



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
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	-
30-Jun-2016	AA+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating incorporates EFU General’s leading position in the general insurance industry, underwriting a diversified portfolio across non-life business segments. IFS (Insurance Financial Strength) rating of EFU portrayed the Company’s ability to meet its liability towards policyholders. Comfort is derived from the company’s performance matrix. Underwriting and Investment Income have provided a healthy contribution to the profitability. Optimal use of technology for the management of claims, and tailored made services to cater diverse needs of customers ensured their dominance in the Market. 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. 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 general insurance industry had a growth rate of 11% prior to Covid-19, however, the pandemic affected the business volume, leading to growth contraction. Economic recovery was observed in CY21, contributing to the progression of trade volumes.

The rating is dependent on the sustained competitiveness of the company. Risk management and growth in business volumes are two critical factors for progression in current industry dynamics.

Disclosure

Name of Rated Entity	EFU General Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology General Insurance Rating(Mar-22)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Waqas Ahmad waqas.ahmad@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. By 1961, EFU had become the flag bearer of the insurance industry in Pakistan, with its progressive and innovative policies. 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 The Company has a wide spread network of 54 branches throughout the country, including a branch in the Export Processing Zone (EPZ).

Ownership

Ownership Structure The shareholding structure of the company has been majorly distributed between the Bhimjee Group and the JS Group. JS Group owns a 38% stake in the company, with prominent shareholding by Jahangir Siddiqui & Co. Ltd. (JSCL) at 21%, whereas Bhimjee Group owns a 28% stake in the company, with prominent shareholding by Rafiq R. Bhimjee at 16% and Muneer R. Bhimjee at 11%. 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 the business industry. Bhimjee family has a strong presence in the Insurance Sector; General Insurance, Life Insurance & Health Insurance, with EFU General, EFU Life, and Allianz EFU Health Insurance holding prominence among its peers. The JS Group is a well-renowned business group in the 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.

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. Hasanali Abdullah has maintained his position as the CEO & MD of the company, for almost a decade. He is supported by a competent management team.

Board Effectiveness Three board-level committees are established for smooth operations throughout the organization, namely; i) Audit Committee ii) Investment Committee iii) Ethics, Human Resources, and Remuneration Committee. Committee meetings were held throughout CY21, with maximum attendance being observed.

Transparency The Company's auditor, M/S KPMG Taseer Hadi & Co. Chartered Accountants, issued an unqualified audit report and review for CY21.

Management

Organizational Structure The Company has instituted a detailed organogram, having established clearly demarcated reporting lines to accommodate its extensive operations. In addition, the human resource of EFU General comprises experienced and competent professionals.

Management Team EFU General has a loyal and dedicated management team, demonstrated by their long-term association with the company and consistency in performance throughout the years.

Effectiveness There are four committees, falling under the ambit of the Management committee, namely; a) Underwriting Committee, b) Claims Committee, c) Re-insurance/Co-insurance Committee d) Risk Management and Compliance Committee –all headed by the Chief Executive Officer, Mr. Hasanali Abdullah.

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, with any paid and outstanding claims being highlighted for the period under observation.

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 The investment management framework is structured quite well. 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) The internal audit function independently audits the controls and risk management system iii) The ERM function, operational risk of the company is managed through an ERM system, which identifies and monitors risks on an ongoing basis, ultimately, the risk management system is overseen by the Risk Management Committee. Five categories have been defined, in which the risk is allocated based on the assigned scores. The underwriting authority limits lie with divisions and units, whereas branches are authorized to issue a pre-approved policy.

Business Risk

Industry Dynamics The insurance industry in Pakistan is relatively small compared to its peers in the region. CY20 was full of challenges and unprecedented pressures, locally as well as in the global economy. However, CY21 has been the road to recovery from these setbacks of the previous year. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry have a total size of PKR~112.8bln in CY21, with a growth of ~10% from the previous year (CY20: PKR~102.3bln). Investment income has also been a support to the bottom-line performances of the companies during CY21. Overall industry has earned profit after tax of PKR 13.4bln (CY20: PKR 10bln) during CY21.

Relative Position With a market share of 21% as of CY-21, EFU General is classified as the largest players in the General Insurance Industry of Pakistan.

Revenue For CY21, the company posted a Direct written premium of the amount PKR24.7bln (Inclusive of Takaful contribution) as against PKR22.6bln in CY20, achieving a rise of 9.3% YOY. The GPW of the Company remained concentrated towards fire, with the segment contributing ~63% of GPW. Following fire are motor segment contributing ~16%, marine segment ~12%, and miscellaneous 8%. The sustenance of the revenue and direct expense profile converged towards an underwriting income of PKR 1,551mln for the period ended CY21.

