RATING REPORT

EFU Life Assurance Limited

REPORT DATE:
August 21, 2020

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*August 21, 2020*	*May 15, 2019*
Rating Outlook	Stable	Stable
Outlook Date	*August 21, 2020*	*May 15, 2019*

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** M/s KPMG Taseer Hadi & Co. – Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Rafique R. Bhimjee
Key Shareholders:	**Chief Executive Officer:** Mr. Taher G. Sachak
EFU General – 43.57%	
Jehangir Siddiqui & Co. Limited – 20.05%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Life Insurance & Family Takaful Rating Methodology (October 2017)
http://jcrvis.com.pk/docs/LifeTakaful%20201710.pdf

EFU Life Assurance Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

*EFU Life Assurance Limited (EFUL) commenced operations in November 1992. The company offers individual and group life covers, with individual policies being the company's major business line in terms of premium income. The shares of EFUL are held by EFU General Insurance Ltd. (EFUG) to the extent of **43.57%.***

Financial statements for the year ending December 2019 were audited by KPMG Taseer Hadi & Company Chartered Accountants. Mr. Omer Morshed is the appointed actuary. The company is listed on Pakistan Stock Exchange.

EFU Life Assurance Limited (EFUL) is one of the largest private sector life insurance companies in Pakistan. The company offers individual and group life covers (conventional insurance and takaful), with individual policies being the company's major business line in terms of premium income.

Key Rating Drivers

Despite an uncertain economic and political environment, and a downward trend in stock market, EFUL maintained its topline during 2019.

Over the years, growth in life insurance industry has largely been a function of economic activity in the country, depicting a double-digit growth over the last five years, mainly in unit linked business. With an increase in number of market participants, specifically Takaful windows initiated by conventional players, there was significant market competition focusing on product features and pricing. Given the low life insurance penetration in Pakistan, growth in gross premiums is expected to continue, although at a reduced rate, given the uncertainty in economic and political environment. Despite these challenges, EFUL reported a gross premium base of Rs. 31.8b (2018: Rs. 30.8b) in 2019. In line with historical trends, growth in premium was largely contributed by its regular premium individual covers. Given the positive relationship between development of life insurance and economic growth per capita and recent general economic slowdown in the country, growth in business volumes for life insurance is expected to remain subdued in the coming year.

in Rs. Millions	2019	2018	2017	2016	2015
Gross Premium	31,750.1	30,790.4	31,499.5	24,676.5	31,033.8
Investment Linked	28,404.0	27,769.5	26,410.8	17,839.4	15,587.8
First Year	*6,999.8*	*6,845.9*	*5,340.1*	*4,343.0*	*3,732.1*
Second Year	*5,084.0*	*4,267.4*	*3,243.2*	*2,806.7*	*2,733.1*
Subsequent Years	*15,369.4*	*14,067.3*	*11,810.0*	*10,698.7*	*9,122.6*
Single Premium	*950.8*	*2,588.9*	*8,263.8*	*4,391.4*	*13,316.7*
Group Policies	3,346.1	3,020.9	2,842.4	2,384.9	2,129.4

Similar to previous years, business mix of the company has been largely contributed by regular premium policies followed by group life and single premium policies. Given the volatile market conditions and the essence of being an investment vehicle, there was lower demand for single premium products across the industry. Single premium product was primarily sold as an investment tool to customers, usually through commercial banks. Given the current dynamics of the banking industry, this product is not expected to depict any growth in near future. However, EFUL continues to invest equally in both its bancassurance and sales force team to improve its growth and persistency levels. With lower anticipated growth of the industry, persistency will remain a key profitability driver for the life insurance market players in the coming years. Although conventional bancassurance remains the primary driver of growth in premiums, the company also demonstrated its strength towards diversification, and achieved significant growth in the Window Takaful Operations during 2019. The company achieved an aggregate Gross Written Contribution of Rs. 4.2b in 2019 vis-à-vis Rs. 3.2b in the preceding year. Given growth prospects of this segment, EFUL is also focusing on the Takaful segment by investing in its dedicated sales force and branch network.

EFUL enjoys prominent brand and reasonable market share with favorable long-term growth prospects in the coming years.

