

RATING REPORT

EFU General Insurance Limited

REPORT DATE:

November 23, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
IFS	AA++(IFS)	AA++(IFS)
Rating Date	November 23, '22	March 31, '22
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%	
Muneer R. Bhimjee – 10.55%	
Rafique R. Bhimjee – 9.01%	
Bano R. Bhimjee – 7.77%	
Energy Infrastructure Holding (Pvt.) Ltd. – 5.39%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: General Insurance, March 2022

<https://docs.vis.com.pk/docs/VIS%20General%20Insurance%20-%2020220331%20-%20FinalFinal.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. Zoomkanwala 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, within the private sector and inclusive of takaful contributions underwritten, was 21.7% (2020: 22.1%) in CY21. The Company operates through a network of 51 branches.

Insurance Sector Update

- The gross premiums/ takaful contributions underwritten by the industry grew by 11% in 2021, picking up from 8% in 2020. In H1’2022, given the increase in inflation, we have noted a change in trend wherein industry underwriting posted a growth of 26% vis-s-vis SPLY. Overall growth for 2022, is expected to be notably higher in the range of 25-30%.
- Insurance penetration in Pakistan has remained below that of neighboring counterparts, given non-life insurance penetration of ~0.355% vis-à-vis India at 4.2% and Sri-Lanka 1.39%.
- The industry’s combined ratio posted a dip in 2021, which was driven by a drop in both net claims and expense ratios. Overall the impact of investment returns on industry profitability remained similar, investment returns stood at 17% of the net premium.
- Even though operating leverage of Pakistan’s insurance industry remains adequately high, which is partly explained by lagged growth, in June’22, we have noted a trend of an uptick in operating leverage to 67.3% (annualized). Apart from the overall growth in underwriting, this is also partly attributable to dividend payouts in Q1 and mark to market losses on fixed income portfolios in Q2.
- Investment returns in H1’2022, have not depicted much deviation, unlike the one noted in life insurance portfolios. This is partly attributable to a different asset management strategy, albeit also implies that the industry was well placed in terms of portfolio duration leading up to 400 bpts steep drop in benchmark rates noted in Q2’2022. Given higher benchmark rates, investment yield is expected to improve in 2023.
- The implementation of IFRS 17 will commence from January 1’ 2023. The SECP has issued instructions of phase wise implementation of IFRS 17. The implementation is expected to translate in sizable provisioning burden for the industry, however the actual impact of the same on industry capitalization is yet to be ascertained.

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

(Rs. in Billions)	CY20	CY21	1H’CY22
Insurance Premium (Gross)	89.6	97.4	55.8
Takaful Contributions (Gross)	12.6	16.2	10.4
Industry Total (Gross)	102.3	113.6	66.2
Combined Ratio	95.3%	84.4%	89.8%
- Net Claims Ratio	54.8%	49.4%	53.2%
- Underwriting Expense Ratio	40.5%	35.0%	36.7%
Net Operating Ratio	78.6%	67.5%	74.6%
RoAA	4.4%	5.4%	3.8%*
RoAE	10.1%	12.8%	9.6%*
Operating Leverage	52.5%	58.3%	67.3%*
*Annualized			

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 & Property Damage (including Engineering) (F&PD), Marine Cargo, Hull & Aviation (Marine), Motor and other Miscellaneous risks.

Fire segment constitutes the largest proportion of overall business mix. During 2021, EFU’s gross underwriting (inclusive of takaful contributions) grew by 9%, with ‘Marine’ segment posting strong; resultantly, its share in business mix has increased.

