

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

August 05, 2019

RATING ANALYSTS:

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RATING DETAILS

| Rating Category | Latest Rating | Previous Rating |
|--------------------|---------------------|---------------------|
| | Long-term | Long-term |
| IFS | AA+ | AA+ |
| <i>Rating Date</i> | <i>July 30, '19</i> | <i>June 29, '18</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 |
| Jahangir Siddiqui & Co. Ltd. – 21.10% | |
| Managing Committee of Ebrahim Alibhai Foundation – 12.02% | |
| Rafique R. Bhimjee – 8.29% | |
| Muneer R. Bhimjee – 7.98% | |
| Bano R. Bhimjee – 6.92% | |
| Energy Infrastructure Holding (Pvt.) Ltd. – 5.38% | |

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance, March 2017

<https://s3-us-west-2.amazonaws.com/backupsqvis/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 at UAE, an insurance company of EFU group. 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:

Mr. Hasanali Abdullah 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 (owners of Serena Hotels), Honorary Treasurer of Aga Khan Hospital & Medical College Foundation, Member National Committee of Aga Khan University Foundation (Pakistan Branch) Geneva.

RATING RATIONALE

EFU General Insurance (EFU) is one of the oldest general insurance companies in Pakistan with an established franchise value and highest market share in the non-life segment. Market share of the company was 24.4% (2017: 26.9%) in 2018. The company operates through a network of 53 (2017: 52) branches. From March 2018 onwards, EFU Life Assurance Limited has been treated as a subsidiary of EFU. Equity base of EFU on consolidated basis amounted to Rs. 24.5b at end-Q1'19.

Key Rating Drivers:

Business Mix: The company primarily offers insurance policies covering fire and property damage (including engineering), marine cargo hull and aviation, motor and other miscellaneous risks. Fire and property segment constitutes the largest proportion of overall business mix on gross basis. During 2018, gross premiums (excluding takaful premiums) witnessed reduction of 0.3% (2018: Rs. 18.78b; 2017: 18.84b) vis-à-vis the preceding year. Stiff competition in the market continues to constrain the prevailing premium rates. On net basis, motor segment continues to remain the largest segment given its higher retention. Barring the marine and miscellaneous segments, net premium from all other segments witnessed decrease in 2018 vis-à-vis the preceding year.

Going forward, management believes that top line of the company is expected to be driven by business volumes. Management is targeting gross premiums amounting to Rs. 19.7b during 2019. Written contributions in the takaful segment amounted to Rs. 2.0b (2017: Rs. 1.6b) in 2018, with motor segment representing the largest share.

Figure 1: Gross Premiums

| Business Mix | | | |
|-------------------------------|-----------------|-----------------|----------------|
| (Rs. in millions) | 2017 | 2018 | Q1'19 |
| Fire | 62.2% | 59.9% | 62.2% |
| Marine | 11.9% | 12.9% | 10.3% |
| Motor | 18.3% | 18.6% | 17.6% |
| Miscellaneous | 7.6% | 8.6% | 9.9% |
| Gross Written Premiums | 18,837.7 | 18,780.2 | 5,546.1 |

Figure 2: Net premiums

| (Rs. in millions) | 2017 | 2018 | Q1'19 |
|--------------------------|----------------|----------------|----------------|
| Fire | 28.8% | 26.7% | 24.0% |
| Marine | 18.6% | 20.5% | 20.6% |
| Motor | 45.0% | 45.1% | 48.1% |
| Miscellaneous | 7.6% | 7.8% | 7.3% |
| Total Net Premium | 7,614.6 | 7,562.3 | 1,824.6 |

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 2002. Mr. Hasanali Abdullah is Chartered Accountant and Certified Director from Pakistan Institute of Corporate Governance (PICG).

Claims: Overall gross claims ratio registered improvement during the outgoing year due to lower claims pertaining to fire and property segment. In line with the trend in the industry, motor segment witnessed the highest loss ratio on gross basis. As motor premiums are retained almost entirely on net account, risk retention on the books is on the higher side. Nonetheless, EFU’s capitalization levels depict high risk absorption capacity.

