



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

Rating Rationale and Key Rating Drivers

The rating incorporates EFU General’s leading position in the general insurance industry. Comfort is derived from the company’s performance matrix. Underwriting and Investment Income have provided a healthy contribution to the profitability. Focus on enhanced customer service and efficient claims settlement process, achieved through progressive technology, has enabled the company to maintain its market share. Strong liquidity and sound cash flow generation ability, leading to an impressive combined ratio, provides strength to the rating. EFU Group continues to enjoy leadership in insurance industry – General and Health, while securing third position in Life Insurance (Dec-20). The company’s underwriting profitability provides strength to the rating. Further, the rating takes comfort from the series of reinsurance treaties signed with internationally rated reinsurance companies. 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. Sustainable client coverage is deemed probable, should any adverse event arise.

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 halfway through 2020, contributing to the progression of trade volumes.

The rating is dependent on sustained competitiveness of the company. Risk management and growth in business volumes are two detrimental 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	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504



Profile

Legal Structure EFU General (EFU) was established in 1932, currently renowned as one of the largest insurance companies of Pakistan. It is listed on the Pakistan Stock Exchange with the symbol of "EFUG".

Background EFU was the pioneer of Insurance Industry in the Pakistan, with 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. EFU was the first company to establish a separate entity - EFU Life Assurance Limited (EFU Life) when private sector was allowed to undertake life insurance in 1992.

Operations The company operates through a 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 36.2% stake in the company, with prominent shareholding by Jahangir Siddiqui & Co. Ltd. (JSCL) at 21.1%, whereas Bhimjee Group owns 28.7% stake in the company, with prominent shareholding by Muneer R. Bhimjee at 10.5%. The remaining shares are held by 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 two core sponsors, the Bhimjee Family and the JS Group, both having strong footings within the business industry. Bhimjee family has strong presence in the Insurance Sector. The JS Group is a well-renowned business group of the country, with varied operations in the 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 is structured with ten members, comprising of six non-executive directors, three independent directors and one 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. Hasanali Abdullah has maintained his position as the CEO & MD of the company, for almost a decade now. 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 CY-20, with maximum attendance being observed.

Transparency The Company's auditor, KPMG Taseer Hadi & Co, issued an unqualified audit report and review for CY-20.

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 of 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 of EFU 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. Any claims above the set limits, circulates to the higher management and is continuously monitored 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 Investment Policy Statement provides 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 direct supervision of the CFO.

Risk Management Framework The operational and financial risks of the company are 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.

Business Risk

Industry Dynamics Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. Underwriting profitability i.e., core business has been maintained through reduced management expenses while innovative products are being envisaged

Relative Position With a market share of 24% as at CY-20, EFU General is classified as one of the top players in the General Insurance industry of Pakistan.

Revenue The GPW (conventional & takaful) of the company has faced a minor fall (3MCY-21: PKR 6.0bln; 3MCY-20: PKR 6.2bln) compared to the corresponding period, however an inverse impact on the Net Premium Revenue (3MCY-21: PKR 2.6bln; 3MCY-20: PKR 2.5bln) places confidence in the company's operations. The segment mix was dominated by Fire (55%) followed by Motor (25%) and Marine (11%).

Profitability A 22% rise in the underwriting income (conventional & takaful) has occurred (3MCY-21: PKR 420.9mln; 3MCY-20: PKR 342.3mln) for the given period. A general deduction in the management expenses and increased net premium revenue has been the determinant for given betterment. Consequently, a 5% decrease in the combined ratio gives comfort to the company's financial position (3MCY-21: 89%; 3MCY-20: 94%). In addition, investment income's reasonable performance, the company achieved consolidated profit before tax of PKR 1.2bln.

Investment Performance In addition, the company has earned an impressive investment income of PKR 935.6mln (3MCY-20: PKR 721.7mln). A significant decrease in the impairment of equity securities and increased dividend income were deemed to be the catalyst for investment income

Sustainability Given the ongoing 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 strong liquidity position is reflected in its risk absorption capacity, depicted by the 2.5x cover to claims' liability.

Re-Insurance Reinsurance 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), Korean RE (A by A.M Best) and Malaysia Re (A- by A.M Best)

Liquidity EFU General possesses a sizeable investment book, valued at PKR 31.8bln (3MCY-20: PKR 28.2bln), having liquid investments of 20.1bln (~71%), proportioned with 65% government securities, 21% equity securities and 14% bank deposits.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The total equity of company stands at PKR 20.6bln.



GENERAL INSURANCE
Financials [Summary]

EFU General Insurance Limited (EFU General)

	PKR mln	PKR mln	PKR mln	PKR mln
	30-Mar-21	31-Dec-20	31-Dec-19	31-Dec-18
BALANCE SHEET				
Investments				
Liquid Investments	20,120	19,126	16,575	16,513
Investment in Subsidiary*	9,181	9,299	10,169	9,898
Other Investments	2,521	2,518	2,341	1,879
	<u>31,822</u>	<u>30,943</u>	<u>29,086</u>	<u>28,290</u>
Insurance Related Assets	7,848	8,501	8,440	7,293
Other Assets	10,207	9,802	10,622	9,476
TOTAL ASSETS	<u>49,877</u>	<u>49,245</u>	<u>48,149</u>	<u>45,059</u>
Equity	20,652	21,229	20,667	20,442
Underwriting Provisions	11,127	10,766	10,709	9,820
Insurance Related Liabilities	13,287	13,662	13,696	11,641
Other Liabilities	4,812	3,588	3,077	3,156
TOTAL EQUITY & LIABILITIES	<u>49,877</u>	<u>49,245</u>	<u>48,149</u>	<u>45,059</u>
INCOME STATEMENT				
Net Premium				
Gross Premium Written (GPW)	6,022	22,639	22,064	20,813
Net Premium Revenue (NPR)	2,688	10,495	9,378	9,121
Net Claims	(1,236)	(5,308)	(4,650)	(3,862)
Net Expenses	(807)	(3,282)	(3,405)	(3,083)
Net Commission	(345)	(1,256)	(731)	(718)
Net Operational Expenses	(1,152)	(4,538)	(4,136)	(3,801)
UNDERWRITING RESULTS	<u>301</u>	<u>649</u>	<u>592</u>	<u>1,458</u>
Investment Income	936	2,626	2,933	1,782
Other Income/ (expense)	13	154	399	176
PROFIT BEFORE TAX	<u>1,249</u>	<u>3,441</u>	<u>3,924</u>	<u>3,417</u>
RATIO ANALYSIS				
Underwriting Results				
Loss Ratio	46%	51%	50%	42%
Combined Ratio	89%	94%	94%	84%
Performance				
Operating Ratio	54%	67%	58%	63%
Net Investment (Income)/ loss as a % of Total Operating Income	76%	80%	83%	55%
Liquidity & Solvency				
Liquidity Ratio – times	2.5	2.3	2.4	3.0

* EFU General converted its associate to subsidiary in March 2018

EFU General Insurance Limited (EFU General)

Mar-21

Insurer Financial Strength (IFS) Rating

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	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-	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.
B+ B B-	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.
CCC CC C	Very high credit risk. 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.
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 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.
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- (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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