

## IFS RATING REPORT

### EFU Life Assurance Limited

**REPORT DATE:**

December 30, 2022

**RATING ANALYSTS:**

Arsal Ayub, CFA

[arsal.ayub@vis.com.pk](mailto:arsal.ayub@vis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating	IFS Rating
	Long-term	Long-term
IFS	AA++(IFS)	AA++(IFS)
<i>Rating Date</i>	<i>December 30, 2022</i>	<i>March 31, 2022</i>
Rating Outlook	Stable	Stable

#### 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 – 45.70%	
Jehangir Siddiqui & Co. Limited – 20.05%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Life Insurance Family Takaful (March 2022)

<https://www.vis.com.pk/kc-meth.aspx>

**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.*

*Financial statements for the year ending December 2021 were audited by KPMG Taseer Hadi & Company Chartered Accountants. Mr. Omer Morsbed is the appointed actuary. The company is listed on Pakistan Stock Exchange.*

EFU Life Assurance Limited ('EFUL' or 'the Company') is engaged in individual and group life insurance business and was granted the license to undertake takaful business in 2015. The Company is a subsidiary of EFU General Insurance Limited on the basis of its ability to control the composition of the Board of Directors of the Company effective 31 March 2018. As of 2021, the Company held a market share of 29.7% in the private sector life insurance industry (2020: 29.1%).

**Business Review – EFUL**

**Business Mix**

- EFUL's business growth remained strong during the period under review (2021 & H1'2022) across its distribution channels; Direct Sales Force, Bancassurance and Group. Accordingly, the Company's growth superseded the private sector insurance industry growth, thus translating in an increase in market share for EFUL in 2021 from 29.1% to 29.7%. Nevertheless, given sizable growth posted by a public sector life insurer, the Company's market share in the overall insurance industry dropped from 14.0% to 13.1%.
- Unlike its private sector counterparts, the Company's business mix depicts a higher tilt towards individual life business, which is viewed to have better profitability characteristics; this is mainly because EFU Group's Health business is undertaken by a separate entity and not clubbed into EFUL. The takaful segment has been a major growth driver during the period under review and accordingly its proportion in business mix has increased, as illustrated in the table below.

**Table 1: Segment & Channel-wise breakup of Underwriting**

	2020		2021		H1'2021		H1'2022	
<b>Gross Premium/ Contributions</b>	<b>32,546</b>		<b>37,407</b>		<b>17,381</b>		<b>18,380</b>	
- Individual Life	29,345	90%	33,829	90%	15,488	89%	25,713	88%
- Group Business	3,201	10%	3,578	10%	1,893	11%	9,146	12%
<b>Net Premium/ Contributions</b>	<b>31,653</b>		<b>36,350</b>		<b>16,696</b>		<b>17,762</b>	
- Individual Life Business	75.9%		73.2%		73.6%		69.7%	
- Conventional Business	7.4%		7.0%		7.7%		8.9%	
- Pension Business (Unit Linked)	0.0%		0.0%		0.0%		0.0%	
- Accident & Health	0.0%		0.0%		0.0%		0.0%	
- Family Takaful (Investment Linked)	15.9%		19.0%		17.9%		20.5%	
- Family Takaful Protection Business	0.8%		0.9%		0.9%		0.9%	

- The Company's first year premium underwriting picked up momentum in 2021, subsequent to significant pandemic related lag in underwriting experienced in 2020. The Company's overall 2<sup>nd</sup> year persistency has remained stable at 73% for 2021 vis-à-vis preceding year.

**Table 2: Year-wise breakup of Individual Life Business**

	2019	2020	2021	H1'2021	H1'2022
<b>First Year</b>	7,000	6,214	7,803	3,498	3,305
<b>Second Year</b>	5,084	5,123	4,518	1,970	2,567
<b>Subsequent Years</b>	15,369	17,388	20,441	9,571	9,979

- The Company's claims performance has been affected in recent periods, which is mainly attributable to higher policy surrenders during the period. As per management, in absolute amount, claims have remained stable as a function of total in-force business. The higher policy surrenders among individual life clientele partly attributable to macroeconomic challenges.

