



The Pakistan Credit Rating Agency Limited

Rating Report

East West Insurance Company Limited

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Rating History

Table with 5 columns: Dissemination Date, IFS Rating, Outlook, Action, Rating Watch. Rows show historical ratings from 2018 to 2024.

Rating Rationale and Key Rating Drivers

Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln).

The assigned rating of East West Insurance Company Limited ("East West" or "the Company") reflects the Company's improved fundamentals. East West posted growth of ~25% during CY23, primarily driven by its conventional portfolio and ~14% growth during 3MCY24. Fire & Property (~31%) and Engineering (~26%) remain key segments driving Gross Premium Written (GPW) for the Company.

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 strengthening of underwriting discipline will be considered crucial, going forward.

Disclosure

Table with 2 columns: Field Name, Value. Fields include Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, and Rating Analysts.



Profile

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

Background Late Mr. Unus Khan founded East West in 1982, having gained insurance experience in the Middle East. His son, Mr. Naved Yunus, is currently the CEO, and Mr. Naved Yunus's son, Mr. Saad Yunus, is next in line to take over the Company following the succession plan.

Operations East West is engaged in conventional and takaful non-life insurance. The Company currently operates a nationwide network of 57 offices, including 3 principal, 9 regional, 21 agency offices and 24 branch offices. The Company's operations are carried out through three main centers with principal offices located in the South, Punjab, and North of the country.

Ownership

Ownership Structure The Yunus family holds the majority (~41%) shareholding through eight individuals from the families of four brothers. They have strengthened their shareholding structure by creating a holding company, which holds ~27% of the shares, consolidating the family's overall stake in the business. The remaining (~32%) shares are held by various individuals and institutions.

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

Business Acumen Yunus family is associated with the insurance sector for three decades and possesses the requisite skills and knowledge to effectively steer the Company.

Financial Strength The shareholders hold 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. The BoD comprises three Independent, two Non-Executive and three Executive Directors, with a female presence on the BoD.

Members' Profile The board is chaired by Mr. Umeed Ansari, appointed in April 2024 following the sad demise of Chief Justice (Retd.) Mian Mehboob Ahmed. Mr. Ansari brings over five decades of diverse experience to the role. The Board possesses a diverse set of expertise and skillsets.

Board Effectiveness Four BoD committees - 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 CY23.

Management

Organizational Structure The Company has clear reporting lines ensuring the segregation of duties. Each HoD reports to the CEO, who then reports to the BoD. However, Head of Internal Audit and HR reports to the BoD respective committees.

Management Team Mr. Naved Yunus has been associated with the Company for the last three decades as the CEO. Lately, his son, Mr. Saad Yunus, has been appointed as the Deputy Managing Director of the Company. The Company's management consists of qualified and experienced professionals with longstanding relationships with the Company.

Effectiveness There are four management committees: Underwriting, Claims Settlement, Reinsurance & Co-Insurance, and Risk Management. These committees meet quarterly to discuss all operational issues of the organization and provide 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 head 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 BoD 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 a standard operating procedures manual, incorporating detailed guidelines to be followed prior to the issuance of premium policy.

Business Risk

Industry Dynamics Pakistan's General Insurance industry has a total size of PKR 182bln during CY23 (CY22: PKR 143bln), exhibiting a growth of ~27%, in terms of Gross Written Premium (GWP). The industry reported a growth of ~46% in underwriting results (CY23: PKR 4.7bln, CY22: PKR 3.2bln). The net income of the industry also experienced an increase of ~60% to PKR 18bln during CY23 (CY22: PKR 11bln). Overall, the industry's outlook remains stable with substantial liquidity available with players.

Relative Position East West has a market share of ~3.7% and is classified among medium-sized companies in the industry in terms of GPW, during CY23.

Revenue The GPW mix is dominated by Fire and Property Damage (~31%) and Engineering (~26%), followed by Motor (~17%), Marine (~13%) and Miscellaneous (~13%). The majority (~91%) of GPW is driven by conventional operations. The Company's GPW increased by ~25% (CY23: PKR 6,740mln, CY22: PKR 5,386mln) in line with its strategy to expand the fire segment through effective co-insurance underwriting. During 3MCY24, the Company recorded a GPW of PKR 1,775mln (3MCY23: PKR 1,557mln).