While the private sector life insurance industry has posted a double digit growth in last five years, business profile for the market players derives strength from favorable persistency levels and healthy growth in business volumes where significant room for future growth remains evident from low life insurance penetration. EFUL's management expects to improve its market position given it has concerted efforts towards strengthening its direct sales force (DSF) over the years as well as focusing on the bancassurance channel. The company over the last few years has emerged as an active player in the micro and inclusive insurance arena, and plans to continue introducing new products and explore further alternative channels, including digital sales. Over the years, the company has invested in its IT infrastructure, both at the head office level as well as at branches. This investment has helped the Company improve efficiencies in its back-end operations and provide support in business acquisition to the distribution channels. Going forward, growth in life insurance industry is expected to be supported by a) Higher policies underwritten through bancassurance where significant room for growth remains as per industry players b) National Financial Inclusion Strategy's emphasis on increasing insurance penetration focusing on the masses, which will increase policies sold over medium to long-term and c) Conducive regulatory environment. As per management, these growth prospects may grow at a slower pace in the next two years given significant impact of COVID-19 on already weak macroeconomic indicators.

Ability to maintain persistency levels of its customer base will be a key rating driver in the near future given challenges to grow business volumes.

EFUL has an individual life branch network of over 200 locations across the country with sales force of 8,280 agents for its conventional business and 2,600 agents for its Takaful segment. In these challenging times, the company continues to focus on improving the productivity indicators of its team. While the industry has a case load of 1 for an agent each month, EFUL, over the medium to long term, targets to have each of its sales agent an average of 4 policies per month. Currently, the case load for EFUL is close to 1 for its DSF and 2 for its bancassurance team. In addition, regular improvement in quality of service and reduction in turnaround time has meant that persistency levels are comparable to 2018.

Conventional – 2019						
Persistency	**Total**		**Sales Force**		**Bancassurance**	
	Number of cases	**Premium**	**Number of cases**	**Premium**	**Number of cases**	**Premium**
2nd Year	74.7%	81.4%	73.8%	83.5%	75.4%	79.9%
3rd Year Onwards	83.2%	84.6%	84.0%	86.9%	81.9%	81.5%
Overall	81.4%	83.8%	82.4%	86.3%	80.1%	81.1%
Takaful – 2019						
2nd Year	75.2%	79.2%	66.3%	75.8%	78.3%	80.2%
3rd Year Onwards	82.0%	82.1%	80.8%	84.2%	82.7%	81.0%
Overall	78.3%	80.5%	74.2%	80.5%	80.1%	80.6%

Conventional – 2018						
Persistency	**Total**		**Sales Force**		**Bancassurance**	
	Number of cases	**Premium**	**Number of cases**	**Premium**	**Number of cases**	**Premium**
2nd Year	78.4%	83.9%	78.3%	86.0%	78.5%	81.9%
3rd Year Onwards	84.4%	86.5%	84.9%	88.4%	83.4%	84.0%
Overall	83.3%	86.0%	83.9%	87.9%	82.2%	83.5%
Takaful – 2018						
2nd Year	76.2%	79.5%	73.7%	82.1%	77.3%	78.5%
3rd Year Onwards	81.5%	83.7%	82.9%	87.9%	80.3%	80.9%
Overall	78.1%	81.1%	77.8%	84.9%	78.2%	79.3%

In line with industry trends, non-medical underwriting limits have witnessed significant increase over the last few years. However, the company is still supported by a strong international reinsurer.

Life insurance underwriting is based on sum assured applied for and age of the client according to which medical requirements (based on medical underwriting tables) are generated automatically. Underwriting guidelines are primarily worked from Munich Re Internet Risk Assessor. Reinsurance arrangements for individual life and group business remain unchanged. Reinsurance treaties have been arranged from Munich Re (rated 'AA-' by S&P and 'AA' by Fitch). Given competition in market and in line with trend adopted by peer companies, underwriting limits have been relaxed over the last few years.

EFUL invested in branch penetration which resulted in higher expenses. In addition, increased penetration of branch network also required strengthening of the DSF team. While expansion of the DSF line impacted short term profitability, the same is expected to recover in medium to long term. Risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.