Profitability The overall performance of the company remained good, as core business income and investment income generate a healthy return for the period. Consequently, EFU general profit after tax for CY21, increased by 16.7% to PKR2,802mln as compared to PKR2,371mln in CY20.

Investment Performance As the capital market remained volatile and fluctuation in interest rate observed during CY21, investment income amounted to PKR 1,930 in CY21 compared against PKR2,185 in CY20.

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

Financial Risk

Claim Efficiency EFU General's has a strong liquidity position, reflected in its risk absorption capacity presented by the 3.0x cover to claims liability.

Re-Insurance treaties are maintained by EFU General with international reinsurers, mostly having S&P and or AM Best rating of 'A+' and 'A-' including Swiss Re (A+ by A.M Best), Scor Re (A+ by A.M best), TOA (A by A.M Best) and Malaysia Re (A- by A.M Best).

Cashflows & Coverages EFU General possesses a sizeable investment book, valued at PKR 30.1bln, having liquid assets of 26.7bln, proportioned with government securities and equity securities primarily.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The total equity of the company stands at PKR 20.4bln.



PKR mln

EFU General Insurance Limited Listed Public Limited	Dec-21	Dec-20	Dec-19	Dec-18
	12M	12M	12M	12M

A BALANCE SHEET

1 Investments	30,071.563	30,942.785	29,086.118	28,289.789
2 Insurance Related Assets	15,610.041	13,529.580	14,368.313	12,496.381
3 Other Assets	2,199.676	1,952.701	1,725.153	1,655.516
4 Fixed Assets	2,889.790	2,820.100	2,969.231	2,618.388
5 Window Takaful Operations	-	-	-	-
Total Assets	50,771.070	49,245.166	48,148.815	45,060.074
1 Underwriting Provisions	12,021.139	10,765.835	10,708.943	9,819.740
2 Insurance Related Liabilities	13,884.808	13,708.063	13,767.302	11,642.949
3 Other Liabilities	3,657.742	3,541.925	3,004.334	3,153.552
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	29,563.689	28,015.823	27,480.579	24,616.241
Equity/Fund	21,207.110	21,229.343	20,668.375	20,443.993

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	24,657.327	22,638.965	22,063.643	20,812.805
2 Net Insurance Premium/Net Takaful Contribution	11,798.647	10,494.784	9,377.567	9,121.070
3 Underwriting Expenses	(9,993.434)	(9,475.830)	(8,734.255)	(7,611.885)
Underwriting Results	1,805.213	1,018.954	643.312	1,509.185
4 Investment Income	2,206.348	2,525.283	2,533.962	1,784.997
5 Other Income / (Expense)	161.886	226.272	732.803	122.589
Profit Before Tax	4,173.447	3,770.509	3,910.077	3,416.771
6 Taxes	(1,150.649)	(1,082.571)	(1,218.755)	(1,091.091)
Profit After Tax	3,022.798	2,687.938	2,691.322	2,325.680

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	2,697.255	2,397.736	2,289.407	2,032.628
2 Net Takaful Contribution	1,218.109	1,204.749	1,258.823	1,061.500
3 Net Takaful Claims	(1,047.116)	(948.910)	(1,101.144)	(772.738)
4 Direct Expenses Including Re-Takaful Rebate Earned	(37.913)	(80.031)	(160.035)	(175.451)
Surplus Before Investment & Other Income/(Expense)	133.080	175.808	(2.356)	113.311
5 Investment Income	87.505	97.120	85.161	39.992
6 Other Income/(Expense)	0.634	0.185	(0.063)	1.104
Surplus for the Period	221.219	273.113	82.742	154.407

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	773.685	673.276	659.174	497.644
2 Management, Commission & Other Acquisition Costs	(653.248)	(569.019)	(518.621)	(408.152)
Underwriting Income/(Loss)	120.437	104.257	140.553	89.492
3 Investment Income	66.431	82.136	74.224	28.678
4 Other Income/(Expense)	(0.763)	(0.724)	(0.634)	(0.718)
Profit Before tax	186.105	185.669	214.143	117.452
5 Taxes	(53.974)	(53.844)	(62.102)	(36.426)
Profit After tax	132.131	131.825	152.041	81.026

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Premium	45.1%	50.6%	49.6%	42.3%
Combined Ratio (Loss Ratio + Expense Ratio)	84.7%	90.3%	93.1%	83.5%
2 Investment Performance				
Investment Yield	7.2%	8.4%	8.8%	6.3%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.09	2.00	2.15	2.45
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	126.0%	122.5%	121.0%	115.3%

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.

<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 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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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

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 | 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)

Independence & Conflict of interest

(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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