

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

August 3, 2018

RATING ANALYSTS:

Muniba Khan

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA+	AA+
<i>Rating Date</i>	<i>June 29, '18</i>	<i>August 25, '17</i>
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1932	External auditors: KPMG Taseer Hadi & Co., Chartered Accountants
Public Company	Chairman of the Board: Mr. Saifuddin N. Zoomkawala
Key Shareholder(s):	Chief Executive Officer: Mr. Hasanali Abdullah
JS Group – 35.3%	
Bhimjee Family – 23.9%	
Charitable Institutions – 12.1%	
EFU Life Assurance Limited – 2.3%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance, March 2017

<http://www.jcrvis.com.pk/docs/Meth-GenInsurance201702.pdf>

EFU General Insurance Limited

OVERVIEW OF THE INSTITUTION

In 1932, EFU General Insurance Limited (EFU) was incorporated as a public limited company. EFU is engaged in provision of general insurance business and is listed on the Pakistan Stock Exchange.

Profile of Chairman:

Mr. Saifuddin N. Zoomkawala has been associated with EFU Group since 1964. He also worked as General Manager for Credit & Commerce Insurance Company in United Arab Emirates. He served as Managing Director of EFU General Insurance Limited from July 10, 1990 till July 2011 when he was elected Chairman of the Company. He is also the Chairman of Allianz EFU Health Insurance Limited and Director of EFU Life Assurance Limited, and EFU Services (Pvt.) Limited, all being EFU Group Companies.

Profile of CEO:

He has been associated with EFU General Insurance Limited since 1979 and is Managing Director & Chief Executive of the Company from 2011. He is on the Boards of EFU Life Assurance Ltd., Allianz EFU Health Insurance Ltd., EFU Services (Private) Ltd., Tourism Promotion Services (Pakistan) Limited

RATING RATIONALE

Ranked first in the non-life insurance sector in terms of business size, EFU General Insurance Limited (EFU) has established a strong franchise whilst being one of the oldest insurance companies in Pakistan. Market share of the company was 26.9% during 2017. The assigned rating also derives strength from adequate capitalization levels and sustained profitability in business segments. From March 31, 2018 onwards, EFU Life Assurance Limited will be treated as a subsidiary of EFU. As a result, equity level of EFU amounted to Rs. 23.8b, on a consolidated basis, as on March 31, 2018.

Key Rating Drivers:

Business Mix:

The company primarily offers insurance policies covering fire and property damage, engineering, marine cargo, aviation and motor risks. EFU has a diversified and balanced business mix with a significant proportion of motor in comparison to its peers. During 2017, business volumes of the company (including Takaful) increased from Rs. 17.2b to Rs. 20.4b. Moreover, growth in the top line remained higher than the industry growth rate of 8.1%. Nevertheless, stiff competition in the market has impacted prevailing premium rates for EFU. Similar to other players, top line of the company is expected to be driven by business volumes. On the Takaful front, with motor segment representing the largest chunk, business is expected to grow at a slower pace vis-à-vis conventional given that there is limited capacity in the reinsurance market.

Claims Experience:

Given the industry trend, the highest loss ratios emanated from the fire and motor segments. In FY17, loss ratio of fire and motor segment worsened to 28.4% (FY16: 21.4%) and 48.1% (FY16: 46.9%), respectively. On the other hand, other segments depicted a better claims performance. Nonetheless, EFU's capitalization levels depict high risk absorption capacity.

Underwriting Performance:

Given higher incidence of claims, combined ratio of the company was impacted and increased to 80.1% (FY16: 76.0%) during the outgoing year. Given a higher expense base, the same was reported at 86.5% during 1Q18. However, the company continues to earn significant profits from its underwriting activities amounting to Rs.1.5b (FY16: Rs. 1.7b) during FY17.

