

## RATING REPORT

### EFU General Insurance Limited

**REPORT DATE:**

August 15, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA+	AA+
Rating Date	July 11, '16	June 24, '15
Rating Outlook	Stable	Stable

#### COMPANY INFORMATION

Incorporated in 1932	External auditors: Ernst & Young, Fort Rhodes, Sidat Hyder - Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Saifuddin N. Zoomkawala
Key Shareholder(s):	Chief Executive Officer: Mr. Hasanali Abdullah
JS Group – 30.3%	
Bhimjee Family – 23.87%	
Charitable Institutions – 12.2%	
EFU Life Assurance Limited – 6.8%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance 2003

<http://www.jcrvis.com.pk/images/methodology.pdf>

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**EFU General Insurance Limited**


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**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.

**RATING RATIONALE**

EFU General Insurance (EFU) enjoys a leading position in the general insurance business with market share of 24.5% in gross premiums. It has showcased improving operational indicators along with strong capitalization and liquidity profile supported by sound underwriting policies. EFU's senior management team comprises qualified and experienced resources, having long association with the company.

**Rating Drivers:**

- **Business Volumes:** Gross premium of EFU led by volumetric growth in property and motor business amounted to Rs. 15.0b (CY14: Rs. 14.5b), growing by 3.4% in CY15. There was no major change in business mix with property continuing to be the lead contributor to revenues. EFU has also successfully launched its Window Takaful operations in May 2015.
- **Reinsurance:** The company has adequate reinsurance arrangements with a diversified panel of entities having sound risk profiles. In line with business growth, the management has negotiated capacity enhancements in major segments, whilst keeping net retention at manageable levels.
- **Profitability:** With underwriting results improving on a time line basis, the overall profitability continues to be well supported by investment income of Rs. 1.2b (CY14: Rs. 0.9b) and profit after tax stood higher at Rs 4.0b (CY14: Rs. 1.8b), primarily owing to a one-time reversal of Rs. 1.9b. Imposition of higher tax rate on investment income on the insurance industry is likely to have a negative impact on all insurers bottom line in the ongoing year.
- **Investments:** EFU holds a large portfolio of marketable securities in addition to strategic interest in EFU Life Assurance Limited (EFUL), one of the leading life insurance companies in the private sector. Other than EFUL, the investment portfolio comprises a mix of equities, sovereign instruments, term deposit receipts, real estate properties and mutual funds. Equity portfolio is subject to market risk; however, there is sizable unrealized gain on the portfolio that provides sufficient cushion against the downside movement in equity. Credit risk associated with sovereign funds is minimal. Moreover, exposure to market risk in income funds is mitigated by these funds having Fund Stability Rating in the 'AA' band.
- **Capitalization & Liquidity:** Enhancement in shareholder's equity resulted in improvement in leverage indicators of the company. Liquidity profile is considered sound as the company has built sizeable liquid reserves over time, the quantum of which has improved in relation to reported liabilities in view of improved valuation of marketable securities. Insurance debt in relation to total gross premium compares favorably to most peers. Ageing profile of insurance debt is also considered satisfactory.

**JCR-VIS Credit Rating Company Limited**

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

**EFU General Insurance Limited****Appendix I**

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Cash and Bank Deposits	1,749	1,521	2,083
Investments	19,166	15,647	14,771
Investment Properties	191	213	230
Insurance Debt	3,302	3,186	2,889
<b>Total Assets</b>	<b>32,264</b>	<b>29,227</b>	<b>28,939</b>
<b>Net Worth</b>	<b>15,847</b>	<b>13,111</b>	<b>11,908</b>
<b>Total Liabilities</b>	<b>16,358</b>	<b>16,116</b>	<b>17,031</b>
<b>INCOME STATEMENT</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Net Premium Revenue	6,677	6,532	6,342
Net Claims	2,998	2,973	3,406
Underwriting Profit	849	721	248
Net Investment Income	1,202	915	772
Profit Before Tax	4,809	2,262	1,623
Profit After Tax	4,034	1,829	1,392
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Market Share (Gross Premium) (%)	24.5	26.4	28.5
Cession Ratio (%)	53.6	54.8	54.1
Gross Claims Ratio (%)	28.3	40.9	26.8
Net Claims Ratio (%)	44.9	45.6	53.7
Underwriting Expense Ratio (%)	42.4	43.4	42.4
Combined Ratio (%)	87.3	89.0	96.1
Net Operating Ratio (%)	77.1	81.7	89.7
Insurance Debt to Gross Premium (%)	22.0	22.0	20.8
Operating Leverage (%)	33.4	37.1	54.2
Financial Leverage (%)	39.9	50.0	83.3
Liquid Assets to Total Liabilities (%)	82.6	73.0	55.8

## JCR-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:** 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](http://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](http://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](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES		Appendix III		
<b>Name of Rated Entity</b>	EFU General Insurance Limited			
<b>Sector</b>	Insurance			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Insurer Financial Strength (IFS) Rating			
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>			
	7/11/2016	AA+	Stable	Reaffirmed
	6/24/2015	AA+	Stable	Reaffirmed
	11/25/2014	AA+	Stable	Reaffirmed
	12/9/2013	AA+	Stable	Upgrade
	12/18/2012	AA	Stable	Reaffirmed
	11/29/2011	AA	Stable	Reaffirmed
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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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