

RATING REPORT

EFU Life Assurance Ltd

REPORT DATE:

May 27, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	AA+	AA
Rating Date	May 24, '16	Mar 11, '15
Rating Outlook	Stable	Stable
Outlook Date	May 24, '16	Mar 11, '15

COMPANY INFORMATION

Incorporated in 1992	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Rafique R. Bhimjee
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Taher G. Sachak
EFU General Insurance Limited – 43.06%	
Jehangir Siddiqui & Co. Limited – 20.04%	
Mr. S. Salman Rashid – 9.85%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/Images/lifetakaful.pdf>

EFU Life Assurance Ltd

OVERVIEW OF THE INSTITUTION

Listed on Pakistan Stock Exchange (PSX), 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. Majority shares of EFUL are held by EFU General Insurance Ltd. Financial statements for calendar year 2015 were audited by KPMG Taseer Hadi & Company Chartered Accountants. Mr. Omer Morshed is the appointed actuary.

RATING RATIONALE

With more than 20 years of operations, EFU Life Assurance Ltd (EFUL) is one of the leading players in private sector life insurance industry in Pakistan. Accounting for premium written by State Life Insurance Corporation of Pakistan Limited (SLIC), market share of the company stood above 10% during the year. The company is listed on Pakistan Stock Exchange. Along with providing conventional life insurance, the company also launched window takaful operations, during 2015.

Given that significant untapped bancassurance clientele still exists, healthy growth in gross premiums is expected to continue. 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.

Key Rating Drivers:

- Capitalization and Liquidity:** The assigned ratings incorporate EFUL's strong capacity to meet policyholder liabilities as evident from sound capitalization levels. With substantial investment in government paper, having sizable trading volumes, the company's ability to realize proceeds at carrying value is strong. Liquidity profile of the institution is considered sound in view of sizeable liquid assets carried on balance sheet with liquid assets comprising more than 100% of total policyholder liabilities at end-FY15.
- Profitability:** In line with growth in business volumes, net profit of the company has showcased healthy growth. Resultantly, capitalization levels have strengthened on account of internal capital generation.
- Business Mix:** Premium base depicted significant growth primarily on the back of higher individual life unit linked single premium policies written during 2015. Investment risk in such policies is borne by the policyholders and risk emanating from losses on such policies is well defined through low historic crude death rate of the country and sound reinsurance panel. Besides healthy growth in fresh business, growth in gross premiums is supported by strong persistency levels.
- Risk of Claims:** With growth in cash values, contribution of life insurance 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 6-7 years from issuance for the policy's cash value to exceed sum assured. As a growing company, there is, 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.
- Share of Bancassurance:** Within individual life business, proportion of bancassurance in overall business mix has increased on a timeline basis. In new business, almost half of the total business generated is through bancassurance. This is mainly on account of higher single premium bancassurance business generated through 'SCB Bunyaad'.
- Direct Sales Force:** With significant growth in bancassurance business and lower business volumes booked by its Direct Sales Force (DSF), proportion of business generated through DSF has witnessed a declining trend. Going forward, EFUL plans to continue focus on further developing its own sales force as an important source of business generation. Management anticipates improved productivity indicators in this area, going forward.
- Investment Management:** Unit linked policies are linked to four funds, of which the Managed Growth Fund is the largest. Total Assets under Management (AUMs) stood in excess of Rs. 80b. The performance of the largest fund under management has remained competitive and compares favorably to return generated by similar fund of its major private sector competitor in 2015. While exposure to equities has witnessed an increase on a timeline basis, overall investment profile has remained conservative with exposure to government securities and highly rated instruments representing around three fourth of the total investment portfolio. Resultantly, credit risk emanating from investments is considered manageable.

JCR-VIS Credit Rating Company Limited

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

EFU Life Assurance Ltd

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Cash and Bank Deposits	14,406.6	7,666.4	7,614.0
Investments	71,941.3	55,534.6	39,585.7
Total Assets	91,265.4	67,228.5	49,104.3
Net Worth	3,409.7	2,834.3	2,533.4
Liabilities of Statutory Fund	83,836.3	61,222.4	43,582.7
INCOME STATEMENT	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Gross Premium Written	31,033.8	18,219.9	14,058.9
Net Premium Revenue	30,352.0	17,595.9	13,365.5
Net Claims	8,941.5	4,714.4	3,483.9
Net Investment Income	144.4	476.0	106.7
Surplus Transferred to Shareholder's Fund	2,122.1	973.1	1,310.4
Profit Before Tax	2,225.4	1,423.4	1,398.3
Profit After Tax	1,475.5	950.9	929.1
RATIO ANALYSIS	DEC 31, 2015	DEC 31, 2014	DEC 31, 2013
Overall Cession Ratio (%)	2.2	3.4	4.9
Cession in Group Life (%)	20.1	22.3	30.1
Cession in Individual Regular Premium (%)	1.6	1.7	1.7
Persistency (%)	85.3	84.7	85.5
Gross Claims Ratio (%)	29.4	26.8	22.3
Expense Ratio (%)	17.6	26.6	30.4

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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 Life Assurance Ltd			
Sector	Insurance			
Type of Relationship	Solicited			
Purpose of Rating	Insurer Financial Strength Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY			
	5/24/2016	AA+	Stable	Upgrade
	3/11/2015	AA	Stable	Reaffirmed
	3/26/2014	AA	Stable	Reaffirmed
	3/27/2013	AA	Stable	Upgrade
1/2/2012	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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