



The Pakistan Credit Rating Agency Limited

Rating Report

East West Insurance Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
03-Oct-2017	A+	-	Stable	Maintain	-
22-Mar-2017	A+	-	Stable	Maintain	-
14-Nov-2016	A+	-	Stable	Upgrade	-
30-Nov-2015	A	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating takes into account the sustained fundamentals of the company. All segments of the Company have recorded splendid growth and contributed towards the better top-line over the last year wherein the tilt lies towards Fire and Engineering Segments. Conservative strategy involving prudent underwriting practices along with focus on diversified products helped to demonstrate continued healthy underwriting profitability, supplementing the bottom-line. Augmentation in equity and the liquid assets owing to healthier cashflows offers strength to the capital structure which in-turn lend support to rating. Elevating amounts of receivables, specifically 'premiums due but unpaid' on account of relaxation in premium payment terms to corporate clients in view of pandemic remains the matter of concern. A significant spike in the investment performance in the close supervision of key management personnel has been observed and it is expected that increased investment income amounting PKR~42mln in 6MCY21 (CY20: PKR~84mln; CY19: PKR~23mln) will supplement the bottom-line of the company on a consistent basis. As an element of continued succession planning, sponsors are nurturing future leadership of the company and consequently another director from the family has been added to the board.

The rating is dependent in company's ability to improve its market position with sustained profitability. The liquidity position and, hence, financial risk profile should remain afloat along-with growth. Expected engagement from foreign partner would provide further strength to the capital structure.

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(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Zohaib Ahmad zohaib.ahmad@pacra.com +92-42-35869504



Profile

Legal Structure East West Insurance commenced commercial operations as a general insurance company in 1983 and is listed on the Pakistan Stock Exchange.

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

Operations EWI'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 supported by close management control; made possible by the three executive directors leading their own profit centers (principal offices: South, Punjab, and North).

Ownership

Ownership Structure Yunus family holds the majority shareholding in the company through seven individuals – belonging to families of three Yunus brothers. The group has created a holding company for the shareholders. This vehicle will continue to host the owner's stake.

Stability The sponsors have chalked out a succession plan for the family business company which summarizes the smooth transition of the managerial functions from the elder generation to the next. This plan, while adding sanctity to the relationship, also sheds light on how each individual would manage succession planning, commit themselves to vision and strategy, and how they would bring positive change in the company.

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

Financial Strength The shareholders have shown strong propensity in the past to protect the company.

Governance

Board Structure EWI's seven-member board of directors -four members of Yunus family and three independent directors. The company is eyeing further enrichment in the board.

Members' Profile Mr. Naved Yunus, well-qualified from the US and UK, has been associated with the company for the last three decades as CEO. He is assisted by a team of experienced professionals.

Board Effectiveness Four board committee exists on the board namely; Executive, Audit, Ethics Human Resource & Remuneration and Investment.

Transparency The company's auditor, BDO Ebrahim & Company, Chartered Accountants, has issued an unqualified opinion on audit financial statements December-2020.

Management

Organizational Structure The company affairs are managed, through the Executive Committee, consisting of three executive directors and senior management personnel from finance, operations, and marketing divisions.

Management Team With its head office in Karachi, the operations of the company are managed by three principal offices in Karachi, Lahore, and Islamabad. Each principal office is being headed by three Yunus brothers. The company's top management consists of qualified and experienced professionals, having long-standing relationship with the company. The management has been boosted by the induction of Mr. Saad Yunus, son of Naved Yunus as chief operating officer.

Effectiveness There are four management committee's on the board; Underwriting, Claims Settlement, Reinsurance & Co-Insurance, and Risk Management.

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 committee is headed by Naved Yunus. Other members of the committee include Ahsan Mehmood Alvi, Umeed Ansari, Shabbir Ali Kanchwala, and Muhammad Saeed Ahmed. The company has an established investment department. EWI also has a structured investment policy statement (IPS) providing primary guidelines and execution structure to the investment process.

Risk Management Framework EWI 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 In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322m in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453m). The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remains very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. Gross premiums written of non-life insurers in India reached USD~26.5bn in FY21, from USD~26.4bn in FY20.

Relative Position East West Insurance with a market share of ~3.1% is classified amongst medium-sized companies of the industry in terms of GPW.