Figure 3: Gross Claims Ratios

| | 2017 | 2018 | Q1'19 |
|---------------------------|--------------|--------------|--------------|
| Fire | 24.6% | 12.7% | 17.6% |
| Marine | 27.4% | 36.7% | 44.1% |
| Motor | 47.9% | 49.8% | 53.9% |
| Miscellaneous | 25.2% | 33.1% | 37.4% |
| Gross Claims Ratio | 29.5% | 24.1% | 29.5% |

Figure 4: Net Claims Ratios

| | 2017 | 2018 | Q1'19 |
|-------------------------|--------------|--------------|--------------|
| Fire | 28.4% | 29.7% | 33.7% |
| Marine | 35.8% | 37.7% | 28.0% |
| Motor | 48.1% | 50.0% | 54.1% |
| Miscellaneous | 34.1% | 34.4% | 38.5% |
| Net Claims Ratio | 39.1% | 40.8% | 42.7% |

Reinsurance Coverage: Sound capitalization indicators and adequate reinsurance arrangements provide comfort to EFU’s risk profile. The company has a diversified panel of reinsurers providing lead share in different business segments. Reinsurance panel of EFU has remained unchanged with majority of business reinsured by companies with ratings in the ‘A’ band. Cession ratio of the company was reported at 60.5% (2017: 53.7%) in 2018. Size of maximum per risk claim remained unchanged and the same is considered manageable on net basis in relation to the company’s loss absorption capacity.

Investments: Investment portfolio of the company is considered diversified with majority of the investment derived from recurring sources of income in 2018. Investment income was reported higher at Rs. 1.6b (2017: Rs. 1.5b) due to higher return from debt securities and higher realized gains on equity securities. Going forward, management does not foresee any increase in the equity portfolio until stability is achieved on the macroeconomic front.

Figure 5: Investment portfolio size

| <i>Rs. in millions</i> | 2017 | | 2018 | | Q1'19 | |
|-----------------------------|-----------------|-------|-----------------|-------|-----------------|-------|
| | Rs. | % | Rs. | % | Rs. | % |
| Associate/Subsidiary | 10,999.4 | 39.0% | 9,897.9 | 38.8% | 10,041.2 | 38.9% |
| Equities | 6,419.4 | 22.7% | 4,970.5 | 19.5% | 4,636.2 | 18.0% |
| Debt Securities | 8,527.3 | 30.2% | 8,228.8 | 32.3% | 8,798.0 | 34.1% |
| Term Deposits | 430.6 | 1.5% | 506.6 | 2.0% | 445.5 | 1.7% |
| Real Estate | 1,847.1 | 6.5% | 1,879.1 | 7.4% | 1,892.9 | 7.3% |
| Total | 28,223.8 | | 25,482.9 | | 25,813.8 | |

Underwriting Performance and Overall Profitability: With decrease in net premium revenue and increase in net claims expenses due to higher incidence of claims in the marine and motor segments, the company's underwriting profit was reported lower at Rs. 1.3b (2017: Rs. 1.6b). Combined ratio of the company was recorded at 83.4% (2017: 79.1%) during the outgoing year. Decrease in the underwriting profit was greater than increase observed in the income from investments; hence, profit before tax and profit after tax of the company were reported lower at Rs. 3.3b (2017: 3.7b) and Rs. 2.2b (2017: Rs. 2.5b), respectively.

