

RATING REPORT

EFU Life Assurance Limited

REPORT DATE:

January 9, 2018

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>Nov 30, '17</i>	<i>Mar 24, '16</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>Nov 30, '17</i>	<i>Mar 24, '16</i>

COMPANY INFORMATION

Incorporated in 1992	External auditors: M/s KPMG Taseer Hadi & Co. – Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Rafique R. Bhimjee
Key Shareholders:	Chief Executive Officer: Mr. Taher G. Sachak
EFU General – 43.1%	
Jehangir Siddiqui & Co. Limited – 20.1%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Life Insurance & Family Takaful Rating Methodology (October 2017)

<http://jcrvis.com.pk/docs/LifeTakaful%20201710.pdf>

EFU Life Assurance Limited

OVERVIEW OF
THE INSTITUTION

RATING RATIONALE

EFU Life Assurance Limited (EFUL) 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 EFUL are held by EFU General Insurance Ltd. (EFUG) to the extent of 43%. Financial statements for the year ending December 2016 were audited by KPMG Taseer Hadi & Company Chartered Accountants. Mr. Omer Morsbed is the appointed actuary. The company is listed on Pakistan Stock Exchange.

Having a market share of 14.4% in gross premium written by the life insurance industry, EFU Life Assurance Limited (EFUL) is one of the leading players in Pakistan. Market share of the company was maintained on an average basis, despite facing intense competition from existing players in the market.

Key Rating Drivers:

Business Mix & Persistency: Assigned ratings derive strength from EFUL's position as a significant player in the life insurance sector of Pakistan. Unit linked insurance products continue to be the largest contributor to EFUL's premium base featuring a combination of life insurance and savings. Given the nature of product, gross premium of the company declined on account of lower single premium policies underwritten during the outgoing year. Nonetheless, regular business depicted a growth of 14% vis-à-vis industry growth of 16.3%. Given that persistency in business generated through both distribution channels has increased slightly in terms of premium in 2016, overall persistency has also improved as a result of recent management initiatives.

Distribution Channels: Over the years, bancassurance has played a significant role in business development for EFUL. This has resulted in variance in business generated through the channel reflecting a relatively reduced level of control over the distribution channel as compared to its sales force channel. Management is cognizant of the fact and is focused on strengthening its sales force, improving quality of service and reducing turnaround time; these measures have resulted in higher persistency levels and higher regular business volumes.

Investments & Returns on Funds Under Management: With growth in policy holders' liabilities, investment portfolio under statutory funds has continued to increase and amounted to Rs. 95.4b at end-December 2016. Bulk of investments is held as government securities followed by equities and mutual funds. Performance of the largest fund under management was competitive in relation to peers. With the recent downward trajectory in the stock market, EFUL's significant exposure in equities may adversely impact returns of these funds. Given the nature of the 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. During 2017, the company introduced Takaful Growth Fund for its investment linked takaful business.

Profitability: With higher investment income, revenue base of EFUL strengthened to Rs. 39.5b during FY16; revenue base amounted to Rs. 20.2b during 9MFY17. Return on investments was largely contributed from gain on listed equity portfolio. Overall claims experience of EFUL deteriorated in 2016 on account of higher incidence of surrenders. Nonetheless, the company's surplus before tax as proportion of net premiums increased to 10.5% in FY16 vis-à-vis 8.1% in FY15. Going forward, support from investment income is likely to be on the lower side given the current downward trajectory in stock market.

Reinsurance Coverage: With bulk of the business generated by unit linked policies, the asset risk stands transferred to the policyholders particularly for policies with cash values exceeding the sum assured. As EFUL is a growing company, there are also a large number of individual life policies with cash values less than the sum assured. Risk is however considered manageable keeping in view the low crude death rate experienced in the past and reinsurance coverage.

Shareholding & Management Profile: The rating also takes into account the quality and stability of the company's senior management as well as the team comprising of experienced and qualified professionals which includes actuaries, accountants and underwriters. The company's strength also emanates from the strong franchise of its major sponsors and re-insurers that have been associated with the company for a long period of time.

EFU Life Assurance Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	12,359.6	14,406.6	7,666.4
Investments	88,831.2	71,941.3	55,534.6
Total Assets	106,301.5	91,265.4	67,228.5
Net Worth	4,193.4	3,409.7	2,834.3
Liabilities of Statutory Fund	97,782.1	83,836.3	61,222.4
<u>INCOME STATEMENT</u>			
	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Gross Premium Written	24,676.5	31,033.8	18,219.9
Net Premium Revenue	23,861.9	30,352.0	17,595.9
Net Claims	17,764.4	8,941.5	4,714.4
Net Investment Income	410.7	144.4	476.0
Surplus Transferred from Shareholder's Fund	2,326.1	2,122.1	973.1
Profit Before Tax	2,798.1	2,225.4	1,423.4
Profit After Tax	1,872.9	1,475.5	950.9
<u>RATIO ANALYSIS</u>			
	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Overall Cession Ratio (%)	3.3	2.2	3.4
Cession in Group Life (%)	21.8	20.1	22.3
Cession in Individual Regular Premium (%)	1.5	1.6	1.7
Persistency (%)	86.6	85.3	84.7
Gross Claims Ratio (%)	74.5	29.4	26.8
Expense Ratio (%)	23.3	17.6	26.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	EFU Life Assurance Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: INSURER FINANCIAL STRENGTH				
	11/30/2017	AA+		Stable	Reaffirmed
	5/24/2016	AA+		Stable	Upgrade
	3/10/2015	AA		Stable	Reaffirmed
	3/26/2014	AA		Stable	Reaffirmed
	3/27/2013	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 credit quality only and is not a recommendation to buy or sell any securities.				
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