



The Pakistan Credit Rating Agency Limited

Rating Report

EFU General Insurance Limited

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Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
31-May-2024	AA++ (ifs)	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

EFU General Insurance Limited ("EFU General" or "the Company") ratings reflect its leading position in the general insurance sector, fortified by robust sponsorship from JS Group and the Bhimjee Family. EFU General has established its position as a leader. The Company offers both conventional and takaful insurance where the conventional segment constitutes the majority of its operations, comprising ~93% of its portfolio. The Company's financial robustness is notable, supported by a strong investment portfolio and a strong equity base. ~37% of its investment book is allocated to government securities, ensuring a stable and liquid asset base. EFU General's adept management of liquidity, coupled with cash flow generation from core operations, underscores its capacity to meet policyholder obligations promptly and effectively. Further enhancement of core business profits remains crucial, going forward. EFU General's profitability is further enhanced by its strategic approach to investment income management. The Company has leveraged technology to streamline claims processing and deliver tailored services, enabling it to capture market share and maintain a competitive edge. Risk management is a cornerstone of EFU General's operations, with comprehensive mechanisms in place to mitigate potential threats. The Company employs the Solvency II framework (risk-based capital) as its internal capital model which will be helpful in complying with the risk-based capital regime, to be instituted by the regulator. Strategic reinsurance arrangements with international partners provide an additional layer of protection, instilling confidence in the Company's ability to navigate uncertainties effectively. Overall, EFU General Insurance Limited is well-positioned for sustained growth and profitability in the dynamic insurance landscape. Its strong market position, sound financial footing, and proactive risk management practices underscore its resilience and ability to deliver value to stakeholders in the long term.

The Company's rating is 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(Apr-23),Assessment Framework General Insurance(Mar-24)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure EFU General Insurance Limited (“EFU” or “the Company”) was established in 1932 as a public listed company. The Company is listed on the Pakistan Stock Exchange with the symbol “EFUG”.

Background The Company is among the pioneer insurance companies 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 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-15 and has been operating through a network of 55 branches throughout the country.

Ownership

Ownership Structure The Company's ownership is mainly divided between the Bhimjee Group and the JS Group. JS Group holds ~40.6%, with Jahangir Siddiqui & Co. Ltd. holding ~21.1%. The Bhimjee Group owns ~28.2%, with Rafiq R. Bhimjee & Family holding ~12.7% and Muneer R. Bhimjee holding ~14.4%. The remaining shares are held by Institutions (~12%), Individuals (~19%) and EFU General Funds (~0.2%).

Stability The Jahangir Siddiqui Group (JS Group), founded in 1992, is a reputable Pakistani financial services company offering security trading, investment banking, and underwriting. Its diversification and strong financial base provide stability.

Business Acumen EFU is backed by two key sponsors: the Bhimjee Family and the JS Group. The Bhimjee Family is prominent in General Insurance, Life Insurance, and Health Insurance, with EFU General, EFU Life, and Allianz EFU Health Insurance leading the way. The JS Group is a well-known business conglomerate, excelling 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 EFU Board consists of eight Directors, including the CEO. Four represent the Bhimjee Group, one the JS Group, all as Non-Executive Directors. Two Independent Directors, one female, also serve, with the CEO acting as an Executive 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. Zoomkawala has been associated with EFU Group since 1964.

Board Effectiveness Three Board committees (the Audit Committee, Investment Committee, and Ethics, Human Resources, and Remuneration Committee) ensure effective operations. The Audit and Investment Committees convene quarterly; while the Ethics, Human Resources, and Remuneration Committees meet semi-annually. Thorough documentation of meeting minutes enhances operational efficiency.

Transparency The Company's External Auditor, M/s EY Ford Rhodes issued an unqualified opinion on the financial statements for the year ended CY23.

Management

Organizational Structure The Company's organogram outlines reporting lines for streamlined operations. Department heads report to the CEO, who reports to the Board. The Company Secretary and Compliance & Risk Officer report directly to the Board, while the head of Internal Audit reports to the Audit Committee.

Management Team Following Mr. Hasanali Abdullah's retirement as the CEO, Mr. Kamran Arshad Inam has been appointed as the new CEO, effective 10-Jul-23. Mr. Hasanali has been associated with EFU since 2003. He is assisted by a competent team of professionals.

Effectiveness Under the Management Committee, four key committees ensure operational efficiency: the Underwriting, Claims Settlement, Re-insurance/Co-insurance, and Risk Management and Compliance Committees. These committees convene quarterly, with thorough documentation of meeting minutes ensuring effectiveness.

MIS EFU has adopted a Business Intelligence Tool to aid decision-making, tackle business challenges, bolster controls, and improve customer service. Quarterly reports, including segment-wise Premiums and Claims analysis (YoY and QoQ), are provided to the Board.

Claim Management System The claims management system categorizes claims based on branch characteristics such as size, strength, and capacity. A claim review system, established by the head office, evaluates settlement claims limits reached by branches. Settlement occurs post a comprehensive assessment and review of the Survey Report, along with complete documentation.

Investment Management Function A formal Investment Policy Statement (IPS) sets the primary guidelines for investment decisions. The investment committee of the Board oversees the management of the investment portfolio and makes final decisions. The investment portfolio is managed by the investment department, directly supervised by the CFO.

