

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

Category	Latest	Previous
IFS	AA Mar 11, '15	AA Mar 26, '14
Outlook	Stable Mar 11, '15	Stable Mar 26, '14

Rating Rationale

The private sector life insurance industry has posted a CAGR of 25% over the last 5 years (FY09-FY13). Bancassurance business has been the key driver for the healthy growth in industry gross premiums while business generated through direct sales force has witnessed moderate to steady growth. As per interaction with senior management personnel from the life insurance industry, JCR-VIS has gathered that a significant untapped bancassurance clientele still exists. Resultantly, healthy growth in gross premiums is expected to continue.

The assigned ratings incorporate EFU Life Assurance Company Limited's (EFUL) strong capacity to meet policyholder liabilities as evident from sound capitalization levels and adequate liquidity profile. Risk profile of the company is also supported by a conservative investment profile (low risk assets in relation to investment portfolio around 71% at end-9M14) and the nature of policies underwritten, whereby contribution of the company in the claims to be paid declines over time with growth in cash values. Business profile derives strength from favorable persistency levels and healthy growth in business volumes where significant room for future growth remains as evident from low life insurance penetration. However, growth in premiums trails behind industry growth translating into a gradual decline in market share over the last few years.

EFUL generates about 90% of its premiums through issuance of unit linked policies while the remaining business is generated through group life policies. With growth in cash values, contribution of life insurance company in the claim to be paid decreases over time and becomes zero once cash values equals sum assured. Depending on portfolio allocation and sum assured of the policy, it usually takes a period of 5-10 years from issuance for the policy's cash value to exceed sum assured. As a growing company there are, however, sizeable number of policies with cash value less than sum assured. Risk is however considered manageable keeping in view the low crude death rate experienced in the past and reinsurance coverage.

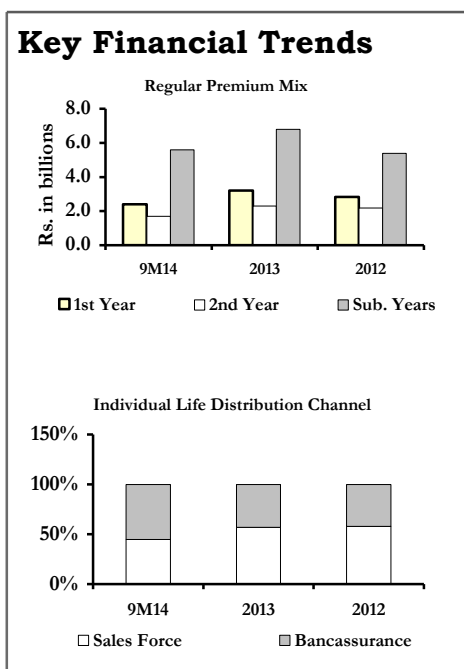
Business mix is fairly diversified with contribution of bancassurance being 59% (2013: 54%) in new individual life regular premium business and 55% (2013: 43%) in individual life regular premium renewal business during 9M14. Growth in proportion of bancassurance business is largely on account of increase in premiums generated through 'SCB Bunyaad', EFUL's recently launched single premium product. New business generated through direct sales force (DSF) channel after declining in 2012 and recording modest growth in 2013 has picked pace in 2014. However, size of the sales force declined at end-9M14 as compared to 2013 on account turnover. Going forward, management plans to enhance focus on increasing the size of sales force to further increase business from this segment. The management has also relaxed medical underwriting limits for policies issued under this segment; though the same still remains below the policies issued through the bancassurance channel. While premiums generated through group policies has increased, surplus generated in relation to premiums written have declined on account of significant competition in group life business. Moreover, retention on net account has also been enhanced for group life business. Impact of the same on claims performance will be tracked by JCR-VIS.

Assets under Management (AUM) stood at Rs. 59.6b (FY13: Rs. 42.5b) as of end-2014. The largest fund under management i.e. Managed Growth Fund (MGF) had a size of Rs. 57.2b at year-end 2014. Asset allocation of funds is dominated by fixed income instruments; allocation to equities has increased to around one-fourth of the portfolio. On the fixed income front, the company has built exposure in Pakistan Investment Bonds on account of higher yields on PIBs as compared to T-Bills and in anticipation of stable/declining interest rates. Performance of the largest fund under management has remained competitive and compares favourably to the fund managed by its major private sector competitor. Given the growth in size of assets under management, there is room for enhancing the scope of risk and research related activities. Ideally risk and research should be separate functions.

Excluding reversal on investments, reported profit after tax was about 28% lower in 9M14 as compared to the corresponding period last year. This was on account of higher surplus retention in statutory fund in order to meet regulatory solvency requirement. Equity base also showcased a slight dip in 9M14 as compared to year-end 2013 on account of dividend paid during the period being higher than net profits. However, risk adjusted capitalization levels of the institution are considered sound. EFUL has also met 100% regulatory solvency requirement for year-end 2014. Policy holder funds are invested in marketable securities which can be liquidated easily. Liquid assets carried on balance sheet are sizeable and represent over 106% of total policyholder liabilities at end-9M14.

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 2014 were audited by KPMG Taseer Hadi & Company Chartered Accountants. Mr. Omer Morshed is the appointed actuary [JCR-VIS](#)



(In Rs. b)	9M14	2013	2012
Gross Premium	12.5	14.1	11.9
Individual Life	11.2	12.5	10.3
Group Life	1.2	1.6	1.4
Market Share	NA	12.5%	13.1%
Policy Holders' Liabilities	52.8	42.8	33.0
Persistency (Premium Terms)	86.6%	87.8%	86.9%
Surplus before Tax	1.0	1.3	1.4
Net Profit / (Loss)	0.6	0.9	0.9
Equity	2.5	2.5	2.1