



The Pakistan Credit Rating Agency Limited

Rating Report

East West Insurance Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Nov-2023	AA (ifs)	-	Stable	Maintain	-
25-Nov-2022	AA (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA (ifs)	-	Stable	Harmonize	-
26-Nov-2021	AA-	-	Stable	Maintain	-
27-Nov-2020	AA-	-	Stable	Maintain	-
29-Nov-2019	AA-	-	Stable	Maintain	-
01-Jun-2019	AA-	-	Stable	Upgrade	-
06-Dec-2018	A+	-	Positive	Maintain	-
04-May-2018	A+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

In terms of Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 84bln during 6MCY23 (6MCY22: ~PKR 66bln), exhibiting a growth of ~28%. However, the underwriting performance of the industry witnessed a dip of ~72% and was reported at ~PKR 863mln during 6MCY23 (6MCY22: ~PKR 2.9bln). Investment income contributed to the industry's earnings reported at ~PKR 7.7bln during 6MCY23 (6MCY22: ~PKR 5.1bln). However, current economic conditions remain imperative for the overall performance of the insurance industry.

The assigned rating of East West Insurance Company Limited ("East West" or "the Company") takes into account the sustained fundamentals of the Company. East West has posted growth of ~36% during Jun-23, primarily driven by its conventional portfolio. Fire & Property (~30%) and Engineering (~26%) remain the key GPW driving segments for the Company. The underwriting business is supported by a diverse range of products resulting in sustained and healthy underwriting profits for East West. The underwriting results reflected a growth of ~24% during Jun-23. With the investment book majorly invested in mutual funds, the Company reported a healthy investment income reflecting a growth of ~108% during Jun-23. This supplemented the Company's bottom-line. On the financial risk front, the recent equity injection of PKR 263mln, by way of a right, strengthens the Company's capital structure. Moreover, healthy cash flows along with substantial liquid assets support the rating. Challenge is on the receivable days, getting extended, impairment needs to be avoided. As an element of continued succession planning, sponsors are nurturing future leaders of the Company. The induction of the young generation provides essential support to the existing governance framework.

The rating is dependent on the Company's ability to improve the market share and augment profits. The financial risk profile through sustained liquidity position must remain in line with the growth. Substantial cushion from the underwriting business along with curbing reliance on the co-insurance will be considered crucial, going forward.

Disclosure

Name of Rated Entity	East West Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study General Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure East West Insurance Company Limited ("East West" or "the Company") was incorporated as a public limited company in 1983.

Background The Company underwrites various classes of general insurance business including fire, marine, motor, health, engineering and bonds & credit insurance. East West is one of the pioneers in the field of livestock and crop insurance.

Operations East West's operations are currently carried out from a nationwide network of 57 business places including 3 principal office, 9 regional offices, 21 agency offices and 24 branch offices. The Company's operations are carried out through three main centers with principal offices located in South, Punjab, and North of the country.

Ownership

Ownership Structure Yunus family holds the majority shareholding through seven individuals, belonging to the families of three brothers. Yunus family has strengthened its shareholding structure by creating a holding company so as to host the family overall stake in the business.

Stability Ownership seems to remain stable as third generation is gradually inducted into the business.

Business Acumen The family has been in the insurance business for three decades and possesses the requisite skills and knowledge to effectively steer the Company.

Financial Strength The shareholders holds adequate financial footing to support the Company, if needs be.

Governance

Board Structure Eight members Board (BoD) manages the overall policy framework of the Company. There are three Independent, two Non-Executive and three Executive Directors on the BoD. There is female presence on the BoD.

Members' Profile The BoD's Chairman, Chief Justice (R) Mian Mehboob Ahmad, boasts a longstanding association with the insurance sector since 1970. He has also chaired the Insurance Reforms Commission and advised several insurance companies.

Board Effectiveness Four BoD committee - Audit, Ethics Human Resource & Remuneration, Investment and Nomination Committees - assist in developing policy framework. During the year, five BoD meetings were held. The minutes of meetings are formally maintained.

