



The Pakistan Credit Rating Agency Limited

EFU GENERAL INSURANCE LIMITED

IFS RATING REPORT

	NEW [JUN-17]	PREVIOUS [JUN-16]
Insurer Financial Strength (IFS) Rating	AA+	AA+
Outlook	Stable	Stable

JUNE 2017

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 44bln at end-Dec16.
- Significant shareholders of EFU General include Bhimjee Group and JS Group.

Governance & Management

- A nine member board, including the CEO, is chaired by Mr. Saifuddin N. Zommkawala, the ex-CEO of the company. He has been associated with EFU Group since 1964.
- Mr. Hasanali Abdullah, the company's CEO & MD, associated with the EFU Group since 1979.
- Team comprises experienced professionals, long associated with the company.

Business Risk

- Largest General insurance Company 25% market share at end-Dec16 (Dec15:24.8%)
- GPW portfolio is dominated by Property segment (53%) followed by Motor (25%), Marine & Aviation (13%) and Miscellaneous (9%)
- Growth in GPW is mainly in motor segment (26%) & miscellaneous (14%) while marine has declined by 4%
- Phenomenal rise in underwriting profits PKR 1,749mln (CY15:853mln) mainly driven by Fire (40%) and Motor (25%) segments.
- Motor claims as percentage of net premium revenue reduced to 47% as against 52% in 2015 due to improved law and order situation.
- Sustained improvement in combined ratio (CY16: 78%, CY15: 87%).
- Investment income clocked in at (CY16: PKR 2bln); majority includes share of profit from associate related to Investment in EFU Life Assurance (PKR 802mln).
- Window Takaful launched in May'15; for CY16 GPW was PKR 1,095mln capturing 25% takaful market share in 2nd year of operations.
- Participant's Takaful Fund reported surplus of Rs.-20mln for the year compared to Rs.-8mln last year and operator's fund also reported profit of Rs.6mln as against loss of Rs.-3mln in CY15.

Business Strategy

- Holding top market position, while following moderate growth strategy.
- Sustain profitability; ensure prudent underwriting and risk management.
- Information Technology initiatives for improvement include; optimization data centre, network security by deploying state of the art firewall, enhance MIS to improve controls over the operations.

Financial Risk

- Proportional and non-proportional treaty arrangements with strong international players; Scor Global P&C (A), Swiss Re (A+), Allianz Re (A), Trust Re (A-), Lloyd's Underwriters (A) by AM Best.
- Sizeable investment book PKR 21bln (MV: 24,042mln), CY15: PKR 19bln (MV: 20,824mln), big (~90%) increase in PIBs in CY16; however, a major portion of this investment is in an associate (~58%).
- Strong risk absorption capacity with liquidity cover to claims liabilities clocking in at 1.9 times.

RATING RATIONALE

EFU Group continues to enjoy leadership in insurance industry – General and Health while securing second position in Life Insurance. In window takaful, EFU General Insurance remained leader with 25% market share, 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 company has posted strong profitability from underwriting and investment portfolio. 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 helps sustaining market share. Strong liquidity and sound cash flow generation ability provide strength to the rating. The business strategy, going forward, is envisaging substantial benefit emanating from CPEC related projects and overall dynamism in the economy.

KEY RATING DRIVERS

The rating is dependent on sustained competitiveness of the company. Keeping in view heightened competition in the industry, increase in insurance pie and penetration thereof is a pre-requisite for sustaining the growth rate particularly for large companies. Claim settlement process with high transparency and customer convenience is required to boost policy holder confidence and growth in business volume.

INDUSTRY SNAPSHOT

Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.



GENERAL INSURANCE
Financials [Summary]

EFU Insurance Limited (EFU General)

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	10,916	9,483	7,843
Investment in Associates	11,949	11,571	9,325
Other Investments	259	191	213
	<u>23,124</u>	<u>21,244</u>	<u>17,381</u>
Insurance Related Assets	7,629	5,633	6,576
Other Assets	6,713	5,659	5,269
TOTAL ASSETS	<u>37,466</u>	<u>32,536</u>	<u>29,227</u>
Equity	17,033	15,859	13,111
Underwriting Provisions	8,282	7,222	6,660
Insurance Related Liabilities	9,903	8,042	8,274
Other Liabilities	2,248	1,416	1,182
TOTAL EQUITY & LIABIL	<u>37,466</u>	<u>32,539</u>	<u>29,227</u>

INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
Net Premium			
Gross Premium Written (GP)	17,195	15,214	14,514
Net Premium Revenue (NPR)	7,825	6,704	6,532
Net Claims	(3,002)	(3,007)	(2,973)
Net Operational Expenses	(3,075)	(2,845)	(2,835)
UNDERWRITING RESULT	<u>1,749</u>	<u>853</u>	<u>724</u>
Investment Income	2,034	4,039	1,553
Other Income/ (expense)	19	(71)	(16)
PROFIT BEFORE TAX	<u>3,633</u>	<u>4,820</u>	<u>2,262</u>

RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	38%	45%	46%
Combined Ratio	78%	87%	89%
Performance			
Operating Ratio	51%	28%	65%
Investment Yield	9%	22%	9%
Liquidity & Solvency			
Liquidity Ratio – times	1.9	2.1	1.4

**RATING SYMBOLS & DEFINITIONS:****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 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, 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.

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Name of Issuer
Sector
Type of Relationship

EFU General Insurance Limited
 Insurance | General
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
30-Jun-17	AA+	Stable	Maintain
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

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

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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

Reporting of Misconduct

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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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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

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