

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

November 30, 2017

RATING ANALYSTS:

Muniba Khan

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA+	AA+
<i>Rating Date</i>	<i>August 25, '17</i>	<i>June 11, '16</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
JS Group – 30.53%	
Bhimjee Family – 23.87%	
Charitable Institutions – 12.1%	
EFU Life Assurance Limited – 6.8%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: General Insurance, March 2017

<http://www.jcrvis.com.pk/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.

RATING RATIONALE

The assigned rating reflects adequate capitalization and improvement in underwriting performance of EFU General Insurance Limited (EFU) on a timeline basis. Outstanding rating also takes into account EFU's positioning as the largest private sector general insurance company having market share of 25%. A stable and professional management team has been instrumental in implementing consistent business strategy.

Rating Drivers:

Business Volumes: In line with industry growth of 5.7%, top line of EFU has also depicted improvement with gross premium (including contribution from Takaful operations) crossing Rs. 17.2b in 2016. Moreover, growth momentum has continued in 1Q17 with business underwritten being 12% higher than the corresponding period last year. The company's business mix continues to be led by fire and property damage segment including engineering and terrorism risks.

Reinsurance: The company has adequate reinsurance arrangements in place with a diverse panel of reinsurers. Some increase in priority limits has been noted over time; however, EFU has adequate capacity to absorb claims falling on net account. Cession of the company has averaged at 54% since 2013; fire is the highest ceded segment of EFU. Size of maximum per risk claim on net account is considered manageable in relation to the company's loss absorption capacity.

Profitability: Underwriting performance has improved given improvement in claims incidence. Moreover, return from investments also continues to support the bottom line of EFU.

Claims & Expenses: While gross claims of the company depicted a variable trend, claims experience on net account has improved on a timeline basis, indicating better reinsurance coverage. Management has also made efforts towards improving its expense base which has reduced to 38.8% (FY15: 43.9%) in 2016. Continuation of past trend in net claims ratio and expenses, underwriting results are likely to improve further.

Investments: Based on market values, one third of EFU's investment portfolio comprises a strategic investment in its associate, EFU Life Assurance Limited. In addition to this, the company has significant exposure in equity and debt markets. Both credit and market risk arising from the portfolio is considered manageable in relation to the company's loss absorption capacity. Given the portfolio composition, the company's investment income has depicted stability.

Capitalization & Liquidity: Liquidity profile is considered sound as the company has built sizeable liquid reserves over time. Quantum of liquid assets increased on account of surplus on its investments; subsequently, liquid assets as a proportion of underwriting liabilities have also improved. Given the company's sizeable adjusted shareholders' equity, leverage indicators have remained on the lower side with operating and financial leverage reported at 32.9% and 59.8%, respectively in 2016.

JCR-VIS Credit Rating Company Limited

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

EFU General Insurance Limited**Appendix I**

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Cash and Bank Deposits	2,180	1,867	1,749
Investments	21,654	20,337	19,166
Investment Properties	168	174	191
Insurance Debt	3,686	3,998	3,302
Total Assets	38,224	36,204	32,264
Net Worth	17,501	16,901	15,847
Total Liabilities	20,563	19,169	16,358
<u>INCOME STATEMENT</u>			
	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Net Premium Revenue	1,820	7,243	6,677
Net Claims	726	2,694	2,998
Underwriting Profit	319	1,739	751
Net Investment Income	207	1,009	1,202
Profit Before Tax	840	3,781	4,809
Profit After Tax	600	2,392	4,034
<u>RATIO ANALYSIS</u>			
	MAR 31, 2017	DEC 31, 2016	DEC 31, 2015
Market Share (Gross Premium) (%)	-	24.9	24.5
Cession Ratio (%)	54.2	54.5	53.6
Gross Claims Ratio (%)	35.4	34.3	28.3
Net Claims Ratio (%)	39.9	37.2	44.9
Underwriting Expense Ratio (%)	42.6	38.8	43.9
Combined Ratio (%)	82.5	76.0	88.8
Net Operating Ratio (%)	72.2	67.1	80.9
Insurance Debt to Gross Premium (%)	18.6	24.8	22.0
Operating Leverage (%)	29.9	32.9	35.4
Financial Leverage (%)	38.6	40.7	42.0
Liquid Assets to Total Liabilities (%)	87.3	86.1	85.3

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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

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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			
	8/25/2017	AA+	Stable	Reaffirmed
	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
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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