Profitability The Company reported an underwriting profit of PKR 472mln, during CY23, reflecting a slight decline of ~1% (CY22: PKR 476mln). The decline was due to an increase in the underwriting expenses in line with the topline. During 3MCY24, underwriting results were reported at PKR 325mln (3MCY23: PKR 258mln), supported by strong investment income. The profit after tax increased to PKR 589mln, during CY23 (CY22: PKR 403mln), reporting a growth of ~46%. During 3MCY24, profit after tax was reported at PKR 381mln (3MCY23: PKR 258mln). The combined ratio of the Company stood at 68%, during 3MCY24 (CY23: 88%).

Investment Performance The investment book predominantly comprises debt securities (Money Market Funds). The investment income reported ~118% YoY increase (CY23: PKR 404mln, CY22: PKR 185mln). During 3MCY24, East West reported an investment income of PKR 115mln (3MCY23: PKR 50mln). The total investment book of the Company stood at PKR 3,531mln as of 3MCY24 (CY23: PKR 3,527mln).

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 insurance claims/liquid investments, was ~63% during 3MCY24 (CY23: ~93%). The claims days outstanding at 3MCY24 were 189 days (CY22: 169 days).

Re-Insurance The reinsurer panel comprises a total of 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). Non-proportional treaties with increased capacity enable the Company to engage in huge business.

Cashflows & Coverages East West's liquid investment book as of 3MCY24 reported at PKR 3,444mln (CY23: PKR 3,395mln). As of 3MCY24, EWI's Liquid Assets/Outstanding Claims including IBNR reported at 2.6x (CY23: 2.4x) reflecting adequate liquidity coverage. The increase in the investment book has positively impacted these coverages.

Capital Adequacy The Company meets SECP's capital adequacy requirements. The sponsors have consistently injected funds to build a strong equity base. The Company's equity was PKR 3,817mln as of 3MCY24 (CY23: PKR 3,395mln), with a paid-up capital of PKR 2,023mln (CY23: PKR 1,759mln).



PKR mln

East West Insurance Company
Public Listed Company

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	3,531	3,527	2,411	1,981
2 Insurance Related Assets	3,301	3,428	3,136	2,082
3 Other Assets	1,037	836	697	598
4 Fixed Assets	251	213	139	127
5 Window Takaful Operations	-	-	-	-
Total Assets	8,121	8,004	6,383	4,788
1 Underwriting Provisions	1,713	1,931	1,803	1,576
2 Insurance Related Liabilities	1,428	1,499	1,645	910
3 Other Liabilities	1,126	1,139	384	297
4 Borrowings	41	41	20	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	4,308	4,611	3,852	2,783
Equity/Fund	3,817	3,395	2,532	2,010

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	1,775	6,740	5,386	4,216
2 Net Insurance Premium/Net Takaful Contribution	1,034	4,137	2,967	2,269
3 Underwriting Expenses	(709)	(3,665)	(2,491)	(1,847)
Underwriting Results	325	472	476	423
4 Investment Income	115	404	185	92
5 Other Income / (Expense)	(39)	(194)	(169)	(142)
Profit Before Tax	401	682	492	372
6 Taxes	(20)	(93)	(89)	(45)
Profit After Tax	381	589	403	327

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	115	600	440	327
2 Net Takaful Contribution	47	132	79	38
3 Net Takaful Claims	(39)	(149)	(90)	(44)
4 Direct Expenses Including Re-Takaful Rebate Earned	7	23	26	22
Surplus Before Investment & Other Income/(Expense)	14	6	15	15
5 Investment Income	0	0	0	0
6 Other Income/(Expense)	-	-	-	-
Surplus for the Period	14	6	15	16

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	59	200	155	114
2 Management, Commission & Other Acquisition Costs	(34)	(123)	(109)	(83)
Underwriting Income/(Loss)	25	76	46	31
3 Investment Income	0	0	0	0
4 Other Income/(Expense)	1	2	2	2
Profit Before tax	26	78	48	33
5 Taxes	-	-	-	-
Profit After tax	26	78	48	33

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	40.4%	47.7%	47.7%	41.1%
Combined Ratio (Loss Ratio + Expense Ratio)	68.6%	88.6%	84.0%	81.4%
2 Investment Performance				
Investment Yield	13.0%	13.6%	8.4%	5.1%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.6	2.4	1.4	2.1
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	90.2%	104.2%	94.5%	97.5%

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>
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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.

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