



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 include dates from 06-Dec-2018 to 10-Oct-2024 and ratings from A+ to AA+.

Rating Rationale and Key Rating Drivers

East West Insurance Company Limited's ("East West" or "the Company") profile reflects a clear vision of its sponsors built over the years, showcasing prudently managing the quality of business written along with well developed control mechanisms placed across the Company.

PACRA upgrades East West's IFS rating assisted by superior performance of the Company among its peers. Moreover, healthy cash flows and substantial liquid assets support the rating.

The rating is dependent on the Company's ability to sustain the market share along with augmenting the profits. The financial risk profile through improved liquidity position must remain in line with the growth.

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 and is listed on PSX.

**Background** Late Mr. Unus Khan, holding a work experience in the insurance segment across Middle East, founded East West in 1982. Initially, the Company began to operate as a general insurer in the conventional business only. Later, East West tapped into Window Takaful Operations (WTO) from May-18 as per SECP Takaful Rules, 2012. Today, the Company's operations are carried out through principal offices located in the South, Punjab, and North of the country.

**Operations** Currently, the Company is engaged in conventional and takaful general insurance business, with a nationwide network of 57 offices. These include 3 principal, 9 regional, 21 agency offices and 24 branch offices.

## Ownership

**Ownership Structure** The shareholding is divided equally among the four sons of Late Mr. Unus Khan ~68% of the holding resides with the sponsoring family through individuals (~41%) and the holding company (~27%). The remaining ~32% shares are held by various individuals and institutions.

**Stability** The sponsoring family has strengthened its shareholding structure by creating a holding company that consolidates the family's overall stake in the business. Moreover gradual induction of the third generation further fortifies the ownership's stability.

**Business Acumen** The sponsors hold almost three decades of experience in insurance sector and have witnessed numerous business cycles over time. Also, the sponsors possess requisite skills and knowledge to effectively steer the Company.

**Financial Strength** The sponsoring family holds adequate financial footing to support the Company, if needs be, going forward.

## Governance

**Board Structure** Ten members Board (BoD) manages the overall policy framework of the Company. The BoD comprises five Independent, one Non-Executive and four Executive Directors. The BoD holds substantial independence and gender diversity as well. However, the BoD is dominated by the sponsoring family.

**Members' Profile** Mr. Umeed Ansari, an Independent Director, became the BoDs Chairman in Apr-24, post the sad demise of Chief Justice (Retd.) Mian Mehboob Ahmed. Mr. Ansari brings over five decades of diverse experience to the role. Mr. Ahsan Alvi, an Independent Director, has been associated with the insurance segment since 1987 and with the Company for a decade. The Board possesses a diverse set of expertise and skillsets.

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

**Transparency** External Auditors, M/s Crowe Hussain Chaudhury & Co. Chartered Accountants, have issued an unqualified opinion on the financial statements for CY23. The firm has been QCR rated and on panel 'A' of SBP.

## 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 administratively reports to the CEO; while functionally reports to the BoDs respective committees.

**Management Team** Mr. Naved Yunus, the CEO, has been associated with the Company for four decades. Lately, his son, Mr. Saad Yunus, has been appointed as the Deputy Managing Director. Mr. Saad has been associated with the Company from eight (8) years. The Company's management consists of qualified and experienced professionals with longstanding association with Company.

**Effectiveness** There are four management committees: Underwriting, Claims Settlement, Reinsurance & Co-Insurance, and Risk Management. These committees meet every quarter to discuss all operational issues of the organization and provide strategic and operational guidance to all the departments.

**MIS** The updated version of MIS system was rolled out in the head office last year; while 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 BoDs Chairman. The Company has an established investment department with a structured investment policy statement (IPS) that provides guidelines as to stop loss limits and identifies limits for various investment avenues.