Reinsurance Coverage:

Strong equity base and adequate reinsurance coverage provide resilience to EFU's risk profile. EFU has a diverse panel of reinsurers with different companies providing lead share in different business segments. Reinsurance panel has remained unchanged with a major chunk of business is reinsured with companies having ratings in the 'A' and 'AA' bands. In order to maintain its business risk profile, EFU ceded more than half of its business to its reinsurers. Size of maximum per risk claim remained unchanged which on net account is considered manageable in relation to the company's loss absorption capacity.

(owners of Serena Hotels), Honorary Treasurer of Aga Khan Hospital & Medical College Foundation, Member National Committee of Aga Khan University Foundation (Pakistan Branch) Geneva. Director of Institute of Financial Markets of Pakistan. He is ex – officio member of Executive Committee of Insurance Association of Pakistan. He has served on the Boards, Council and Committees of various Aga Khan Development Network institutions from 1976 to date. Mr. Hasanali Abdullah is Chartered Accountant and Certified Director from Pakistan Institute of Corporate Governance (PICG).

Investments:

EFU has a well-diversified investment portfolio with major portion of the company's investment income contributed by stable sources during the year. Given lower capital gains earned, investment income was reported lower at Rs. 821.2m (FY16: Rs. 1,009.4b) by end-FY17. Nonetheless, this income contributed a significant part of after tax profit amounting Rs. 2.3b (FY16: Rs. 2.4b) in FY17.

Liquidity and Capitalization:

Given the new regulations related to unpaid premium, insurance debt levels of the company declined bringing insurance debt as a proportion of gross premium as low as 15.0% at end-FY17. Management anticipates insurance receivables to remain on the lower end, going forward. This has also had a positive impact on cash flows of the company. Capitalization levels of EFU have strengthened over time on the back of profit retention. The company has enough room to optimize its leverage indicators by expanding its business further.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

EFU General Insurance Limited**Appendix I**

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	MAR 31, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Cash and Bank Deposits	1,580	1,164	1,867	1,749
Investments	28,456	27,625	20,337	19,166
Investment Properties	144	149	174	191
Insurance Debt	3,777	2,819	3,998	3,302
Total Assets	45,049	43,126	36,204	32,264
Net Worth	20,705	19,864	16,901	15,847
Total Liabilities	24,069	23,024	19,169	16,358
<u>INCOME STATEMENT</u>				
	MAR 31, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Net Premium Revenue	1,866	7,615	7,243	6,677
Net Claims	751	2,975	2,694	2,998
Underwriting Profit	252	1,513	1,739	751
Net Investment Income	189	821	1,009	1,202
Profit Before Tax	618	3,441	3,781	4,809
Profit After Tax	431	2,344	2,392	4,034
<u>RATIO ANALYSIS</u>				
	MAR 31, 2018	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015
Market Share (Gross Premium) (%)		26.9	24.9	24.5
Cession Ratio (%)	58.8	58.8	54.5	53.6
Gross Claims Ratio (%)	15.5	29.5	34.3	28.3
Net Claims Ratio (%)	40.3	39.1	37.2	44.9
Underwriting Expense Ratio (%)	46.2	41.1	38.8	42.4
Combined Ratio (%)	86.5	80.1	76.0	87.3
Net Operating Ratio (%)	75.3	66.6	64.2	76.3
Insurance Debt to Gross Premium (%)	17.8	15.0	24.8	22.0
Operating Leverage (%)	35.0	37.5	32.9	28.0
Financial Leverage (%)	42.3	46.4	40.9	33.5
Liquid Assets to Total Liabilities (%)	73.5	71.8	86.7	115.9

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RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

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REGULATORY DISCLOSURES		Appendix III		
Name of Rated Entity	EFU General Insurance Limited			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength (IFS) Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	6/29/2018	AA+	Stable	Reaffirmed
	8/25/2017	AA+	Stable	Reaffirmed
	7/11/2016	AA+	Stable	Reaffirmed
	6/24/2015	AA+	Stable	Reaffirmed
	11/25/2014	AA+	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on financial strength only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
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