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

(Rs. in millions)	2020	2021	HY22
F & PD	59.2%	57.7%	56.7%
Marine	10.8%	12.9%	16.6%
Motor	22.3%	22.3%	19.6%
Miscellaneous	7.7%	7.1%	7.1%
Gross Written Premiums	22,639	24,657	14,020

Reinsurance Arrangements: Cession ratio of the Company has trended down and become more aligned with peers. The cession ratio for motor remains the lowest (<1%) while Fire has highest cessation ratio of more than 65%. Overall reinsurance panel comprises counterparties with sound credit risk profile, given majority of the reinsurance panel comprising reinsurers with rating in the ‘A’ band of above and two reinsurers rated in the ‘B’ band.

Table 3: Cession (Segment-wise)

(Rs. in millions)	2020	2021	HY22
Fire	76.1%	72.3%	75.4%
Marine	40.3%	44.9%	45.5%
Motor	0.6%	1.0%	0.9%
Miscellaneous	54.6%	35.3%	30.9%
Cession	54.6%	51.3%	53.7%

Investments: Investment portfolio composition depicts lower tilt on equity securities. Given adverse equity market performance and higher benchmark rates, the investment in debt securities has increased.

Table 4: Investment Portfolio

Rs. in millions	Dec'20		Dec'21		Jun'22	
	Rs.	%	Rs.	%	Rs.	%
Subsidiary	9,298.8	34.1%	9,644.3	37.0%	9,464.9	35.4%
Equities	4,480.7	16.4%	3,705.2	14.2%	3,136.7	11.7%
Debt Securities	10,273.3	37.7%	9,405.8	36.1%	10,591.3	39.6%
Term Deposits	683.0	2.5%	678.8	2.6%	979.4	3.7%
Real Estate	2,518.0	9.2%	2,600.0	10.0%	2,600.6	9.7%
Total	27,253.8		26,034.1		26,772.9	

Profitability: The Company’s return on assets and equity were 6.0% and 14.4% respectively in 2021, improving from the preceding year (2020: 5.2% and 12.2%). Combined ratio posted improvement, mainly on account of notably better claims performance, wherein Marine segment’s performance was the most noteworthy. Overall combined ratio is aligned with the benchmark for the assigned rating.

	2020	2021	HY22
Gross Claims Ratio	36.3%	35.8%	49.1%
- Fire	28.2%	30.1%	51.7%
- Marine	41.9%	24.7%	16.5%
- Motor	54.6%	56.7%	62.8%
- Miscellaneous	41.4%	42.7%	49.9%
Net Claims Ratio	48.5%	43.0%	54.1%
Underwriting Expense Ratio	37.3%	37.2%	39.8%
Combined Ratio	85.8%	80.3%	93.9%

Table 5: Gross Claims Ratio (Segment-wise)

Investment performance compared adversely to preceding year, as yield on investment portfolio receded to 7.70% from 8.66%. However, this was a trend noted across the industry and mainly a result of adverse movement in macroeconomic variables and asset class returns for both equity and debt securities markets.

Table 6: Income Statement Extract

<i>Rs. in millions</i>	2020	2021	H1'21	H1'22
Net Premium	8,617	9,807	4,753	5,190
Claim & Acquisition Costs	5,134	5,546	2,641	3,599
Management Expenses	2,744	2,709	1,365	1,452
Underwriting Results	739	1,552	745	140
Investment Income	2,185	1,930	1,103	1,317
Rental Income	117	122	60	59
Profit on WTO	186	186	61	134
Other (net)	227	162	5	215
Profit Before Tax	3,453	3,952	2,190	1,565
Taxation	1,083	1,151	635	594
Profit After Tax	2,371	2,802	1,555	972
Unrealized Loss on AFS Investments	103	1,082	403	569

Amidst a challenging operating environment, marred by the global recession ripple effects and risk of higher than expected flood losses, The Company's profitability is likely to come under pressure in 2022. Nevertheless, given higher benchmark rates, yield on investment portfolio should support the Company's profitability going forward.

Liquidity: Overall, the Company's liquidity indicators remain adequate. Even though we continue to notice a declining trend in liquid asset coverage of net technical reserves, the same remains adequately high when compared to peers.

