

**EFU GENERAL INSURANCE LTD.**

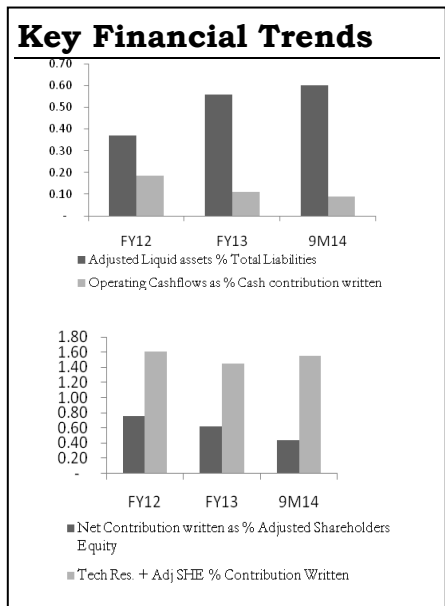
Chairman: Mr. Saifuddin N. Zoomkawala

Managing Director & Chief Executive: Mr. Hasanali Abdullah

November 25, 2014

**Analyst:** Sobia Maqbool, CFA  
 Mohammad Arsal Ayub

Category	Latest	Previous
IFS	AA+ Nov 25, '14	AA+ Dec 09, '13
Outlook	Stable Nov 25, '14	Stable Dec 09, '13



Rs. in billions	2012	2013	9M14
Gross Premium Written (Rs.)	12.4	13.9	11.9
Market Share (%)	26.5	26.9	N/A
Adjusted Equity (Rs.)	8.0	10.3	14.7
Investments (Rs.)	10.3	13.2	17.0
Net Claims ratio (%)	54.9	53.7	47.6
Combined ratio (%)	97	96	88
Underwriting Profit (Rs.)	0.2	0.3	0.6
Insurance Debt % Gross Premium Written (%)	22.9	20.8	27.9
Operating Leverage (%)	75	62	65

**Rating Rationale**

The rating of EFU General Insurance Limited (EFU) takes into account the company’s positioning as the largest private sector general insurance company having market share of 27%. The company possesses strong financial risk profile, as manifested in the capitalization and liquidity indicators and has posted improving underwriting performance. A stable and professional management team has been instrumental in implementing consistent business strategy.

Growth momentum in premium base in 2013 had been in line with industry trend. Business volumes have continued to grow in 2014, with further support expected from the commencement of Takaful business, going forward. Although Takaful business only contributes 3.8% of the total industry premiums, the same holds considerable room for growth, which hitherto remains largely unexploited, given that Takaful companies are fairly young in age.

The company’s business mix is lead by Fire segment, which includes Engineering and Terrorism related risks, and represents 57% of the total business volumes. This is followed by motor and marine business. Incidence of claims generally remained within manageable limits, with the exception of marine category, where sizeable loss was reported in 9M14. Losses on net account are protected by an adequate set of treaty arrangements and a sound & diversified panel of reinsurers. Changes in the company’s reinsurance terms include increased capacity in the fire segment, among others. The current set of reinsurance treaties feature manageable retention levels.

With better net claims performance and an effective check on overheads, underwriting results posted notable improvement in 9M14. Continued emphasis on sound risk management practices and effective internal controls is considered necessary to maintain the underwriting performance. At current levels, the combined ratio allows the company to generate meaningful earnings from underwriting operations, while profitability is further supported by investment income. The company has benefited from the uptick in stock market, as it continues to hold sizeable exposure in equities, where total return has been in excess of the benchmark index. The unrealized gains at end-9M14 provide cushion against downside movement in equity prices. There has also been an increase in fixed income securities relative to end FY12 level; this is likely to provide a more stable source of earnings over the long term.

Liquidity profile of the company is considered sound given sizable liquid assets in relation to outstanding claims and positive operating cash flows. Insurance debt as a proportion of gross premium has also remained on the lower side in the past couple of years, albeit some buildup was seen in 3<sup>rd</sup> quarter, FY14. Leverage indicators of the company indicate adequate room for growth and substantial reserves to absorb losses.

IT infrastructure of the company has improved as the company made a complete shift to the Oracle based, General Insurance System (GIS). IT-based initiatives included implementation of several customer support applications. Data back-up infrastructure features real time storage on dual sites.

**Overview of the Institution**

Incorporated in 1932, EFU General Insurance Limited (EFU) is listed on Karachi and Lahore stock exchanges. At end-2013, the company operated through a network of 56 (2010: 57) branches. Financial statements for 2013 were audited by Ernst & Young Ford Rhodes Sidat Hyder & Co. [JCR-VIS](#)

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