RATING REPORT

EFU General Insurance Limited

REPORT DATE:

February 19, 2025

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA++ (IFS)	AA++(IFS)
Rating Date	*Feb 19, '25*	*Jan 03, '24*
Rating Outlook/ Rating Watch	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

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. Kamran Arshad Inam
Jahangir Siddiqui & Co. Ltd. – 21.10%	
Muneer R. Bhimjee - 14.44%	
Managing Committee Of Ebrahim Alibhai Foundation - 12.02%	
Rafique R. Bhimjee - 11.10%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – General Insurance
https://docs.vis.com.pk/docs/GeneralInsurance-2023.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Overview of the Institutions

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 as Chairman of the Company. He is Director of EFU Life Assurance Limited, and EFU Services (Pvt.) Limited, both EFU Group Companies.

Profile of CEO/MD:

Mr. Kamran Arshad Inam completed his MBA in Finance from the Institute of Business Administration – IBA in 2001 and completed his BE in Mechanical Engineering from NED in 1996.

Mr. Kamran, started working for ENAR Petrotech in 1996 followed by a stint in Indus Motor. He also worked in Shahbaz Garments which is owned by Midas Safety a Canadian-based group. He was responsible for the gloves and chemical

RATING RATIONALE

The rating assigned to EFU General Insurance Ltd. ('EFUG' or 'the Company') take into account the its prominent market position as the leading general insurance company in the country. The rating derives strength from the overall sound profile of the EFU Group along with sponsorship backing of Bhimjee family and Jahangir Siddiqui & Co. Ltd. Despite reduction in the market share during the ongoing year, the gross written premium (GWP) witnessed an uptick over the rating review period driven mainly by upward revision in premium prices in line with inflationary pressures. Additionally, underwriting performance depicted noteworthy recovery on a timeline owing to improvement in net claims ratio. Despite an increase in underwriting expenses, the net profit was supported by a rise in investment income, lower claims ratio and robust profits from takaful operations.

Rating reflects the overall risk profile being supported by sound reinsurance arrangements with reputed international reinsurers. The liquidity profile is considered satisfactory as exhibited by liquid asset coverage of net technical reserves and insurance debt relative to gross premium. Capitalization profile of the Company is sound, given growth in equity base despite significant dividend payout. Operating and leverage indicators treaded upwards but remain aligned with the peer median. Going forward, recovery of market share and maintenance of profitability metrics, will be vital from a rating's perspective.

Auditor's Opinion

KPMG Hadi & Co. Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the Company's financial position as of December 2023 and review report for the six months period June 30, 2024.

Insurance Sector Update

Global Overview

The global insurance industry has demonstrated remarkable resilience and adaptability amidst evolving macroeconomic conditions and heightened geopolitical tensions. In 2023, the industry recorded its strongest growth since 2006, expanding by 7.5%. Global premiums reached €6.2 trillion, divided among life insurance (€2.62 trillion), property and casualty (P&C) (€2.15 trillion), and health insurance (€1.43 trillion).

Regional market dynamics underscore significant variances in growth. North America continues to dominate the P&C and health insurance segments, contributing 54.2% and two-thirds of global premiums, respectively. The Asia-Pacific region led the recovery in life insurance, buoyed by China's post-pandemic rebound (7.7% growth) and India's exceptional growth trajectory of 13.6%. In Europe, life insurance premiums grew by 3.3% in 2023 after a contraction in 2022, though challenges persist, including a heavy reliance on single-premium products.

Sustainability and ESG (Environmental, Social, and Governance) integration have become central to insurers' strategies, with almost all firms embedding sustainability goals into their investment portfolios. Clean energy and transition technologies are particularly prominent themes. Technological innovation, especially through artificial intelligence (AI), is gradually replacing traditional insurance processes. AI is now critical for underwriting, claims management, and risk modeling, while advancements in IT enable real-time customer engagement and personalized products.

Capital management strategies are also evolving in response to macroeconomic changes. Higher interest rates have improved investment yields, prompting insurers to increase allocations to private markets and alternative assets, such as infrastructure debt. Liquidity management remains a top priority as insurers *division from Pakistan, Dubai and Srilanka and was partially based in all three locations during 1998 to 2003.*

He joined EFU in risk management department in 2003 and later on got involved with Property and Engineering departments as well. He has been leading the Property and Risk Management department since 2012. He was promoted as Deputy Managing Director (Technical) in 2019 and was responsible for all the technical departments of the company as well as the branch network across the country and in December 2021, he was promoted as Joint Managing Director and in April 2023 he was appointed as Managing Director and Chief Executive Officer of the Company..