**Risk Management Framework** East West follows adequate risk management procedures and guidelines as defined by the BoD. 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** During 3MCY24, GPW of General Insurance industry held a total size of PKR 48bln (3MCY23: PKR 41bln), posting growth of ~17%. Underwriting performance also improved by ~103% (3MCY24: PKR 3bln, 3MCY23: PKR 1.5bln). Improved underwriting and investment performance contributed to industry's earnings (3MCY24: PKR 6.3bln, 3MCY23: PKR 4bln). However, current economic conditions remain imperative for the overall performance of insurance industry.

**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.

**Revenue** East West's GPW mix is dominated by Fire and Property Damage (~31%) and Engineering (~24%), followed by Motor (~17%), Marine (~14%) and Misc. (~14%) segments. The majority (~91%) of GPW is driven by conventional operations. GPW grew by ~25% (CY23: ~PKR 6,740m, CY22: ~PKR 5,386m) in line with its strategy to expand the fire segment through effective co-insurance underwriting. During 6MCY24, the Company posted a growth of 23% in GPW.

**Profitability** The Company reported an underwriting profit of ~PKR 472m, during CY23, reflecting a slight decline of ~1% (CY22: ~PKR 476m), due to an increase in the underwriting expenses. However, during 6MCY24, underwriting results grew by ~21% in line with the GPW growth. During CY23, the PAT increased by ~46% (CY23: ~PKR 589m, CY22: ~PKR 403m); while the PAT grew ~43% during 6MCY24, supported by improved investment income.

**Investment Performance** The investment book predominantly comprises debt securities (Money Market Funds). The investment income reported a ~118% YoY increase (CY23: ~PKR 404m, CY22: ~PKR 185m). During 6MCY24, East West reported an investment income growth of ~101%. The total investment book of the Company stood at ~PKR 4,226m as of 6MCY24 (6MCY23: ~PKR 2,367m).

**Sustainability** The Company's focus on diversification – engineering and health segments, besides fire segment – bodes well for its growth. Also, the envision to tap in large projects in the engineering segment. East West aims to increase its footprints in agriculture and microinsurance.

## Financial Risk

**Claim Efficiency** As of CY23, East West's efficiency in claim turnaround reflects through insurance claims/liquid investments and was ~103% (CY22: ~157.3%) with claims days outstanding posting ~169days (CY22: ~123days). As of 6MCY24, claims ratio was ~92.8% (6MCY23: ~107.6%) whereas claims days outstanding were ~129days (6MCY23: ~209days). Claim efficiency remain adequate.

**Re-Insurance** The reinsurer panel comprises 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. The Company holds favorable terms with the panel of reinsurers.

**Cashflows & Coverages** As of CY23, East West's Liquid Assets/Outstanding Claims including IBNR reported at 2.4x (CY22: 1.4x) reflecting adequate liquidity coverage. As of 6MCY24, the cover was reported at ~3.3x (6MCY23: ~1.4x). The increase in the investment book has positively impacted the coverage ratios.

**Capital Adequacy** The sponsors have consistently injected funds to stabilize the equity base. The Company's equity was PKR ~3,395m as of CY23 (CY22: ~PKR 2,532m) with a paid-up capital of ~PKR 1,759m (CY22: ~PKR 1,759m). As of 6MCY24, the equity base has improved to ~PKR 3,914m (6MCY23: ~PKR 2,844m) supported by an equity injection of ~PKR 263m, making the paid up capital to stand at ~PKR 2,023m (6MCY23: ~PKR 1,759m). The Company meets SECPs capital adequacy requirement.