Transparency The External Auditors, M/s Crowe Hussain Chaudhury & Co. Chartered Accountants, have issued an unqualified opinion on the financial statements for CY22.

Management

Organizational Structure The Company has a simplified organizational structure with clear reporting lines, ensuring the segregation of duties. In order to run the Company's operations smoothly.

Management Team The Company's top management consists of qualified and experienced professionals, have a long-standing relationship with the Company. Mr. Naved Yunus has been associated with the Company for last three decades as the CEO. Lately, Mr. Saad Yunus, son of Naved Yunus, has been appointed as the Deputy Managing Director of the Company.

Effectiveness There are four management committees on the Board; Underwriting, Claims Settlement, Reinsurance & Co-Insurance, and Risk Management. The committee meets quarterly to discuss all operational issues of the organization and provides strategic and operational guidance to all the departments.

MIS The revamped MIS system has been rolled out in the head office whereas the complete rollout in the branches is expected to be completed soon.

Claim Management System The claim settlement procedure is decentralized at the branch level; the head office is only responsible for monitoring. Claim approval authority is retained at the Principal Offices' level. The head office sets and reviews periodically the limits for settlement by the branches. Claims equal to higher than that limit is not only circulated to the higher management but are also monitored by Head Office.

Investment Management Function The investment committee comprises five members board members including the Chairman. The Company has an established investment department. East West also has a structured investment policy statement (IPS).

Risk Management Framework East West follows adequate risk management procedures and guidelines. The Company has developed standard operating procedures manual, incorporating detailed guidelines to be followed prior to the issuance of premium policy.

Business Risk

Industry Dynamics The General Insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. During 6MCY23, in terms of GPW, the General Insurance industry stood at PKR 84bln (6MCY22: PKR 66bln), witnessing a growth of ~28% primarily attributed to the impact of rupee-dollar parity on asset pricing. However, underwriting performance dropped by ~72%, reporting to PKR 863mln (6MCY22: PKR 2.9bln). PAT increased by ~20% to PKR 6bln, supported by investment income amidst weak underwriting. However, the overall outlook of the industry remains stable.

Relative Position East West with a market share of ~3.8% is classified among medium-sized companies in the industry in terms of GPW during 6MCY23.

Revenue The GPW of the Company witnessed an increase of ~28% (CY22: PKR 5,386mln, CY21: PKR 4,216mln). The Company recorded a GPW of PKR 3,201mln during 6MCY23. The GPW mix is dominated by Fire and Property Damage (~30%) and Engineering (~26%), followed by the motor (~17%), Marine (~14%) and miscellaneous (~13%). The majority (~93%) of GPW is driven from conventional operations.

Profitability The Company reported an underwriting profit of PKR 476mln during CY22 reflecting a growth of ~13% (CY21: PKR 423mln.) During 6MCY23 underwriting results were reported at PKR 349mln(6MCY22: PKR 282mln). Similarly, the profit after tax increased to PKR 403mln during CY22 (CY21: PKR 327mln) also taking support from improved investment income during the period. During 6MCY23 profit after tax was reported at PKR 311mln (6MCY22: PKR 206mln). The combined ratio of the Company stood at 82% for 6MCY23.

Investment Performance The investment income reported a ~101% YoY increase as the Company reported an investment income of PKR 185mln during CY22 (CY21: PKR 92mln). During 6MCY23, East West reported an investment income of PKR 154mln (6MCY22: PKR 74mln). The total investment book of the Company stood at PKR 2,367mln in 6MCY23 (CY22: PKR 2,411mln). The investment book predominantly comprises equity securities (Mutual Funds).

Sustainability The Company's focus on diversification – engineering and health – besides Fire segment bodes well for its growth. It also envisages tapping large projects in the engineering segment. East West further aims to increase its footprints in agriculture and microinsurance.

Financial Risk

Claim Efficiency East West's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, stood at 1.4x as at 6MCY23 (CY22: 1.4x). The claims days outstanding at 6MCY23 were reported as 209 days (CY22: 123 days).