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

Business Risk

Industry Dynamics Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln). The net income of the industry also experienced an increase of ~60% to PKR 18bln during CY23 (CY22: PKR 11bln). Overall, the industry's overall outlook remains stable with substantial liquidity available with players.

Relative Position With a market share of ~23% as of Dec-23, EFU is classified as the largest player in the General Insurance Industry of Pakistan.

Revenue The Company underwrote a gross premium of PKR 41,521mln during CY23 as compared to PKR 31,957mln in CY22, depicting a growth of ~30%. Fire segment being the major segment contributed ~68% of the gross premium written in CY23. The majority (~93%) of GPW is driven from conventional operations. Going forward, the topline is expected to grow in line with the increase in prices due to the inflationary impact.

Profitability The Company's underwriting income posted a healthy increase of ~437% reporting at PKR 1,930mln (CY22: PKR 359mln) owing to a healthy increase in the premium earned during CY23. The healthy investment income further complemented the core income, resulting in robust net results (CY23: PKR 3,492mln, CY22: PKR 2,293mln). Moving forward, the Company plans to further strengthen its core operations income.

Investment Performance The Company posted a growth of ~30% in the investment income during CY23 reporting at PKR 3,161mln (CY22: PKR 2,436mln). The majority (~72%) of investment income is driven from the investment in debt securities. During CY23 the total investment book stood at PKR 35,645mln (CY22: PKR 32,983mln). Moving forward, the Company intends to continue increasing the size of its investment portfolio to ensure a healthy source of complementary income.

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 As at CY23, Insurance & Takaful Claims covered by Liquid Investments stood at ~31.7%, a decrease from ~40.0% in CY22 reflecting the Company's robust capacity to fulfill claims obligations through its liquid investment portfolio.

Re-Insurance EFU 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 maintains a healthy liquid investments book. As at CY23 the investment book stood at PKR 33,118mln (CY22: PKR 30,203mln). The current ratio as of CY23 stands at 1.3x (CY22: 1.1x), indicating improved liquidity. Additionally, the Company reports a robust Liquid Assets to Outstanding Claims coverage of 2.0x in CY23 (CY22: 1.8x). The Company aims to bolster liquid cash flows to facilitate seamless business expansion.

Capital Adequacy As at CY23 total equity of the Company stood at PKR 22,913mln reflecting an increase of ~10.6% (CY22: PKR 20,699mln). Whereas the paid-up capital of the Company is PKR 2,000mln as at CY23 which is well above minimum capital requirement.



PKR Mln

EFU General Insurance Limited
Public Listed Company

Dec-23	Dec-22	Dec-21	Dec-20
12M	12M	12M	12M

A BALANCE SHEET

1 Investments	35,645	32,983	30,072	30,943
2 Insurance Related Assets	29,965	22,399	15,652	13,530
3 Other Assets	3,467	2,906	2,158	1,953
4 Fixed Assets	3,492	3,104	2,890	2,820
5 Window Takaful Operations	-	-	-	-
Total Assets	72,569	61,392	50,771	49,245
1 Underwriting Provisions	21,418	15,873	12,021	10,766
2 Insurance Related Liabilities	23,055	20,516	13,885	13,708
3 Other Liabilities	5,183	4,304	3,658	3,542
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	49,656	40,693	29,564	28,016
Equity/Fund	22,913	20,699	21,207	21,229

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	41,521	31,957	24,657	22,639
2 Net Insurance Premium/Net Takaful Contribution	14,501	12,381	11,799	10,495
3 Underwriting Expenses	(12,570)	(12,022)	(9,993)	(9,476)
Underwriting Results	1,930	359	1,805	1,019
4 Investment Income	3,161	2,436	2,206	2,481
5 Other Income / (Expense)	579	608	162	226
Profit Before Tax	5,671	3,403	4,173	3,727
6 Taxes	(2,179)	(1,110)	(1,151)	(1,083)
Profit After Tax	3,492	2,293	3,023	2,644

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	3,071	2,932	2,697	2,398
2 Net Takaful Contribution	947	1,146	1,218	1,205
3 Net Takaful Claims	(1,128)	(1,127)	(1,047)	(949)
4 Direct Expenses Including Re-Takaful Rebate Earned	67	51	(38)	(80)
Surplus Before Investment & Other Income/(Expense)	(114)	70	133	176
5 Investment Income	325	217	88	97
6 Other Income/(Expense)	-	(0)	1	0
Surplus for the Period	210	287	221	273

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	1,164	941	774	673
2 Management, Commission & Other Acquisition Costs	(768)	(722)	(653)	(569)
Underwriting Income/(Loss)	396	219	120	104
3 Investment Income	322	170	66	82
4 Other Income/(Expense)	(21)	(1)	(1)	(1)
Profit Before tax	696	388	186	186
5 Taxes	(294)	(136)	(54)	(54)
Profit After tax	402	252	132	132

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Premium	43.1%	54.3%	45.1%	50.6%
Combined Ratio (Loss Ratio + Expense Ratio)	86.7%	97.1%	84.7%	90.3%
2 Investment Performance				
Investment Yield	9.2%	7.7%	7.2%	8.0%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.0	1.8	2.0	2.0
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	144.5%	145.9%	126.0%	122.5%

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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(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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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