Figure 6: Underwriting performance

| <i>Rs. in millions</i> | 2017 | 2018 | Q1'19 |
|----------------------------------|----------------|----------------|--------------|
| Fire | 608.3 | 512.8 | 10.1 |
| Marine | 282.3 | 229.6 | 72.3 |
| Motor | 421.9 | 231.4 | 31.5 |
| Miscellaneous | 276.6 | 282.9 | 68.0 |
| Total Underwriting Profit | 1,589.2 | 1,256.7 | 181.8 |

Figure 7: Expense Ratios

| | 2017 | 2018 | Q1'19 |
|--------------------------------|-------|-------|-------|
| Net Claims Ratio (%) | 39.1% | 40.8% | 42.7% |
| Underwriting Expense Ratio (%) | 40.1% | 42.5% | 47.1% |
| Combined Ratio (%) | 79.1% | 83.4% | 89.8% |

Liquidity and Capitalization

Insurance debt as a proportion of gross premiums witnessed an increase to 19.0% (2017: 15.0%) as sizeable proportion of business was underwritten during the last month of the year. However, aging profile of insurance debt is considered satisfactory. Equity base of the company decreased to 19.2b (2017: 20.8b) on account of decrease in revaluation surplus. Dividend paid in absolute terms remained at a similar vis-à-vis the preceding year; however, as profit after tax was reported lower, the dividend payout ratio increased. Nevertheless, given the size of the equity base, leverage indicators compare favorably to peers.

Figure 7: Capitalization Indicators

| | 2017 | 2018 | 1Q'19 |
|-----------------------|----------|----------|----------|
| Equity (Rs. in mn) | 20,841.3 | 19,298.5 | 19,608.5 |
| Operating Leverage | 36.5% | 39.2% | 37.2% |
| Financial Leverage | 45.2% | 45.9% | 48.3% |
| Dividend payout ratio | 80.0% | 92.1% | - |

EFU General Insurance Limited
Appendix I

| FINANCIAL SUMMARY | | | |
|--|---------------------|---------------------|---------------------|
| <i>(amounts in PKR millions)</i> | | | |
| <u>BALANCE SHEET</u> | DEC 31, 2017 | DEC 31, 2018 | MAR 31, 2019 |
| Cash and Bank Deposits | 1,164 | 1,267 | 1,872 |
| Investments | 15,382 | 13,706 | 13,880 |
| Investment Property | 1,847 | 1,879 | 1,893 |
| Insurance Debt | 2,819 | 3,577 | 4,007 |
| Total Assets | 43,654 | 42,869 | 45,137 |
| Total Equity | 20,841 | 19,298 | 19,608 |
| Total Liabilities | 22,563 | 22,304 | 24,204 |
| | | | |
| <u>INCOME STATEMENT</u> | DEC 31, 2017 | DEC 31, 2018 | MAR 31, 2019 |
| Net Premium Revenue | 7,615 | 7,562 | 1,825 |
| Net Claims | 2,975 | 3,089 | 779 |
| Underwriting Profit | 1,589 | 1,257 | 182 |
| Net Investment Income | 1,512 | 1,612 | 214 |
| Profit Before Tax | 3,662 | 3,262 | 531 |
| Profit After Tax | 2,500 | 2,171 | 371 |
| | | | |
| <u>RATIO ANALYSIS</u> | DEC 31, 2017 | DEC 31, 2018 | MAR 31, 2019 |
| Market Share (Gross Premium) (%) | 26.9% | 24.4% | N/A |
| Cession Ratio (%) | 58.8% | 60.3% | 50.3% |
| Gross Claims Ratio (%) | 29.5% | 24.1% | 29.5% |
| Net Claims Ratio (%) | 39.1% | 40.8% | 42.7% |
| Underwriting Expense Ratio (%) | 40.1% | 42.5% | 47.1% |
| Combined Ratio (%) | 79.1% | 83.4% | 89.8% |
| Net Operating Ratio (%) | 58.8% | 62.3% | 74.8% |
| Insurance Debt to Gross Premium (%) | 15.0% | 19.0% | 18.4% |
| Operating Leverage (%) | 36.5% | 39.2% | 37.2% |
| Financial Leverage (%) | 45.2% | 45.9% | 48.3% |
| Liquid Assets to Total Liabilities (%) | 72.8% | 66.3% | 64.1% |

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

VIS Credit Rating Company Limited

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: 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.vis.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.vis.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.vis.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 | | | | |
| | 7/30/2019 | AA+ | Stable | Reaffirmed | |
| | 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 | 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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