Table 7: Liquidity Indicators

	Dec'20	Dec'21	Jun'22
Liquid Assets/ Net Technical Reserves	2.09x	1.81x	1.82x
Insurance Debt to Gross Premium	16.1%	20.3%	17.4%*

*Annualized

Capitalization: Given sizable dividend payouts, the Company's equity base has contracted on a timeline, which in combination with an increase in underwriting has translated in higher operating leverage. Despite the uptick, EFU's operating leverage is viewed to be aligned with peers, albeit the cushion in the same has decreased.

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

	Dec'20	Dec'21	Jun'22
Net Equity	19,579	19,274	18,187
- Paid-up Capital	2,000	2,000	2,000
- Reserves	16,184	15,407	18,299
- Unappropriated Profit	1,395	1,867	(2,112)
Surplus on Revaluation of PPE	1,000	1,013	1,013
Profit	2,371	2,802	972
Dividends Paid	2,000	2,000	NA
Dividend Payout Ratio	84.4%	71.4%	NA
Operating Leverage	55.9%	64.2%	9.6%*
Financial Leverage	40.9%	43.0%	48.6%
Solvency (Excess Net Admissible Assets)	7,734	6,259	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 21.7% as of 2021 (2020: 22.1%), 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, which 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

Both operating & financial leverage remains aligned with peers. We have noted the increase in operating leverage, albeit the same is viewed to be adequately low, even though the cushion has decreased on a timeline. VIS will continue to monitor the changes in financial risk indicators on a timeline.

EFU General Insurance Limited
Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>			
BALANCE SHEET					
	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Jun 30, 2022	
Cash and Bank Deposits	1,192	1,329	1,190	1,365	
Investments	13,370	15,437	13,790	14,707	
Investment Property	2,341	2,518	2,600	2,601	
Insurance Debt	4,013	3,640	5,013	4,889	
Total Assets	45,699	45,812	47,000	51,587	
Paid-up Capital	2,000	2,000	2,000	2,000	
Total Equity	19,296	19,579	19,273	18,187	
Total Liabilities	25,009	24,778	26,136	31,873	
INCOME STATEMENT					
	2019	2020	2021	H1'2021	H1'2022
Net Premium Revenue (incl. takaful contributions and wakala fee)	10,357	10,943	12,372	5,831	6,332
Net Claims	4,650	5,308	5,324	2,583	3,427
Net Investment Income	2,262	2,185	1,930	1,317	1,103
Profit Before Tax	3,827	3,453	3,952	2,190	1,565
Profit After Tax	2,609	2,371	2,802	1,555	971
RATIO ANALYSIS					
	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Jun 30, 2022	
Market Share (Gross Premium) (%)	23.3%	22.1%	21.7%	NA	
Cession Ratio (%)	53.7%	52.1%	47.1%	48.0%	
Gross Claims Ratio (%)	34.0%	36.3%	35.8%	49.1%	
Net Claims Ratio (%)	44.9%	48.5%	43.0%	54.1%	
Underwriting Expense Ratio (%)	38.0%	37.3%	37.2%	39.8%	
Combined Ratio (%)	82.9%	85.8%	80.3%	93.9%	
Net Operating Ratio (%)	61.0%	65.8%	64.6%	76.5%	
Insurance Debt to Gross Premium (%)	18.2%	16.1%	20.3%	17.4%*	
Operating Leverage (%)	53.7%	55.9%	64.2%	69.6%*	
Financial Leverage (%)	31.2%	40.9%	43.0%	48.6%	
Liquid Assets to Net Technical Reserves (x)	2.42x	2.09x	1.81x	1.82x	
*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				
	11/23/2022	AA++	Stable	Reaffirmed	
	03/31/2022	AA++	Stable	Harmonized	
	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				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Altaf Gokal	CFO	October 17 th 2022		
	Mr. Atif Anwar	Senior Executive Vice President			