East West Insurance Company  
Public Listed Company

Jun-24	Dec-23	Jun-23	Dec-22	Dec-21
6M	12M	6M	12M	12M

#### A BALANCE SHEET

1 Investments	4,226	3,527	2,367	2,411	1,981
2 Insurance Related Assets	3,410	3,428	3,604	3,136	2,082
3 Other Assets	965	836	1,028	697	598
4 Fixed Assets	240	213	168	139	127
5 Window Takaful Operations	-	-	-	-	-
<b>Total Assets</b>	<b>8,839</b>	<b>8,004</b>	<b>7,168</b>	<b>6,383</b>	<b>4,788</b>
1 Underwriting Provisions	2,038	1,931	1,781	1,803	1,576
2 Insurance Related Liabilities	1,517	1,499	2,012	1,645	910
3 Other Liabilities	1,338	1,139	517	384	297
4 Borrowings	40	41	16	20	-
5 Window Takaful Operations	-	-	-	-	-
<b>Total Liabilities</b>	<b>4,932</b>	<b>4,611</b>	<b>4,326</b>	<b>3,852</b>	<b>2,783</b>
<b>Equity/Fund</b>	<b>3,914</b>	<b>3,395</b>	<b>2,844</b>	<b>2,532</b>	<b>2,010</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	3,952	6,740	3,201	5,386	4,216
2 Net Insurance Premium/Net Takaful Contribution	2,162	4,137	1,968	2,967	2,269
3 Underwriting Expenses	(1,738)	(3,665)	(1,618)	(2,491)	(1,847)
<b>Underwriting Results</b>	<b>424</b>	<b>472</b>	<b>349</b>	<b>476</b>	<b>423</b>
4 Investment Income	310	404	154	185	92
5 Other Income / (Expense)	(127)	(194)	(93)	(169)	(142)
<b>Profit Before Tax</b>	<b>607</b>	<b>682</b>	<b>411</b>	<b>492</b>	<b>372</b>
6 Taxes	(164)	(93)	(99)	(89)	(45)
<b>Profit After Tax</b>	<b>444</b>	<b>589</b>	<b>311</b>	<b>403</b>	<b>327</b>

##### PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	394	600	227	440	327
2 Net Takaful Contribution	126	132	47	79	38
3 Net Takaful Claims	(122)	(149)	(44)	(90)	(44)
4 Direct Expenses Including Re-Takaful Rebate Earned	12	23	12	26	22
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>15</b>	<b>6</b>	<b>14</b>	<b>15</b>	<b>15</b>
5 Investment Income	0	0	0	0	0
6 Other Income/(Expense)	-	-	-	-	-
<b>Surplus for the Period</b>	<b>15</b>	<b>6</b>	<b>14</b>	<b>15</b>	<b>16</b>

##### OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	135	200	86	155	114
2 Management, Commission & Other Acquisition Costs	(86)	(123)	(59)	(109)	(83)
<b>Underwriting Income/(Loss)</b>	<b>50</b>	<b>76</b>	<b>27</b>	<b>46</b>	<b>31</b>
3 Investment Income	0	0	0	0	0
4 Other Income/(Expense)	1	2	1	2	2
<b>Profit Before tax</b>	<b>51</b>	<b>78</b>	<b>28</b>	<b>48</b>	<b>33</b>
5 Taxes	-	-	-	-	-
<b>Profit After tax</b>	<b>51</b>	<b>78</b>	<b>28</b>	<b>48</b>	<b>33</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>					
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	42.3%	47.7%	43.3%	47.7%	41.1%
Combined Ratio (Loss Ratio + Expense Ratio)	80.4%	88.6%	82.2%	84.0%	81.4%
<b>2 Investment Performance</b>					
Investment Yield	16.0%	13.6%	12.9%	8.4%	5.1%
<b>3 Liquidity</b>					
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	3.3	2.4	1.4	1.4	2.1
<b>4 Capital Adequacy</b>					
Liquid Investments / Equity (Funds)	106.9%	104.2%	83.7%	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
<b>AAA (ifs)</b>	<b>Exceptionally Strong.</b> 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.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<b>Very Strong.</b> 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.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<b>Strong.</b> 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.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<b>Good.</b> 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.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<b>Modest.</b> 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>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<b>Weak.</b> 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.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<b>Very Weak.</b> 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
<b>D (ifs)</b>	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
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- 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

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### **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)

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