Revenue The conventional GPW of the company witnessed an increase of ~6.9% in CY20 amounting PKR~3,469m (CY19: PKR~3,246m) on a YOY basis. Moreover, Company recorded an increase of ~31.9% in 6MCY21 as compared to similar period of last year. The GPW mix is dominated by miscellaneous (~42%) and fire (~31%), followed by motor (~15%), and marine segment (~12%). The miscellaneous segment is dominated by engineering underwriting. Furthermore crop, bond, health, and travel insurance provide impetus to this category. Segmental diversification is good for the business risk profile of the company.

Profitability The company reported an underwriting profit of PKR 331m in CY20 (CY19: PKR~285m). Upward trend is mainly driven by increase in premium earned. Underwriting profit has also shown an increase of ~24.2% in 6MCY21 as compared to similar period of last year. Profit before tax increased to PKR~297m in CY20 from PKR~235m in CY19 with investment income being the major contributor. The Profit before tax in 6MCY21 is PKR~226m (6MCY20: PKR~178m). The company recorded a gain of PKR~13m from its Window Takaful Operations in CY20 and PKR~15m in 6MCY21.

Investment Performance COO of the Company Mr. Saad Yunus is also looking after the investments. The company is hopeful that the increased investment income will supplement the bottom-line of the company on a consistent basis. The Company recorded a net investment income of PKR~84m in CY20 and PKR~42m in 6MCY21.

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. For this, the company is using facultative acceptance and co-insurance, acquiring suitable share to the company's top line. EWI further aims to increase its footprints in agriculture and microinsurance. It is also in talks with a well renowned foreign partner to pump in equity and expertise into the company.

Financial Risk

Claim Efficiency EWI's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, stands at ~2.2x as at 6MCY21 (CY20 ~1.9x) which is a positive sign however the claim days outstanding in 6MCY20 are 342 days as compared to 209 days in CY20.

Re-Insurance Reinsurance panel comprises Qatar General Insurance and re-insurance (Rated A- by A.M. Best), Malaysian Re (Rated A- by A.M. Best), Hannover Re-Malaysia (Rated AA- by S&P Global) and PRCL (Rated AA by VIS). The non-proportional treaties, having enhanced capacity, allow the company to enter the large business, although this also entails high-risk retention on the company's books.

Cashflows & Coverages EWI's liquid assets at 6MCY21 amount PKR~1,393m (CY20: PKR~1,287m). Liquid assets predominantly comprises risk free government securities debt securities, bank deposits & equity securities. Liquid Assets stand at 1.3x of the Net Premium Revenue.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The company has equity of PKR 1,947m as at 6MCY21 (CY20: PKR 1,757m). The paid up capital of the company is PKR 1,183m.



PKR mln

East West Insurance Company Ltd.
Listed Public Limited

Jun-21	Dec-20	Dec-19	Dec-18
6M	12M	12M	12M

A BALANCE SHEET

1 Investments	1,696	1,592	1,354	1,211
2 Insurance Related Assets	1,889	1,881	1,716	1,364
3 Other Assets	478	527	567	241
4 Fixed Assets	133	141	159	157
Total Assets	4,195	4,142	3,796	2,972
5 Underwriting Provisions	1,331	1,442	1,477	1,091
6 Insurance Related Liabilities	690	775	684	638
7 Other Liabilities	315	243	174	102
8 Borrowings	1	5	14	22
Total Liabilities	2,338	2,466	2,349	1,853
Equity	1,858	1,683	1,451	1,125

B INCOME STATEMENT

1 Gross Premium Written	1,781	3,469	3,246	3,107
2 Net Insurance Premium	1,062	1,853	1,467	1,459
3 Underwriting Expenses	(826)	(1,522)	(1,183)	(1,188)
Underwriting Results	236	331	285	271
4 Investment Income	42	84	28	(1)
5 Other Income / (Expense)	(68)	(131)	(90)	(122)
Profit Before Tax	211	284	223	147
6 Taxes	(61)	(66)	(53)	14
Profit After Tax	149	218	170	161

C RATIO ANALYSIS

1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium)

43.5%	44.1%	43.8%	43.4%
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Combined Ratio (Loss Ratio + Expense Ratio)

77.8%	82.1%	80.6%	81.4%
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2 Investment Performance

Investment Yield

5.1%	5.7%	2.2%	-0.1%
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3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR

2.21	1.96	1.74	1.57
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4 Capital Adequacy

Liquid Investments / Equity

87.0%	89.7%	87.4%	103.2%
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Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong. Strong 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 small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and 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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- 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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- (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.
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- (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 | 18-(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 | 18-(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-(F-VII)

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