He was elected at IAP's Executive Committee as Vice Chairman in 2019. Prior to this, he had been the head of the Property Committee at the IAP.

He was involved in all major infrastructure and industrial projects mainly driven by International Lenders in addition to all number of CPEC and lender driven projects since 2014.

strive to balance portfolio diversification with maintaining stable risk levels. Meanwhile, regulatory developments and geopolitical tensions are among the top macroeconomic concerns for insurers, further complicated by diverging monetary policies across regions.

Looking ahead, the global insurance market is projected to grow at an annual rate of 5.5% over the next decade, with life and health insurance driving much of this expansion. Asia is expected to remain the primary growth engine, accounting for nearly half of the absolute premium increase. However, the industry must address key challenges, such as balancing insurability and affordability amidst rising climate and cyber risks, tackling inequalities exacerbated by demographic and economic shifts, and adapting to regulatory changes in a fragmented geopolitical environment.

Local Overview

The insurance sector in Pakistan, demonstrates a complex and evolving landscape. The industry is divided into life and non-life insurance segments, with significant contributions from both conventional and takaful (Islamic insurance) operations. However, insurance penetration remains low, at just 0.79% of Gross Domestic Product (GDP). In 2023, the life insurance sector reported a gross premium of PKR 404 billion, with claims paid amounting to PKR 289 billion. Health policies dominated the product distribution, constituting 41% of the total premium, followed by participating policies at 30% and unit-linked policies at 23%. The non-life insurance sector, on the other hand, recorded a gross premium of PKR 227 billion, with claims paid totaling PKR 84 billion. Fire and property damage insurance accounted for the largest share of the premium at 31%, followed by motor insurance at 20% and engineering insurance at 16%.

The financial performance of the sector highlights a substantial investment income, with the life insurance segment reporting total assets of PKR 2,518 billion and investments of PKR 1,911 billion as of Dec'23. The non-life insurance segment also showed strong financial health, with total assets of PKR 381 billion and investments of PKR 145 billion as of Dec'23. The takaful sector, although smaller, shows promising growth potential, particularly in the family takaful segment, which contributed 35% of the total private sector premium. The general takaful segment accounted for 11% of the total non-life insurance industry premium.

Challenges facing the sector include low motor insurance adoption, limited local reinsurance capacity, and a shortage of skilled human resources. The SECP's strategic plan underscores the importance of adopting IFRS-17 by January 2026, embracing technological advancements, strengthening legislative frameworks, and enforcing compulsory insurance schemes to tackle current challenges. Overall, the insurance sector in Pakistan is poised for potential growth, driven by both conventional and takaful operations. The industry's financial stability, coupled with strategic initiatives by the SECP, positions it well for future expansion and increased penetration in the national economy.

Business Update

BUSINESS MIX (Gross written Premium)	CY21	CY22	CY23	9MCY24
Fire, Property and Engineering	62.7%	68.8%	71.4%	70.3%
Marine	13.9%	12.1%	12.7%	13.3%
Motor	15.9%	13.0%	10.6%	10.8%
Miscellaneous	7.6%	6.1%	5.3%	5.6%
Total Gross Premium (PKR million)	**21,960.1**	**29,025.1**	**38,450.1**	**29,581.1**

EFUG offers insurance policies covering fire & property damage (including engineering), marine cargo, hull & aviation, motor & other miscellaneous risks. The Company has a branch network of 31 branches (2023: 47) end-Sept'24, including a branch in export processing zone. The Company continued to consolidate its outreach over the rating review period in order to reduce overhead costs and boost efficiency. The overall business mix was dominated by the fire & property segment, which constitutes about two thirds of the topline, followed by the marine division during 3QCY24. Motor segment depicted a timeline decline in the business mix owing to rising vehicle repair costs and a higher frequency of claims in the motor segment.

The Company registered an increase of 7.4% in GWP during 9MCY24, amounting to Rs. 29.6b (CY23: Rs. 38.4b; CY22: Rs. 29.0b). Despite uptick in the GWP, EFUG's market share reduced over the rating review period, standing at 18.7% at end-Sept'24 (CY23: 22.7%; CY22: 22.4%).