During 2019, EFUL opened branches in new locations for both its conventional and Takaful segments to boost topline growth. There were 106 new branches opened during the year 2019, out of which 41 were for conventional business while 65 branches were for dedicated takaful business. As a result, acquisition costs and total expense base increased significantly. Nonetheless, bottom line of the company was reported at similar levels to last year in line with improvement in income from its insurance and investment sources. Profit after tax of the company was reported at Rs. 1.5b for 2019. With anticipated growth in premiums from this branch expansion, profitability is expected to increase on a medium term basis. Risk absorption capacity of the company is considered sound on the back of an equity base of Rs. 5.9b (2018: Rs. 5.96b) at end-December 2019. At present, risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.

The company maintains a healthy mix of investments; ability to generate sufficient investment income to support operations will be a key rating driver.

EFUL manages a total of seven unit linked funds; three of which have been dedicated to its Window Takaful business. The company manages a total fund size of Rs. 123.3b (2018: Rs. 103.2b) as of May 2020 with assets tilts largely towards fixed income securities including debt instruments and government securities. Credit and market risk emanating from the investment portfolio is considered low as majority comprises government securities. As per management, given limited avenues for Shariah compliant investments, growing Takaful business is challenging in terms of investment opportunities; life insurance policies are usually sold based on historical fund performance and their ability to generate superior returns vis-à-vis peers/other avenues. In the backdrop of the interest rate scenario, the company has also started building up its long-term exposure in government securities. Going forward, while the insurance companies may earn capital gains on investments in higher rate government securities, the impact of continued lockdown on the economy and the financial sector would make the operating dynamics of these companies in terms of receivable collection, in general, challenging.

The company depicts stability at the senior management level comprising qualified and experienced personnel. A dedicated and independent enterprise risk management function is in place.

The rating considers the quality and stability of the company's senior management as well as the team comprising of experienced and qualified professionals which include (but are not limited to) insurance sales personnel, accountants, IT professionals, underwriters, medical doctors, lawyers, business management graduates and actuaries, to name a few. The financial strength also emanates from the strong franchise of its sponsors.. In addition to this, EFUL has set up a dedicated and independent enterprise risk management (ERM) function. Risk management committee (RMC) meetings are held on quarterly basis and all groups are responsible for risk recognition, assessment and development of controls in their respective areas of operation.

EFU Life Assurance Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**31-Dec-19**	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
Cash and Bank Deposits	5,713.5	4,786.4	6,057.9	3,037.5
Investments	96,406.3	90,771.5	97,959.1	98,189.3
Total Assets	129,289.6	116,764.6	110,238.0	106,301.5
Paid up Capital	1,000.0	1,000.0	1,000.0	1,000.0
Net Worth	5,907.9	5,958.4	5,962.7	4,193.4
Liabilities of Statutory Fund	119,153.7	107,695.8	103,582.51	97,782.1
INCOME STATEMENT	**31-Dec-19**	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
Gross Premium Written	31,750.1	30,790.4	31,499.5	24,676.5
Net Premium Revenue	31,141.6	30,164.3	30,759.7	23,861.9
Net Claims	16,115.4	13,589.8	14,195.6	17,764.4
Net Investment Income	11,589.1	6,942.4	(3,605.5)	15,654.0
Profit Before Tax	2,354.2	2,282.9	2,680.8	2,798.1
Profit After Tax	1,549.3	1,546.3	1,812.4	1,872.9
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
Overall Cession Ratio (%)	1.9	2.0	2.3	3.3
Persistency (%)	83.8	86.0	85.7	84.6
Net Claims Ratio (%)	50.3	43.4	46.1	74.4
Expense Ratio (%)	29.2	27.7	23.0	23.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 Life Assurance Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength
Rating History	see table below
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 insurer financial strength only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
8/21/2020	AA+		Stable	Reaffirmed
3/15/2019	AA+		Stable	Reaffirmed
11/30/2017	AA+		Stable	Reaffirmed
5/24/2016	AA+		Stable	Upgrade
3/10/2015	AA		Stable	Reaffirmed

Due Diligence Meetings

	Name	Designation	Meeting Date
1	Mohammed Ali Ahmed	Chief Strategy Officer	May 29, 2020