

EFU GENERAL INSURANCE LTD.

Chairman: Mr. Saifuddin N. Zoomkawala

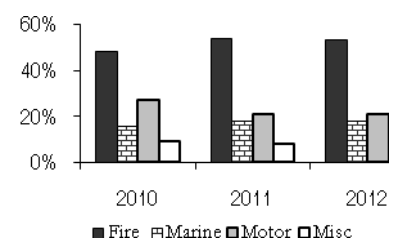
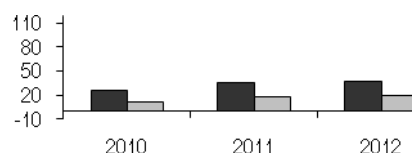
Managing Director & Chief Executive: Mr. Hasanali Abdullah

January 06, 2014

Analyst: Sobia Maqbool, CFA
Amir Shafique

Category	Latest	Previous
IFS	AA+ Dec 09, '13	AA Dec 18, '12
Outlook	Stable Dec 09, '13	Stable Dec 18, '12

Key Financial Trends



Rs. in billions	2010	2011	2012
Gross Premium Written	10.2	12.0	12.4
Market Share %	26.8%	28.2%	27.9%
Adjusted Equity	4.8	4.9	7.2
Investments	7.9	8.4	10.3
Net Claims ratio	67%	60%	55%
Combined ratio	106%	98%	98%
Underwriting Profit	(0.4)	0.2	0.2
Insurance Debt % Gross Premium Written	20%	18%	23%
Operating Leverage	108%	128%	84%

Rating Rationale

EFU General Insurance Limited (EFU) is the leading private sector general insurance company in Pakistan having a market share of 27.9% in domestic gross premium written in FY12. The company achieved gross premium of Rs. 12.4b (FY11: Rs. 12b), growing by a modest 2.6% in 2012. Incremental business largely emanated from fire & property segment which is also the major revenue generator. Share of motor business has been contained at about one-fifth of total premium.

EFU has a diverse pool of reinsurers; treaty arrangements for 2013 included Saudi Re and ARIG as new reinsurers replacing Best Re and Societe Central De Re. Amongst other reinsurers, Swiss Re (rated AA-) and Scor Re (rated A+) provided lead cover in major business segments. In recent years, the company has gradually enhanced treaty limits while reducing retention in larger business segments. Accordingly, cession ratio has also increased over time, even though at a measured pace. For 2013 however, retention was slightly enhanced for fire & engineering risks under XoL treaty; maximum claim that can fall on net account was higher at Rs. 75m (FY12: Rs. 50m). Higher frequency of small sized claims may adversely affect the results on net account.

Gross claims ratio increased to 68.5% (FY11: 42.1%) in FY12; net claims ratio has however continued to improve consistently since 2008, indicating better reinsurance coverage. Expense ratio is however on the higher side; management is targeting to achieve material reduction in the same over the next three years. Assuming continuation of past trend in net claims ratio, improvement in expense ratio is likely to translate into improved underwriting results. Underwriting operations have so far posted only marginal profitability. Overall profitability continues to be driven by investment returns, which are prone to volatility, given the company's sizeable exposure in the equities market.

Of the total investment portfolio of Rs. 10.7b, about 33% is deployed in fixed income instruments and real estate whereas the remaining is invested in equities, including the company's strategic investment. During FY12 and HY13, the stock portfolio's valuation (excluding strategic investment) depicted a notable increase. Given the upward movement in KSE-100 index, the portfolio (excluding strategic investment) was carried at a revaluation surplus of Rs. 1.6b at end FY12 (FY11: loss of Rs. 1.9b) and Rs. 1.1b at end 1HY13. The management has taken additional exposure in cash funds and intends to enhance its proportion further, going forward. So far, the increase is not significant on a timeline basis. Total adjusted liquid assets (adjusted for market value of investment portfolio) as a proportion of technical reserves (adjusted for prepaid premium ceded) increased to 76.5% by end HY13 (FY12: 55.9%; FY11: 56.3%). Including the company's strategic holding, adj. liquid assets represented 110.8% of adj. technical reserves. Net operating cash flow was marginally lower at Rs. 1b (FY11: Rs. 1.1b) largely on account of greater cession to reinsurers. In HY13 alone, the company generated operating cash flow of Rs. 969m, on the back of reduction in outstanding premiums.

There has been stability in senior management team. The company has fully implemented the new Oracle based General Insurance System (GIS) replacing the earlier system based on COBOL. GIS would enhance internal control efficiency while improving MIS reporting.

Overview of the Institution

Incorporated in 1932, EFU General Insurance Limited (EFU) is listed on Karachi and Lahore stock exchanges. At end-2012, the company operated through a network of 57 (2010: 54) branches. Financial statements for 2012 were audited by Ernst & Young Ford Rhodes Sidat Hyder & Co. [JCR-VIS](#)

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
09-Dec-13	AA+	Stable		Upgrade
18-Dec-12	AA	Stable		Reaffirmed
29-Nov-11	AA	Stable		Reaffirmed
28-Oct-10	AA	Stable		Reaffirmed