**Table 3: Net Claims Performance**

	2020	2021	H1'2022
<b>Individual Life</b>	54.4%	62.5%	73.9%
<b>Individual Life – Only Death</b>	78.2%	72.6%	54.0%
<b>Group Business</b>	4.5%	4.0%	4.2%

**Profitability**

**Table 4: Profit & Loss Statement (Extract)**

	2020	2021	H1'2021	H1'2022
Gross Insurance Premium / Contributions	32,546	37,407	17,381	18,380
Premium / Contributions Ceded	(892)	(1,056)	(685)	(618)
<i>Cession</i>	2.7%	2.8%	3.9%	3.4%
Net Insurance Premium/ Contribution	31,653	36,350	16,696	17,762
Net Insurance Claims / Benefits	(17,861)	(23,020)	(11,512)	(12,774)
<i>Net Claims Ratio</i>	56.4%	63.3%	69.0%	71.9%
Investment Income (incl. other & fee income)	11,469	11,869	5,659	8,145
Other Investment Income	9,429	(4,390)	946	(3,372)
Net Change in Insurance Liabilities	(23,624)	(8,431)	(6,003)	(3,620)
Underwriting Income	11,066	12,379	5,786	6,142
Acquisition Expenses	6,628	7,906	3,693	3,711
Marketing & Administrative Expenses	1,879	2,289	1,008	1,180
Other Expenses	31.53	41.79	22.47	23.11
<b>Total Expenses</b>	<b>8,538</b>	<b>10,237</b>	<b>4,723</b>	<b>4,914</b>
<b>Profit Before Tax</b>	<b>2,527</b>	<b>2,142</b>	<b>1,063</b>	<b>1,228</b>
<b>Profit After Tax</b>	<b>1,784</b>	<b>1,508</b>	<b>758</b>	<b>620</b>

- Having averaged 27% during the past 3-year period (2018-2020), the Company's RoE declined in 2021 to 24.4%, despite the strong topline growth achieved during the year. The reasoning for lower profitability is an increased overall claims ratio and adverse investment performance. In H1'2022, net claims ratio (excluding surrenders and maturities) has improved as Covid-19 claims have become negligible, while investment performance is also projected to benefit from higher prevailing benchmark rates, which will bode well for the Company's profitability over the medium term horizon.
- The Company's acquisition cost (acquisition expenses/ gross premium) was elevated in 2021, increasing from 20.4% in 2020 to 21.1%.
- EFUL's administrative overheads grew by 22% in 2021 and 17% in H1'2022. The sizable uptick in overheads aligns with the growth in the Company and prevailing inflation in the economy.

**Liquidity & Capitalization**

**Table 5: Liquidity & Capitalization**

- As majority (~90%) of the policyholder liabilities comprise investment-linked business, the Company's liquidity coverage of insurance liabilities has remained adequate historically, as illustrated in table 8.
- On the back of strong RoAE and prudent reserving of policyholder liabilities, EFUL, over the years, has built sizable capital buffers, which is reflected in the Company's prudent operating leverage.

	Dec'20	Dec'21	Jun'22
<i>Liquid Assets to Total Liabilities</i>	1.00x	0.99x	0.98x
<i>Liquid Assets to Insurance Liabilities</i>	1.03x	1.02x	1.01x
<i>Equity to Assets</i>	4.0%	3.8%	3.4%
<i>Solvency Buffer</i>	1.02x	1.02x	NA
<i>Operating Leverage</i>	21.2%	23.0%	22.1%*
<i>Dividend Payout</i>	84.1%	99.5%	NA

\* annualized

**Fund Performance**

- On a 5-year basis, the Company's fund returns have remained competitive, being the median return in conventional segment and above median return in the takaful segment.
- Investment performance during the period under review (2021 & 9M'2022) has been affected, mainly by the adverse market performance and is likely to improve in 2023, given higher benchmark rates available on sovereign issuances.

**Table 6: Fund Performance**

	Dec'19	Dec'20	Dec'21	Sep'22	2019	2020	2021	9M'2022
	<b>AUMs (In PKR' Billions)</b>				<b>Returns (CYTD)</b>			
<i>Managed Growth Fund (MGF)</i>	102.0	118.92	122.53	125.98	4.13%	15.40%	3.47%	4.88%

<i>Aitemad Growth Fund (AGF)</i>	5.21	6.51	6.65	6.81	-1.64%	15.74%	-1.00%	4.03%
<i>Guaranteed Growth Fund (GGF)</i>	2.63	3.11	3.53	4.42	10.25%	8.73%	5.71%	7.59%*
<i>Takaful Growth Fund (TGF)</i>	4.66	7.56	10.43	13.18	1.97%	15.37%	2.55%	4.33%
<i>Aggressive Fund (AF)</i>	-	0.45	0.69	0.76	-1.73%	26.13%	-4.03%	-0.51%
<i>Takaful Aggressive Fund (TAF)</i>	-	0.37	0.53	0.74	7.31%	26.39%	-7.68%	1.23%
<i>Takaful Conservative Fund (TCF)</i>	-	0.09	0.29	0.68	3.54%	6.07%	3.78%	6.08%*
<i>Income Growth Fund (IGF)</i>	-	-	-	0.44	-	-	-	0.93%*
<i>Total AUMs</i>	<b>114.50</b>	<b>137.01</b>	<b>144.65</b>	<b>153.01</b>				

\* Annualized Return

### **Key Rating Drivers**

#### **Assigned rating is supported by EFUL’s market positioning and longstanding operating track record**

The assigned rating incorporates EFUL’s market positioning in the life insurance industry. The EFU Group has more than 90 years of operational history in the sub-continent, having commenced operations in 1932. The rating also considers the quality and stability of the Company’s senior management. Currently, no critical position is vacant in the organization. In addition to this, EFUL has 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 with sufficient monitoring by ERM.

