

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

July 2, 2015

RATING ANALYSTS:

Muniba Khan

muniba.khan@jcrvis.com.pk

Zaigham Abbas Shah

zaigham.abbas@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	AA+	AA+
Rating Date	Jun 24, '15	Nov 25, '14
Rating Outlook	Stable	Stable
Outlook Date	Jun 24, '15	Nov 25, '14

COMPANY INFORMATION

Incorporated in 1932	External auditors: Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Public Company	Chairman of the Board: Mr. Saifuddin N. Zoomkawala
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Hasanali Abdullah
JS Group – 29.4%	
Bhimjee Family – 23.8%	
Charitable Institutions – 12.2%	
EFU Life Assurance Limited – 6.8%	

APPLICABLE METHODOLOGY(IES)

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

EFU General Insurance Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1932, EFU General Insurance Limited (EFU) is listed on Karachi and Lahore stock exchanges. At end-2014, the company operated through a network of 53 (2013: 55) branches. Financial statements for 2014 were audited by Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants

RATING RATIONALE

EFU General Insurance Limited (EFU) is the largest private sector general insurance company in Pakistan. The company has more than 80 years of experience in the general insurance industry and enjoys largest market share, geographical diversification and strong franchise. The rating incorporates reinsurance arrangements in place, liquidity profile and improved underwriting performance of the company. Moreover, profile and stability in senior management team is also considered positively in the rating assessment.

The company has depicted steady growth in business volumes over the years though growth was slower than industry in 2014. Business mix largely comprises fire and property related risks while the proportion of other business lines has been restricted over time. Following the receipt of necessary regulatory approvals, the company has initiated takaful operations in May 2015.

Underwriting performance has improved on the back of notable improvement in claims incidence. This is despite large marine claims incurred in 2014; the impact of which was absorbed on the back of adequate reinsurance arrangements. Underwriting expense ratio continues to remain weak in relation to peers. Investment income continues to augment the bottom line of the company, with net operating ratio also improving during the year.

Average credit risk profile of reinsurers on the company's panel is in the A category; Swiss Re and Scor Re enjoy lead share in major business segments. Given the claims experience in 2014, a top layer in marine treaty was introduced to absorb larger losses in 2015. Moreover, the company has reduced retention in crop insurance. Overall cession has remained around prior year level at 54.8% (FY13: 54.1%) in 2014 and indicates adequate reinsurance protection.

The company holds a large portfolio of marketable securities in addition to strategic interest in EFU Life Assurance Limited, one of the leading life insurance companies in the private sector. A major portion of the portfolio is invested in listed equities in view of which, the company's exposure to price risk is sizeable. Other than equities, the portfolio comprises a mix of sovereign instruments, TDRs, real estate properties and mutual funds. Exposure to interest rate risk increased during 2014 as the company built sizeable exposure in long term fixed rate bonds, either directly or by way of mutual funds. The investment portfolio carried sizeable gains at year-end; equity market related unrealized gains may have eroded to an extent in 1Q15 while valuation of fixed income portfolio is expected to have increased with benchmark rate having been reduced to 7% in May 2015. Downside risk to earnings has been stemmed to an extent by locking in the higher return on these bonds.

While given the nature of insurance business, operating cash flows may depict some variation on a year-on-year basis, a 3-years average of net operating cash flows in relation to cash premium written of 15% is on the lower side. Liquidity profile is nevertheless 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. Given the increase in adjusted shareholders' equity, leverage indicators have also improved in 2014.

EFU General Insurance Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR billions)</i>		
BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Cash and Bank Deposits	1.5	2.1	1.7
Investments	15.6	14.8	13.4
Investment Properties	0.2	0.2	0.2
Insurance Debt	3.2	2.9	2.8
Total Assets	29.2	28.9	29.1
Net Worth	13.1	11.9	11.1
Total Liabilities	16.1	17.0	17.9
INCOME STATEMENT	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Net Premium Revenue	6.5	6.3	6.0
Net Claims	3.0	3.4	3.3
Underwriting Profit	1.3	0.8	0.7
Net Investment Income	0.9	0.8	0.9
Profit Before Tax	2.3	1.6	1.6
Profit After Tax	1.8	1.4	1.6
RATIO ANALYSIS	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Market Share (Gross Premium) (%)	26.4	28.5	27.9
Cession Ratio (%)	54.8	54.1	50.5
Gross Claims Ratio (%)	40.9	26.8	68.5
Net Claims Ratio (%)	45.5	53.7	54.9
Underwriting Expense Ratio (%)	43.4	42.4	42.6
Combined Ratio (%)	88.9	96.1	97.5
Net Operating Ratio (%)	83.5	91.3	92.0
Insurance Debt to Gross Premium (%)	22.0	20.8	22.9
Operating Leverage (%)	37.1	61.8	75.3
Financial Leverage (%)	50.1	95.1	149.4
Liquid Assets to Total Liabilities (%)	75.0	55.8	37.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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 General Insurance Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	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
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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