Cession Ratio	CY21	CY22	CY23	9MCY24
Fire, Property and Engineering	71.1%	78.4%	76.8%	76.6%
Marine	42.9%	44.8%	54.6%	54.8%
Motor	0.6%	0.7%	1.0%	1.1%
Miscellaneous	31.8%	30.6%	36.0%	37.6%
Cession Ratio	**53.0%**	**59.4%**	**62.5%**	**63.9%**

The overall cession ratio increased steadily, reaching 63.9% (CY23: 62.5%; CY22: 59.4%) in 3QCY24. This rise was primarily driven by an increase in cession in the marine segment due to higher risk exposure. On the other hand, lower proportion motor segment in the business mix, which is reinsured largely with non-proportional treaties, contributed to higher retention levels.

Key Rating Drivers:

Growth in Window Takaful Operations with improvement in Surplus

On the WTO front, the Company reported gross premium at Rs. 2.6b (CY23: 3.1b), during 9MFY24. The takaful business mix remained dominated by the motor and Fire & Property (F&P) segments which comprised about 87% of the total topline on a combined basis. The Participants' Takaful Fund registered a surplus of Rs. 402.0m (CY23: 210.2m; CY22: Rs. 287.4m), this increase is attributable to decline in net claims and improvement in investment income. Going forward, the management envisages a growth of 1.3x in GWP for the takaful business during the ongoing year vis-à-vis CY23; however, long-term growth is expected to be restricted by the limited availability of reinsurance coverages and Shariah-compliant investment avenues.

Claims Experience

Gross Claim ratio	CY21	CY22	CY23	9MCY24
Fire, Property and Engineering	30.0%	38.8%	21.3%	14.6%
Marine	25.0%	25.3%	20.3%	36.2%
Motor	48.7%	51.3%	46.0%	42.7%
Miscellaneous	44.1%	45.9%	34.3%	21.7%
Total Gross Claim (PKR million)	**6,966**	**9,963**	**8,217**	**6,053**

Net Claim ratio	CY21	CY22	CY23	9MCY24
Fire, Property and Engineering	37.7%	61.0%	37.6%	40.2%
Marine	36.8%	41.9%	36.0%	28.4%
Motor	49.1%	51.6%	46.5%	43.0%
Miscellaneous	57.5%	62.3%	50.2%	34.7%
Total Net Claim (PKR Million)	**4,277**	**5,600**	**5,123**	**4,101**

The Company recorded lower gross and net claims, amounting to Rs. 8.2b and Rs. 5.1b, respectively in CY23 (CY22: Rs. 10.6b, Rs. 5.6b) on account of lower quantum of claims pertaining to F&P and miscellaneous segment whereas, claims expenses pertaining to remaining segments remained largely range-bound. Similar trend was observed during 9MCY24 with gross and net claims amounting to Rs. 6.0b and Rs. 4.1b, respectively; with improvements manifested in the claim ratio for all segments for both net and gross basis.

Moreover, the Company's net claims ratio has been reported higher than the gross claims ratio on a timeline basis; the same is largely a function of the nature of the reinsurance arrangements which mainly constitute of Excess of Loss (XOL) treaties across major segments. The elevation of the net claims ratio is explained by the impact of smaller-ticket sizes falling within retention limits.

Improvement in Underwriting Performance

EFUG's conventional underwriting performance strengthened during 9MCY24, registering an underwriting profit of of Rs. 1.4b as opposed to loss of Rs. 11.8m in the preceding year, largely on the account of improved net claims ratio. Although, the expense ratio increased slightly to 47.3% (CY22: 45.7%) owing to increase of management expenses in line with inflationary pressure combined with higher net commission expenses. Consequently, the overall combined ratio stood substantially lower at 88.7% (CY22: 100.1%) indicating that the Company incurred profits on its underwriting operations. In addition, with increase in investment income to Rs. 2.7b (CY22: Rs. 2.2b) owing to enhancement of the investment portfolio amid high policy rates, the net operating ratio improved on the back of uptick in underwriting profits, dropping to 66.8% (CY22: 78.9%) during CY23. With change in fair value assessment of property to Rs. 170.2m (CY22: Rs. 450.0m) and healthy profit from WTO amounting to Rs. 696.4m (CY22: Rs. 387.6m) during the outgoing year resulted in after tax profit of Rs. 3.3b (CY22: Rs. 2.0b) for CY23.