#### **Rating incorporates comfortable liquidity and sizable capital buffers in place**

On the back of strong RoAE and prudent reserving of policyholder’s liabilities, EFUL, over the years, has built sizable capital buffers, which is reflected in the Company’s conservatively low operating leverage, while liquidity coverage of insurance liabilities is also adequately high. The increase in claims ratio and adverse investment performance has weighed on profitability while dividend payout remained stable, as a result of which the Company’s equity base contracted during the period under review. In H1’2022, net claims ratio (excluding surrenders and maturities) has improved as Covid-19 claims have become negligible, while investment performance is also projected to benefit from higher prevailing benchmark rates, which will bode well for the Company’s profitability over the medium term horizon.

#### **Rating incorporates investment management infrastructure in place and EFUL’s fund return rankings**

The Company’s has sizable AUMs, which are managed by a dedicated investment management team. The rating incorporates fund performance of EFUL. On a 5-year basis, the Company’s fund returns have remained competitive, being the median return in conventional segment and above median return in the takaful segment.

## EFU Life Assurance Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>	<b>30-Jun-22</b>
Cash and Bank Deposits	5,713.5	5,335.1	4,608.1	4,114.0
Investments	116,065.3	142,432.1	150,902.2	152,927.1
<b>Total Assets</b>	<b>129,289.6</b>	<b>154,479.9</b>	<b>163,180.0</b>	<b>166,039.7</b>
Paid up Capital	1,000.0	1,000.0	1,000.0	1,000.0
Net Worth	5,907.9	6,175.1	6,178.4	5,593.0
Liabilities of Statutory Fund	119,153.7	143,513.0	151,757.6	155,560.6
<b><u>INCOME STATEMENT</u></b>	<b>2020</b>	<b>2021</b>	<b>H1'2021</b>	<b>H1'2022</b>
Gross Premium Written	32,545.7	37,406.9	17,381.3	18,379.7
Net Premium Revenue	31,653.3	36,350.5	16,696.3	17,761.9
Net Claims	17,860.7	23,020.0	11,512.2	12,774.4
Net Investment Income	11,468.6	11,869.3	5,659.0	8,145.5
Profit Before Tax	2,527.2	2,141.7	1,062.9	1,227.6
Profit After Tax	1,784.2	1,508.2	758.5	620.3
<b><u>RATIO ANALYSIS</u></b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>H1'2022</b>
Overall Cession Ratio (%)	1.9	2.7	2.8	3.4
Persistency - Second Year (%)	74.3	73.2	72.7	73.4
Gross Claims Ratio (%)	50.8	57.1	63.7	71.4
Net Claims Ratio (%)	50.3	56.4	63.3	71.9
Expense Ratio (%)	29.2	26.9	28.0	27.5

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

RATING SCALE & DEFINITIONS: **INSURER FINANCIAL STRENGTH****AAA(IFS)**

**Exceptionally Strong.** Exceptionally strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.

**AA++(IFS), AA+(IFS), AA(IFS)**

**Very Strong.** Very strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.

**A++(IFS), A+(IFS), A(IFS)**

**Strong.** Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.

**BBB++(IFS), BBB+(IFS), BBB(IFS)**

**Good.** Good capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.

**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. [https://docs.vis.com.pk/docs/criteria\\_watch.pdf](https://docs.vis.com.pk/docs/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. [https://docs.vis.com.pk/docs/criteria\\_outlook.pdf](https://docs.vis.com.pk/docs/criteria_outlook.pdf)

**BB++(IFS), BB+(IFS), BB(IFS)**

**Marginal.** Marginal capacity to meet policyholders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.

**B++(IFS), B+(IFS), B(IFS)**

**Weak.** Weak capacity to meet policyholder and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.

**CCC(IFS), CC(IFS), C(IFS)**

**Very Weak.** Very weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment.

**D(IFS)**

**Distressed.** Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

**'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. [https://docs.vis.com.pk/docs/private\\_ratings.pdf](https://docs.vis.com.pk/docs/private_ratings.pdf)

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	EFU Life Assurance Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Insurer Financial Strength				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: INSURER FINANCIAL STRENGTH</b>				
	12/28/2022	AA++(IFS)		Stable	Reaffirmed
	3/31/2022	AA++(IFS)		Stable	Harmonized
	8/4/2021	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
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	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 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings</b>	<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>		
	1 Mohammed Ali Ahmed	Deputy Managing Director	October 13, 2022		