

EFU Life Assurance Limited

Chairman: Mr. Rafique R. Bhimjee;

Managing Director & Chief Executive: Mr. Taber G. Sachak

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Analysts: Talha Iqbal
 Mohammad Aarsal Ayub

Rating Rationale

The operating environment for life insurance companies remains buoyant with growth in gross premiums of 30% in 2012. EFU Life Assurance Limited (EFU Life) is one of the leading private sector life insurance company in Pakistan, enjoying strong franchise. Market share of the company was estimated at 13.2% in 2012.

Almost 9 out of every 10 policies issued by EFU Life are unit linked. While this has shortened the duration of EFU Life's products, given the nature of these policies, the asset risk stands transferred to the policyholders, particularly for policies with cash values exceeding the sum risk assured. Given the portfolio allocation of the largest fund managed by the company and underlying asset class returns in last three years, cash value of a policy may be able to cross the threshold of sum risk assured in 5 to 7 years. This estimate may be different if stock market takes a sharp decline, even though equity allocation is currently moderate. As a growing company, there are however sizeable number of policies with cash value less than sum assured. Around three-fourth of the policies underwritten are covering risks less than Rs. 0.75m whereas average sum assured per policy remains below Rs. 0.5m; hence in addition to the innate granularity of the individual life portfolio, the risks are also small which is indicative of a well-diversified portfolio. Crude death rate has remained consistently very low; moreover, given the past surrender history, reinsurance support and liquidity profile of investments, the company has strong ability to meet policyholders' liabilities in a timely manner.

Over three fourths of the investment portfolio is invested in low risk government securities; significant reduction in exposure to PIBs and 20% cap on equity investments has been witnessed to manage exposure to market risk. Size of EFU Managed Growth Fund increased to Rs. 41b by end-FY13. Asset allocation of funds managed by the company is in line with investment policy statements that are clearly defined with sectoral and scrip-wise limits also in place. Performance of largest fund under management compared favorably to peers in FY12 and FY13. Given the nature of company's business, generating consistent investment results and ability to cater to varying investor risk appetites may be key differentiating factors over the long term.

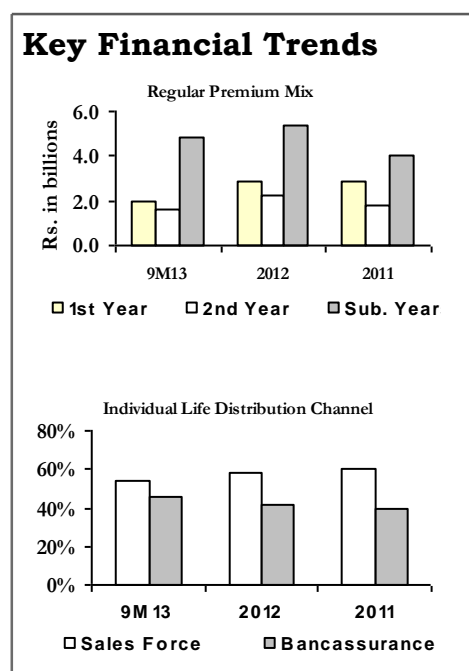
Given the change in industry dynamics in the backdrop of rapid growth in business generated through bancassurance, market share of EFU Life has witnessed a decline over the last three years despite reasonable growth in top line. This is attributable to a lesser degree of control over its bancassurance distribution network as compared to its major private sector peer. Business generated through the sales force channel is however the largest in private life insurance industry and remains a competitive advantage for the company. Over the last 2 years, a number of structural changes have been introduced in the sales force team including the creation of a new position of National Sales Director, change in organization structure & hierarchy and addition of newer regions. In order to improve retention and increase the size of the sales force, to achieve the aggressive targets set for the team, management has hired an additional resource with the designation of 'Head of Sales Force Development' who will be reporting to the NSD. Productivity indicators of the sales force in 2013 have largely been maintained at par with prior year level. On the bancassurance front, EFU Life will continue to focus on forging alliance with newer banks, introducing customer friendly products and negotiating referral model with more banks through which it can drive business. Persistency of bancassurance channel has improved on a timeline basis over the last two years; although it is still below that of the sales force channel. Revenue mix of the company in terms of distribution channels is adequately diversified.

EFU Life is managed by a team of experienced professionals, having lengthy association with the company. The internal audit function at the company has room for improvement, both in terms of scope and the resources available.

Overview of the Institution

Listed on Karachi Stock Exchange (KSE), EFU Life commenced operations in November 1992. The company offers individual and group life covers, with individual policies being the company's major business line in terms of premium income. The shares of EFU Life are held by EFU General Insurance Ltd. (EFU General) to the extent of 43%. Financial statements for calendar year 2013 were audited by Ernst & Young Ford Rhodes Sidat Hyder. Mr. Omer Morshed is the appointed actuary. ^[JCR-VIS]

Category	Latest	Previous
IFS	AA Mar 26, '14	AA Mar 27, '13
Outlook	Stable Mar 26, '14	Stable Mar 27, '13



(In Rs. b)	9M13	2012	2011
Gross Premium	9.6	11.9	10.1
Individual Life	8.4	10.3	8.7
Group Life	1.1	1.4	1.4
Market Share	N/A	13.2%	14.6%
Policy Holders' Liabilities	39.5	33.0	23.9
Persistency (Premium Terms)	81.9%	83.9%	82.0%
Surplus before Tax	0.7	1.4	1.1
Net Profit / (Loss)	0.5	0.9	0.6
Equity	2.1	2.1	1.7

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
26-Mar-14	AA	Stable		Reaffirmed
27-Mar-13	AA	Stable		Upgrade
02-Jan-12	AA-	Stable		Reaffirmed
29-Dec-10	AA-	Stable		Reaffirmed