Underwriting performance sustained its growth momentum during 9MCY24 with the Company posting a profit of Rs. 1.6b (9MCY23: Rs. 203.8m). This was largely an outcome of improvement in net claims ratio as the expense ratio improved to 45.8%. The combined ratio, hence also, improved to 84.5%. Moreover, recurring investment income increased further to Rs. 2.7b (9MCY23: Rs. 2.1b); the same resulted in net operating ratio improving to 58.9%. Therefore, despite marginal decrease in WTO profit to Rs. 492.1m (3QCY23: Rs. 520.8m), the Company reported a healthy PAT recorded of Rs. 3.1b in comparison to Rs. 1.6b in the corresponding period last year.

Sound Reinsurance Coverage

The Company's portfolio is supported by sound reinsurance arrangements with a diversified panel of international and local reinsurers. The overall risk profile of the reinsurance panel remained sound with the majority of reinsurers rated at 'A' or higher. Reinsurance panel depicted some changes during the review period such as replacement of Allianz in F&P XL segment with Echo Re and replacement of Arch in travel insurance segment with Mapfre. For the F&P segment, the surplus reinsurance arrangement is reinforced with excess of loss (XL) treaties. Another surplus treaty was also introduced during the ongoing year with a capacity of PKR 1.5b. Additionally, XL treaties are in place for the other major segments as well including marine, motor and miscellaneous, thus, providing sufficient protection against a single loss or event loss. On the other hand, the Bond, travel insurance and marine business (pertaining to the export processing zones) are covered by quota share arrangements. Moreover, increase in treaty sizes was witnessed in the F&P segments; the same was reflective of both growth in operating scale and inflationary impact. However, size of maximum risk per claim or series of claims are considered manageable relative to equity base and reinsurance arrangements.

Investment portfolio continued to increase with major inclination towards debt securities

Liquid Investment (PKR m)	CY22	%	CY23	%	9MCY24	%
Equity	2,718.0	17.9%	3,565.5	20.4%	4,682.5	23.3%
Debt	11,924.0	78.5%	12,982.6	74.4%	14,767.9	73.5%
Term Deposit	551.7	3.6%	896.7	5.1%	651.2	3.2%
Total	**15,193.7**	**100.0%**	**17,444.7**	**100.0%**	**20,101.6**	**100.0%**

The Company's investment portfolio expanded on a timeline to Rs. 20.1b at end-Sept'24 (CY23: Rs. 17.4b; CY22: Rs. 15.2b), tilting largely towards government securities on account of the management's cautious approach. The Company has invested primarily in long-term instruments, specifically, 5-year PIBs and 5-year GOP Ijarah Sukuks which constitute about two-thirds of the investment portfolio on a combined basis. Investments in TFCs/corporate sukuks were recorded at Rs. 302m (CY23: Rs. 302m;

CY22: Rs. 327m). Given that the debt portfolio is exclusively available-for-sale, the same is less likely exposed to mark-to-market losses, particularly given the declining trend in policy rates.

Additionally, equity investments increased to Rs. 4.7b (CY23: Rs. 3.6b; CY22: Rs. 2.7b) by end-Sept'24 owing primarily to increase in surplus on revaluation. The remainder of the investment portfolio constitutes of term deposits amounting to Rs. 651.2m (CY23: Rs. 896.7m; CY22: Rs. 551.7m). Nonetheless, as the investment portfolio is largely dominated by government securities, the overall credit risk is considered low. Going forward, the management expects to continue its cautious approach.

Sound Liquidity Profile

Liquidity Profile	CY21	CY22	CY23	9MCY24
Liquid Assets to Adj. Net Technical Reserves	180.6%	172.7%	177.2%	171.8%
Insurance Debt to Gross Premium	22.8%	20.2%	22.4%	20.0%

In line with augmentation in the investment portfolio over the rating review period, the liquidity profile in terms of liquid assets to adjusted net technical reserves decreased slightly to 171.8% at end-Sept'24 (CY23: 177.2%; CY22: 172.7%). This is mainly an outcome of cyclical increase in outstanding claim including IBNR. Nonetheless, the liquidity profile still remains in line with assigned rating. Additionally, the liquidity coverage is projected to improve by end-CY24 as unearned premium reserves will be gradually realized. Moreover, insurance debt to gross premium improved during the rating review period to 20.0% on an annualized basis (CY23: 22.4%; CY22: 20.2%). The aforementioned indicator is in sync with the rating assigned to EFUG.

