



## 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
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	-
30-Jun-2015	AA+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the leading position of the company in the general insurance sector. The company's performance matrix provides comfort. The profitability has a healthy contribution from both underwriting and investment functions. 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. EFU Group continues to enjoy leadership in insurance industry – General and Health while securing third position in Life Insurance. The company's strength is reflected in its sizeable underwriting profitability. 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 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

<b>Name of Rated Entity</b>	EFU General Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	PACRA_Methodology_GI_FY19(Jun-19)
<b>Related Research</b>	Sector Study   General Insurance(May-19)
<b>Rating Analysts</b>	Faraan Taimoor   faraan.taimoor@pacra.com   +92-42-35869504



## Profile

**Legal Structure** EFU General, incorporated in 1932; is the largest general insurance company in Pakistan and listed on Pakistan Stock Exchange.

**Background** Nationalization of life insurance companies in 1972 left EFU with general insurance business only. When private sector was allowed to undertake life insurance in 1992, EFU was the first company to establish a separate entity - EFU Life Assurance Limited (EFU Life).

**Operations** Company operations are divided into two zones i.e. 1). Southern Zone and 2). Northern Zone. It operates through a network of 52 branches including a branch in the Export Processing Zone (EPZ).

## Ownership

**Ownership Structure** JS Group (JS) holds 35% stake through institutions whereas the Bhimjee Group (BG) holds 24% of the shareholding through individuals. Individuals contribute 17% shareholding.

**Stability** The Company assessed its control position in EFU Life Assurance and classified it as its subsidiary with effect from 31st March 2018. EFU Life holds 2.3% stake in EFU General.

**Business Acumen** Bhimjee Group- one of the sponsors of the company - has strong footings in the insurance sector; General Insurance, Life Insurance, and Health Insurance. There is common brand name - EFU, and group is named as EFU group. JS Group is a well-renowned business group of the country. The group has varied interests in the financial sector, including asset management, financial advisory, stock brokerage, banking, textile, media services, and transport.

**Financial Strength** The sponsoring groups have a sound financial profile reflected by its highly successful business ventures in various sectors.

## Governance

**Board Structure** EFU General's BoD comprises nine members including the CEO.

**Members' Profile** The Chairman of the board, Mr. Saifuddin N. Zoomkawala - ex-CEO of EFU General and seasoned insurance professional, has been associated with EFU Group since 1964. Mr. Hasanali Abdullah, the company's CEO & MD since July-2011, is associated with the EFU Group from 1979. He is supported by a team of experienced professionals, long associated with the company.

**Board Effectiveness** There are three board level committees including Audit Committee (AC), Investment Committee (IC) and Human Resource & Remuneration Committee (HRRC).

**Financial Transparency** The Company's auditor, KPMG Taseer Hadi & Co, issued an unqualified audit report and review for CY18 and 1H19 respectively.

## Management

**Organizational Structure** The Company has instituted a detailed hierarchical organizational structure with clearly demarcated reporting lines to cope with extensive operations. The company has qualified and experienced human resource including qualified engineers with substantial exposure of the insurance business.

**Management Team** The management team has demonstrated commitment to the company having long term association, contributing positive energies for the betterment of the organization.

**Effectiveness** Management committee is further divided into four committees, 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 except Risk Management and Compliance Committee which is headed by Senior Deputy Managing Director.

**MIS** EFU has implemented Business Intelligence Tool to help in better decision making, meet the business challenges, enhance controls and provide better services to customers. Management Information System is robust. Quarterly End Report, presented to BoD, includes segment wise quarterly analysis (YoY and QoQ) of Premiums, and Claims highlighting major claims - paid and outstanding - for the period

**Claim Management System** The respective department performs settlement of claims on the basis of size, strength, and capacity of the branch. The head office sets and reviews periodically the limits for settlement by the branches. Claims higher than that limit, are not only circulated to the higher management, but are also monitored by Head Office. After complete assessment and evaluation of the Survey Report and collection of relevant documents, the claim is paid.

**Investment Management Function** EFU General has a comprehensive Investment Policy Statement (IPS) laying down the guidelines for investment. IPS delegates the authority to investment committee of board to oversee the investment function. The members of the committee have the ongoing responsibility for managing the investment portfolio. There is a separate investment department, reporting to CFO.

**Risk Management Framework** The Company has established an ERM system overseen by Risk Management Committee to identify and monitor risks associated with various operations of the Company. Risk is categorized into five slots based on scores assigned in accordance with the guidelines. The underwriting authority limits lie with divisions and units, whereas branches are authorized to issue pre-approved policy.

