



The Pakistan Credit Rating Agency Limited

EFU GENERAL INSURANCE LIMITED

IFS RATING REPORT

	UPDATE [JUNE-16]	INITIAL [JUNE-16]
Insurer Financial Strength (IFS) Rating	AA+	AA+
Outlook	Stable	Stable

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JUNE 2016

PROFILE & OWNERSHIP

- EFU General, incorporated in 1932; largest general insurance company in Pakistan, listed on Pakistan Stock Exchange
- Among EFU companies are EFU General, EFU Life and Allianz EFU Health Insurance , with EFU Group premium clocking in at PKR 48bln at end-Dec15
- Significant shareholders of EFU General include Bhimjee Group (24%) and JS Group (30%)

GOVERNANCE & MANAGEMENT

- A nine member board, including the CEO, Chaired by Mr. Saifuddin N. Zommkawala, the ex-CEO of the company has remained associated with EFU Group since 1964
- Seven of the board members represent Bhimjee group, one of JS and one independent member
- Mr. Hasanali Abdullah, the company's CEO & MD since July-11, associated with the EFU Group since 1979
- Team comprises experienced professionals, long associated with the company

BUSINESS RISK

- Largest General insurance Company; 24% market share at end-Dec15
- GPW portfolio is dominated by Property segment (54%) followed by Motor (22%), Marine & Aviation (15%) and Miscellaneous (9%)
- Growth in GPW is mainly in miscellaneous (28%) and motor segment (19%)
- Sustained improvement in combined ratio (CY15: 87%, CY14: 89%)
- Investment income increased manyfold (CY15: PKR 4bln); majority includes non-recurring reversal of impairment related to Investment in EFU Life Assurance (PKR 1.9bln)
- Window Takaful launched in May'15; for CY15 GPW was PKR 206mln capturing 6% takaful market share in first year of operations (and 24% in 1Q16)

BUSINESS STRATEGY

- Holding top market position, while following moderate growth strategy
- Sustain profitability; ensure prudent underwriting and risk management
- Eyeing to attain large projects; CPEC related projects
- Product innovation on cards, aiming diversification in current portfolio

FINANCIAL RISK

- Proportional and non-proportional treaty arrangements with strong international players
- Sizeable investment book (CY15: PKR 21bln, CY14: PKR 17bln), predominantly exposed to market risk (67%); however, a major portion of this investment is in an associate (~54%)
- Strong risk absorption capacity with liquidity cover to claims liabilities clocking in at 2.1 times (liquidity top up 4.7 times from strategic book)

RATING RATIONALE

EFU Group has leading presence in all dimensions of insurance industry - General, Life and Health. This furnishes strength to the brand and ability to serve diverse client needs. The rating interprets the company's vision to lead both in terms of size and profitability. Sponsors (Bhimjee family and JS Group), board, and the management are aligned on this, enabling a better focus in strategy and efforts. Increasing emphasis on customer service including concerted efforts to bring efficacy in claims settlement process with support from technology would help sustain market share. Strong liquidity and sound cash flow generation ability provide strength to the rating.

KEY RATING DRIVERS

The rating is dependent on sustained competitiveness of the company with improvement in underwriting quality. Meanwhile, the strength from IT infrastructure along with recently updated system would further strengthen the claims handling system and related MIS leading to improved overall efficiency.

INDUSTRY SNAPSHOT

Pakistan's general insurance growth has picked up (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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**GENERAL INSURANCE
Financials [Summary]**

EFU Insurance Limited (EFU General)

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	10,207	9,483	7,843
Investment in Associates	11,442	11,571	9,325
Other Investments	185	191	213
	<u>21,833</u>	<u>21,244</u>	<u>17,381</u>
Insurance Related Assets	6,331	5,633	6,576
Other Assets	6,365	5,662	5,269
TOTAL ASSETS	<u>34,529</u>	<u>32,539</u>	<u>29,227</u>
Equity	16,437	15,859	13,111
Underwriting Provisions	8,031	7,222	6,660
Insurance Related Liabilities	8,531	8,042	8,274
Other Liabilities	1,530	1,416	1,182
TOTAL EQUITY & LIABILITIES	<u>34,529</u>	<u>32,539</u>	<u>29,227</u>

INCOME STATEMENT	31-Mar-16	31-Dec-13	31-Dec-12
Net Premium			
Gross Premium Written (GPW)	4,698	15,214	14,514
Net Premium Revenue (NPR)	1,872	6,704	6,532
Net Claims	(808)	(3,007)	(2,973)
Net Operational Expenses	(769)	(2,845)	(2,835)
UNDERWRITING RESULTS	<u>296</u>	<u>853</u>	<u>724</u>
Investment Income	463	4,039	1,553
Other Income/ (expense)	(7)	(71)	(16)
PROFIT BEFORE TAX	<u>752</u>	<u>4,820</u>	<u>2,262</u>

RATIO ANALYSIS	31-Mar-16	31-Dec-13	31-Dec-12
Underwriting Results			
Loss Ratio	43%	45%	46%
Combined Ratio	84%	87%	89%
Performance			
Operating Ratio	60%	28%	65%
Investment Yield	2%	22%	9%
Liquidity & Solvency			
Liquidity Ratio – times	2.2	2.1	1.4

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.

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC CC C	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
D	Distressed. Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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.



Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

EFU General Insurance Limited
 Insurance | General
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
30-Jun-16	AA+	Stable	Maintain
30-Jun-15	AA+	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Insurance | General - View Point | Nov 15
 General Takaful - View Point | Feb 16

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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[Probability of Default \(PD\)](#)

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