Re-Insurance The reinsurer panel comprises of total nine (9) reinsurers for different classes of treaties for Conventional and Window-takaful operations. The Company's top-rated reinsurers are Pakistan Reinsurance Company Ltd. Pakistan [AA (IFS), VIS] and Saudi Reinsurance Company, Malaysia (AA+, Moody's). Nonproportional treaties with increased capacity enable the company to engage in huge business.

Cashflows & Coverages East West's liquid investment book at 6MCY23 reported at PKR 2,380mln (CY22: PKR 2,393mln). As of 6MCY23 EWI's Liquid Assets/Outstanding Claims including IBNR reported at 1.4x (CY22: 1.4x) reflecting adequate liquidity coverage.

Capital Adequacy The Company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity reported at PKR 2,844mln as at 6MCY23 (CY22: PKR 2,532mln). The Company has a paid-up capital of PKR 1,759mln.



PKR mln

East West Insurance Company
Public Listed Company

Jun-23	Dec-22	Jun-22	Dec-21	Dec-20
6M	12M	6M	12M	12M

A BALANCE SHEET

1 Investments	2,367	2,411	2,031	1,981	1,592
2 Insurance Related Assets	3,604	3,136	2,804	2,082	1,881
3 Other Assets	1,028	697	687	598	527
4 Fixed Assets	168	139	124	127	141
5 Window Takaful Operations	-	-	-	-	-
Total Assets	7,168	6,383	5,646	4,788	4,142
1 Underwriting Provisions	1,781	1,803	1,548	1,576	1,442
2 Insurance Related Liabilities	2,012	1,645	1,330	910	744
3 Other Liabilities	517	384	417	297	274
4 Borrowings	16	20	-	-	5
5 Window Takaful Operations	-	-	-	-	-
Total Liabilities	4,326	3,852	3,295	2,783	2,466
Equity/Fund	2,844	2,532	2,354	2,010	1,683

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	3,201	5,386	2,355	4,216	3,675
2 Net Insurance Premium/Net Takaful Contribution	1,968	2,967	1,407	2,269	1,954
3 Underwriting Expenses	(1,618)	(2,491)	(1,125)	(1,847)	(1,606)
Underwriting Results	349	476	282	423	348
4 Investment Income	154	185	74	92	84
5 Other Income / (Expense)	(93)	(169)	(79)	(142)	(129)
Profit Before Tax	411	492	278	372	303
6 Taxes	(99)	(89)	(71)	(45)	(66)
Profit After Tax	311	403	206	327	236

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	227	440	175	327	206
2 Net Takaful Contribution	47	79	28	38	24
3 Net Takaful Claims	(44)	(90)	(32)	(44)	(33)
4 Direct Expenses Including Re-Takaful Rebate Earned	12	26	13	22	15
Surplus Before Investment & Other Income/(Expense)	14	15	9	15	6
5 Investment Income	0	0	0	0	0
6 Other Income/(Expense)	-	-	-	-	-
Surplus for the Period	14	15	9	16	6

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	86	155	62	114	77
2 Management, Commission & Other Acquisition Costs	(59)	(109)	(45)	(83)	(66)
Underwriting Income/(Loss)	27	46	16	31	12
3 Investment Income	0	0	0	0	0
4 Other Income/(Expense)	1	2	2	2	1
Profit Before tax	28	48	18	33	13
5 Taxes	-	-	-	-	-
Profit After tax	28	48	18	33	13

C RATIO ANALYSIS

1 Profitability					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	43.3%	47.7%	44.1%	41.1%	43.5%
Combined Ratio (Loss Ratio + Expense Ratio)	82.2%	84.0%	79.9%	81.4%	82.2%
2 Investment Performance					
Investment Yield	12.9%	8.4%	7.4%	5.1%	5.7%
3 Liquidity					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.4	1.4	1.4	2.1	1.9
4 Capital Adequacy					
Liquid Investments / Equity (Funds)	83.7%	94.5%	85.7%	97.5%	93.3%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
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 policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders 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 policy holders 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 policy holders 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 policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent