

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

October 11, 2021

RATING ANALYSTS:

Arsal Ayub, CFA

arsal.ayub@vis.com.pk
RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA+	AA+
<i>Rating Date</i>	<i>October 11, '21</i>	<i>September 11, '20</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/Managing Director: Mr. Hasanali Abdullah
Jahangir Siddiqui & Co. Ltd. – 21.10%	
Managing Committee of Ebrahim Alibhai Foundation – 12.02%	
Rafique R. Bhimjee – 9.01%	
Muneer R. Bhimjee – 10.55%	
Bano R. Bhimjee – 7.77%	
Energy Infrastructure Holding (Pvt.) Ltd. – 5.39%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance, November 2019

<https://docs.vis.com.pk/docs/Meth-GenInsurance201911.pdf>

EFU General Insurance Limited

Company Overview

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.

Profile of Chairman:

Mr. Saifuddin N. Zoomkawala has been associated with EFU Group since 1964. He also worked as General Manager for Credit & Commerce Insurance Company at UAE, an insurance company of EFU group. He served as Managing Director of EFU General Insurance Limited from July 10, 1990 till July 2011 when he was elected Chairman of the Company. He is also the Chairman of Allianz EFU Health Insurance Limited and Director of EFU Life Assurance Limited, and EFU Services (Pvt.) Limited, all being EFU Group Companies.

Profile of CEO/MD:

Mr. Hasanali Abdullah has been associated with EFU General Insurance Limited since 1979 and is Managing Director & Chief Executive of the Company from 2011. He is on the Boards of EFU Life Assurance Ltd., Allianz EFU Health Insurance Ltd., EFU Services (Private) Ltd., Tourism Promotion Services (Pakistan) Limited (owners of Serena Hotels), Honorary Treasurer of Aga Khan Hospital & Medical College Foundation, Member National Committee of Aga Khan University Foundation (Pakistan Branch) Geneva.

RATING RATIONALE

EFU General Insurance (‘EFU’ or ‘the Company’) is one of the oldest general insurance companies in Pakistan with an established franchise value and highest market share in the non-life segment. Market share of the Company, inclusive of takaful contributions underwritten, was 22.1% (2019: 23.3%) in 2020. The Company operates through a network of 56 branches.

Insurance Sector Update

- The gross premiums/ takaful contributions underwritten by the industry grew by 8% in 2020, as data published by Insurance Association of Pakistan.
- Growth in insurance industry premiums receded to 8% in 2020 vis-à-vis 10% in the preceding year. Historically, growth in the insurance premiums has been reported at more than 2x of the GDP growth. However, in last 5 year period, this has dropped. Future industry growth is likely to pick pace as the ruling government enters its final 2 years, wherein historically it has been noted that infrastructure projects are ramped up. Nevertheless, industry experts remain conservative in their projections, maintaining the same within the single digit domain and close to the GDP growth projection of ~5%.
- As a result, non-life insurance penetration, estimated at ~0.2%, remains notably lower than regional peers.
- Given the meagre growth in premiums, the industry’s combined ratio posted an uptick, which was driven by an uptick in both net claims and expense ratios.
- The investment performance remained strong during the period, with overall investment income posting an uptick of 13%.
- The sector’s operating leverage remains around ~50%, which is considered to be on the lower side and there is certainly room for additional insurance penetration in the domestic market.
- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- The implementation of IFRS 17 has been further postponed to January 1’ 2023. The SECP has issued instructions of phase-wise implementation of IFRS 17, as per which the insurance companies have been instructed to submit a gap analysis with SECP by end-September’2021. So far, an estimate of related provisioning impact on the industry is yet to be ascertained.

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2019	2020
Insurance Premium (Gross)	83.7	89.6
Takaful Contributions (Gross)	11.0	12.6
Industry Total (Gross)	94.6	102.3
Combined Ratio	89.1%	95.3%
- Net Claims Ratio	51.7%	54.8%
- Underwriting Expense Ratio	37.4%	40.5%
Net Operating Ratio	72.5%	78.6%
RoAA	4.7%	4.4%
RoAE	10.5%	10.1%
Operating Leverage	49.6%	52.5%

Director of Institute of Financial Markets of Pakistan. He has served on the Boards, Council and Committees of various Aga Khan Development Network institutions from 1976 to 2002. Mr. Hasanali Abdullah is Chartered Accountant and Certified Director from Pakistan Institute of Corporate Governance (PICG).

EFU General Insurance: Business Update

- Business Mix

- EFU offers insurance policies covering fire and property damage (including engineering), marine cargo, hull and aviation, motor and other miscellaneous risks.
- Fire and property segment constitutes the largest proportion of overall business mix on gross basis. During 2020, EFU’s gross underwriting (inclusive of takaful contributions) grew by 3%. The growth in underwriting trailed the prevailing inflation, albeit low growth momentum has been experienced by other large-sized non-life insurance companies as well.
- In H1’2021, gross underwriting depicted in an uptick of 5%, mainly being driven by strong growth ‘Marine’ (32%) and ‘Motor’ (11%) .
- Going forward, the management projects growth in premium to be aligned with the trend noted in H1’2021, with much of this growth being projected from Marine & Motor segments; these were the segments, which were the most affected by the pandemic-induced slowdown.

Table 2: Gross Premium/ Contributions (Segment-wise)

(Rs. in millions)	2019	2020
Fire	56.3%	59.2%
Marine	11.9%	10.8%
Motor	24.2%	22.3%
Miscellaneous	7.7%	7.7%
Gross Written Premiums	22,064	22,639

- **Reinsurance Arrangements:** Cession ratio of the company was reported at 52.1% in 2020 (2019: 53.7%). As per management, the movement in cession is mainly attributable to a change in reinsurance arrangements, from proportional treaties to excess of loss (XoL) treaties. We have not noted any material change in reinsurance arrangements.

Table 3: Cession (Segment-wise)

(Rs. in millions)	2019	2020
Fire	78.6%	73.6%
Marine	37.9%	39.2%
Motor	0.3%	0.6%
Miscellaneous	63.5%	54.9%
Cession	53.7%	52.1%
Cession (excluding motor)	70.7%	67.0%

- **Investments:** There have been some change in the composition of the investment portfolio; particularly, we have noted an uptick in tilt towards equity securities primarily due to increase in market values, which had been reduced in 2019.

Table 4: Investment Portfolio

<i>Rs. in millions</i>	Dec'19		Dec'20		Jun'21	
	Rs.	%	Rs.	%	Rs.	%
Subsidiary	10,169.3	39.3%	9,298.8	34.1%	9,244.2	34.3%
Equities	3,271.5	12.6%	4,480.7	16.4%	4,521.0	16.8%
Debt Securities	9,654.5	37.3%	10,273.3	37.7%	10,061.1	37.4%
Term Deposits	444.4	1.7%	683.0	2.5%	564.2	2.1%
Real Estate	2,341.5	9.0%	2,518.0	9.2%	2,521.5	9.4%
Total	25,881.2		27,253.9		26,912.0	

- **Profitability:** Amidst a challenging operating environment, marred by the pandemic-induced slowdown, the Company's Return on adjusted assets and return on adjusted equity were 5.2% and 12.2% respectively in 2020 (2019: 5.9% and 13.5%)

As reflected in table 5, the underwriting profitability actually depicted improvement in 2020. Even though net claims ratio was slightly higher, overall combined ratio was contained on the back of a controlled uptick in administrative overheads of just over 2%.

Investment performance remained steady, with yield on investment portfolio receding to 8.45% from 9.17%. Nevertheless, adding the investment returns to the combined ratio, the net operating ratio remained steady at 74%.

Table 5: Gross Claims Ratio (Segment-wise)

	2019	2020
Gross Claims Ratio	35.1%	36.3%
- Fire	22.0%	28.2%
- Marine	42.4%	41.9%
- Motor	59.5%	54.6%
- Miscellaneous	45.8%	41.4%
Net Claims Ratio	53.3%	54.0%
Underwriting Expense Ratio	47.6%	43.2%
Combined Ratio	100.9%	97.2%

Table 6: Income Statement Extract

<i>Rs. in millions</i>	2019	2020	H1'20	H1'21
Net Premium	7,460	8,617	4,204	4,753
Claim & Acquisition Costs	(4,105)	(5,134)	(1,090)	(2,641)
Management Expenses	(2,849)	(2,744)	(1,332)	(1,365)
Underwriting Results	505	739	692	748
Investment Income	2,262	2,185	1,154	1,317
Rental Income	112	117	63	59
Profit on WTO	214	186	108	61
Other (net)	734	226	95	51
Profit Before Tax	3,827	3,453	2,061	2,190
Taxation	(1,219)	(1,082)	(640)	(635)
Profit After Tax	2,609	2,371	1,421	1,555
Unrealized Loss on AFS Investments	(480)	(103)	(837)	(570)

- **Liquidity:** The Company's liquidity indicators remain adequate. The insurance debt posted contraction on a timeline, reducing from Rs. 4.0b as of Dec'19 to Rs. 3.7b as of Jun'21.