## Business Risk

**Industry Dynamics** Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

**Relative Position** With a market share of 22% as at 9M19, EFU General is classified as one of the top players in the General Insurance industry of the country.

**Revenue** The company witnessed an increase of 9% in terms of GPW written (conventional and takaful) as at 9M19. The increase by segment depicted a 9% rise in conventional underwriting whereas takaful segment expanded by 13%. Fire remained the highest grossing segment with 55% share followed by Motor (25%), Marine (12%) and Miscellaneous (8%). The miscellaneous segment comprises of crop, livestock, bankers blanket, bond and travel sub-segments.

**Profitability** The company endured a high combined ratio in 9M19: 91% (CY18: 81%, CY17: 78%) as both the expense (9M19: 41% CY18: 39%, CY17: 38%) and loss ratio (9M19: 50%, CY18: 42%, CY17: 40%) . Higher claims and management expenses further dented the undertaking profit (PKR 646mln) however the company was able to post impressive investment income (PKR 1,558mln) Hence the company recorded a profit before tax of PKR 2,272mln from combined operations.

**Investment Performance** The investment income remained steady at PKR 1.56bln as at Sep-19. Dividend from subsidiary contributes the highest revenue in this segment (PKR 753mln).

**Sustainability** EFU plans to retain its leadership position in the market while managing sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. It intends to explore opportunities by introducing new products and diversifying current product portfolio; management would continue to focus on bancassurance.

## Financial Risk

**Claim Efficiency** EFU General's risk absorption capacity is reflected by its strong liquidity position, providing 2.3 times cover to the claims liability.

**Re-Insurance** EFU General maintains re-insurance treaties - mix of Surplus, Quota share and XoL - with international re insurers 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).

**Liquidity** Sizeable investment book PKR 27.8bln at 9M19 (CY18: PKR 28.3bln), a major portion of this investment is in liquid investment (PKR 16bln).

**Capital Adequacy** The company is well equipped in capital adequacy as per the requirements of SECP. The total equity of company stands at PKR 19 bln.



**GENERAL INSURANCE**  
**Financials [Summary]**

**EFU General Insurance Limited (EFU General)**

	PKR mln 30-Sep-19	PKR mln 31-Dec-18	PKR mln 31-Dec-17
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	16,137	16,513	17,644
Investment in Subsidiary*	9,743	9,898	10,999
Other Investments	1,903	1,879	1,847
	27,783	28,290	30,490
Insurance Related Assets	8,414	7,293	6,702
Other Assets	10,796	9,476	8,491
<b>TOTAL ASSETS</b>	<b>46,994</b>	<b>45,059</b>	<b>45,683</b>
Equity	18,955	20,442	21,114
Underwriting Provisions	11,246	9,820	9,798
Insurance Related Liabilities	13,991	11,641	11,577
Other Liabilities	2,802	3,156	3,194
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>46,994</b>	<b>45,059</b>	<b>45,683</b>
<b>INCOME STATEMENT</b>			
	30-Sep-19	31-Dec-18	31-Dec-17
<b>Net Premium</b>			
Gross Premium Written (GPW)	17,048	20,812	20,405
Net Premium Revenue (NPR)	7,140	9,121	8,702
Net Claims	(3,554)	(3,861)	(3,517)
Net Operational Expenses	(2,940)	(3,565)	(3,308)
<b>UNDERWRITING RESULTS</b>	<b>646</b>	<b>1,695</b>	<b>1,877</b>
Investment Income	1,558	1,782	1,950
Other Income/ (expense)	56	176	118
<b>PROFIT BEFORE TAX</b>	<b>2,272</b>	<b>3,653</b>	<b>3,945</b>
<b>RATIO ANALYSIS</b>			
	30-Sep-19	31-Dec-18	31-Dec-17
<b>Underwriting Results</b>			
Loss Ratio	50%	42%	40%
Combined Ratio	91%	81%	78%
<b>Performance</b>			
Operating Ratio	68%	60%	55%
Net Investment (Income)/ loss as a % of			
Total Operating Income	71%	51%	51%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	2.3	3.0	3.0

\* EFU General converted its associate to subsidiary in March 2018

**EFU General Insurance Limited (EFU General)**

**Dec-19**

## 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.

Scale	Definition
AAA	<b>Exceptionally Strong.</b> 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+	<b>Very Strong.</b> 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.
AA	
AA-	
A+	<b>Strong.</b> 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.
A	
A-	
BBB+	<b>Good.</b> 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.
BBB	
BBB-	
BB+	<b>Weak.</b> 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.
BB	
BB-	
B+	<b>Very Weak.</b> 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.
B	
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
D	<b>Distressed.</b> 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. 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.

**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)

### **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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