Adequate Capitalization Levels

CAPITALIZATION PROFILE	CY21	CY22	CY23	9MCY24
Tier-1 Equity	19,273.8	18,426.7	20,407.8	22,952.4
Operating Leverage	61.2%	67.2%	71.1%	69.5%
Financial Leverage	43.0%	52.9%	54.6%	57.6%

Subsequent to CY22, the Company's equity base exhibited an increasing trend to Rs. 23.0b (CY23: Rs. 20.4b; CY22: Rs. 18.4b) by end-9MCY24. The Company also made a dividend payment of Rs. 1.7b (9MCY23: Rs. 1.7b) in absolute terms due to profit generation. The increase in equity base combined with growth in business activity resulted in largely rangebound operating leverage of at 69.5% during 9MCY24 (CY23: Rs. 71.1% CY22: 67.2%). Nonetheless, EFUG is considered sound from a solvency risk perspective as there is adequate cushion in terms of total admissible assets over liabilities. Meanwhile, the financial leverage depicted a slight increase on a timeline to 57.6% (CY23: 54.6%; CY22: 52.9%) the same was a function of increase in net technical reserves despite increase in the equity levels. However, the aforementioned leverage indicator is expected to be moderated as unearned premium reserves will be gradually realized during the ongoing year. Aging of claims payables is considered satisfactory. Nevertheless, the overall capitalization levels largely commensurate with the assigned ratings. Going forward, maintenance of profitability metrics in order to maintain rangebound capitalization levels will be important from a rating's perspective.

FINANCIAL SUMMARY				(PKR in million)
BALANCE SHEET	**CY21**	**CY22**	**CY23**	**9MCY24**
Cash and Bank Deposits	1,190	1,635	2,287	2,599
Investments	13,790	15,194	17,445	20,101
Liquid Assets	14,979	16,829	19,732	22,700
Investment Properties	2,600	3,050	3,192	3,192
Insurance Debt	5,013	5,876	8,630	7,882
Total Assets (incl. WTO)	47,000	56,619	67,505	70,477
Total Liabilities (incl. WTO)	26,650	37,060	45,958	46,393
Paid up Capital	2,000	2,000	2,000	2,000
Tier-1 Equity	19,274	18,427	20,408	22,952
INCOME STATEMENT	**CY21**	**CY22**	**CY23**	**9MCY24**
Net Premium Revenue (incl. WTO)	11,799	12,381	14,501	11,971
Net Claims (incl. WTO)	5,324	6,727	6,251	4,728
Underwriting Profit (incl. WTO)	1,451	360	1,688	1,979
Net Investment Income (incl. WTO)	1,967	2,288	3,444	2,771
Profit Before Tax	3,952	3,116	5,460	5,093
Profit After Tax	2,802	2,006	3,282	3,095
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**	**9MCY24**
Market Share	21.7%	22.4%	22.7%	18.7%
Cession Ratio (incl. WTO)	51.3%	58.0%	61.8%	64.0%
Gross Claims Ratio (incl. WTO)	35.8%	41.8%	28.7%	22.4%
Net Claims Ratio (incl. WTO)	45.1%	54.3%	43.1%	39.5%
Underwriting Expense Ratio (incl. WTO)	39.0%	42.8%	45.2%	44.0%
Combined Ratio (incl. WTO)	84.1%	97.1%	88.4%	83.5%
Net Operating Ratio (incl. WTO)	66.3%	76.5%	65.4%	55.7%
Insurance Debt to Gross Premium	22.8%	20.2%	22.4%	20.0%*
Operating Leverage	61.2%	67.2%	71.1%	69.5%*
Financial Leverage	43.0%	52.9%	54.6%	57.6%
Liquid Assets to Net Technical Reserves	84.4%	68.0%	64.4%	70.8%
Liquid Assets to Adj. Net Technical Reserves	180.6%	172.7%	177.2%	171.8%
OCF/Net Premium Revenue	19.3%	43.6%	28.9%	24.4%

**Annualized*

REGULATORY DISCLOSURES	Appendix II
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 Watch	Rating Action
RATING TYPE: IFS			
02/19/2024	AA++ (IFS)	Stable	Reaffirmed
01/03/2024	AA++(IFS)	Stable	Reaffirmed
11/23/2022	AA++(IFS)	Stable	Reaffirmed
03/31/2022	AA++(IFS)	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	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Najmul Hoda Khan	Chief Financial Officer	January 21st, 2025
Mr. Atif Anwar	Senior Executive Vice President	