Table 7: Liquidity Indicators

	Dec'19	Dec'20	Jun'21
Liquid Assets/ Net Technical Reserves	2.42x	2.09x	2.14x
Insurance Debt to Gross Premium	20.3%	18.0%	19.4%*
Operating CF to Net Premium	39.1%	40.9%	28.1%

*Annualized

- **Capitalization:** Operating leverage remains on the lower side, indicative of room for additional underwriting. Given lower bottom line and static payout of Rs. 2b per annum, the payout ratio was higher on a timeline. Overall capitalization buffers in place and solvency cushion available is adequate for the assigned rating.

Table 8: Capitalization (Figures in PKR' Millions, unless stated otherwise)

	Dec'19	Dec'20	Jun'21
Net Equity	19,296	19,579	19,331
- Paid-up Capital	2,000	2,000	2,000
- Reserves	15,766	16,184	16,030
- Unappropriated Profit	1,530	1,395	1,301
Surplus on Revaluation of PPE	1,000	1,013	1,013
Profit	2,609	2,371	1,555
Dividends Paid	2,000	2,000	NA
Dividend Payout Ratio	76.7%	88.2%	NA
Operating Leverage	45.2%	50.2%	55.5%*
Financial Leverage	31.2%	40.9%	39.1%
Solvency (Excess Net Admissible Assets)	6,385	7,734	NA

Key Rating Rationale

... Sizable market share and strong outreach

The IFS ratings assigned to EFU are supported by the company's strong market positioning. Despite attrition in market share on a timeline, EFU, with a market share of 22.1% as of 2020 (2019: 23.3%), remains the industry leader in the non-life insurance domain.

... Sound Reinsurance Panel

The IFS rating is supported by the sound reinsurance arrangements in place. The company has a diversified panel of reinsurers providing lead share in different business segments. Reinsurance panel of EFU depicts sound credit quality with majority of business lines reinsured by companies with ratings in the 'A' band.

... Financial indicators are aligned with the peer median

Amidst muted business growth, both operating & financial leverage remain on the lower side. Even though a slight drop in combined ratio was noted, quantum of profitability (inclusive of investment income) remained steady, as reflected by a stable net operating ratio. The Company's financial risk indicators are aligned with peer median.

EFU General Insurance Limited

Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>			
BALANCE SHEET					
	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Jun 30, 2021	
Cash and Bank Deposits	1,267	1,192	1,329	1,064	
Investments	13,706	13,370	15,437	15,146	
Investment Property	1,879	2,341	2,518	2,522	
Insurance Debt	3,577	4,013	3,640	3,697	
Total Assets	42,869	45,699	45,812	45,445	
Paid-up Capital	2,000	2,000	2,000	2,000	
Total Equity	19,298	19,296	19,579	19,331	
Total Liabilities	22,304	25,009	24,778	24,645	
INCOME STATEMENT					
	2018	2019	2020	H1'20	H1'21
Net Premium Revenue	7,562	7,460	8,617	4,204	4,753
Net Claims	3,089	3,549	4,359	1,807	2,042
Net Investment Income	1,612	2,262	2,185	1,154	1,317
Profit Before Tax	3,262	3,827	3,453	2,061	2,190
Profit After Tax	2,171	2,609	2,371	1,421	1,555
RATIO ANALYSIS					
		Dec 31, 2019	Dec 31, 2020	Jun 30, 2021	
Market Share (Gross Premium) (%)		23.3%	22.1%	NA	
Cession Ratio (%)		53.7%	52.1%	52.4%	
Gross Claims Ratio (%)		35.1%	36.3%	28.5%	
Net Claims Ratio (%)		53.3%	54.0%	48.1%	
Underwriting Expense Ratio (%)		47.6%	43.2%	44.3%	
Combined Ratio (%)		100.9%	97.2%	92.4%	
Net Operating Ratio (%)		73.7%	73.8%	66.8%	
Insurance Debt to Gross Premium (%)		20.3%	18.0%	19.4%*	
Operating Leverage (%)		45.2%	50.2%	55.5%*	
Financial Leverage (%)		31.2%	40.9	39.1%	
Liquid Assets to Net Technical Reserves (x)		2.42x	2.09x	2.14x	
*Annualized					

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: 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.vis.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.vis.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.vis.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	Insurer Financial Strength (IFS) Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: IFS			
	10/11/2021	AA+	Stable	Reaffirmed
	9/11/2020	AA+	Stable	Reaffirmed
	7/30/2019	AA+	Stable	Reaffirmed
	6/29/2018	AA+	Stable	Reaffirmed
	8/25/2017	AA+	Stable	Reaffirmed
	7/11/2016	AA+	Stable	Reaffirmed
	6/24/2015	AA+	Stable	Reaffirmed
11/25/2014	AA+	Stable	Reaffirmed	
Instrument Structure	N/A			
Statement by the Rating Team	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 financial strength only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meetings Conducted	Name	Designation	Date	
	Altaf Gokal	CFO	September 10 th 2021	