,158
Equity	17,338	17,033	15,850
Underwriting Provisions	9,798	8,282	7,066
Insurance Related Liabilities	11,577	9,903	7,938
Other Liabilities	2,426	2,248	1,304
TOTAL EQUITY & LIABILITIES	41,139	37,466	32,158
INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Net Premium			
Gross Premium Written (GPV)	20,405	17,195	15,214
Net Premium Revenue (NPR)	8,702	7,825	6,704
Net Claims	(3,517)	(3,002)	(3,007)
Net Operational Expenses	(3,556)	(3,075)	(2,845)
UNDERWRITING RESULT	1,629	1,749	853
Investment Income	1,864	2,034	4,039
Other Income/ (expense)	46	19	(71)
PROFIT BEFORE TAX	3,539	3,802	4,820
RATIO ANALYSIS	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results			
Loss Ratio	40%	38%	45%
Combined Ratio	81%	78%	87%
Performance			
Operating Ratio	59%	51%	28%
Investment Yield	8%	9%	22%
Liquidity & Solvency			
Liquidity Ratio – times	2.3	1.9	2.1



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
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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.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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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