

## East West Insurance Company Limited (EWI)

### Rating (June 2006)

East West Insurance Company Limited

Rating	New	Previous
Insurer Financial Strength (IFS)	A-	BBB
<b>Outlook</b>	-	Positive

### Financial Data

PKR (mln)	31-Dec-05	31-Dec-04
Total Equity	312.2	171.8
GPW	324.4	312.9
Profit After Tax	112.9	12.2
Equity / NPW %	119.5	86.5
Liquid Assets/ Total Assets %	66.8	53.7

### Analysts

Moin Khalid  
+92 42 5869504  
moin@pacra.com

Shahzad Saleem  
+92 42 5869504  
shahzad@pacra.com

### Rating Rationale Assessment

- The rating reflects the strengthened financial base mainly as a result of substantial increase in equity through retention of one off gains realized on divestment of a major equity investment. At the same time, the rating also recognizes the improving performance prospects of the company from core underwriting operations, as well as contribution of investment income. While the investment income is expected to be boosted by increase in the size of investment portfolio, deployed in debt and equity securities, the management's concerted efforts for controlling operating costs, and plans to pursue a moderate growth in business volumes are likely to result in improving underwriting performance.
- The net income recorded a significant increase, attributable to sizeable capital gains, but the loss ratios registered a notable YoY increase, mainly on account of claims arising from earthquake in northern regions of the country, from where a fair proportion of the company's overall business is generated. However, the overall underwriting performance remained comparable with last year due to reduction in the level of operating costs and commission expense. The management initiated the implementation of its strategy devised last year, regarding controlling the relatively high level of operating costs compared to industry averages through strict control and a more rationalized division of resources among branches. Going forward, the management intends to keep pursuing a moderate growth in business volumes, while continuing with its prudent stance towards risk, reflected by relatively low loss ratios over the years. Meanwhile, it is also targeting at further reduction in the drag of high operating costs.
- The investment portfolio of the company registered a sizeable increase, leading to improvement in liquidity levels, as the management deployed the proceeds of capital gains and cash generated during the year. Meanwhile, the composition of the portfolio was also restructured and is now more diversified with a higher earning potential. The company has recently entered into an arrangement with a leading brokerage house for management of its equity portfolio, constituting around one-fourth of the total investments. The remaining major proportion of the funds are deployed in short-term deposits, followed by investments in MTBs and listed TFCs. Meanwhile, an investment policy, containing guidelines and limits for exposures in various segments and investment categories has also been developed during the year. Going forward, the level of investment income is expected to improve substantially, as against relatively modest level of contribution in previous years. The trend is already visible in the results for 1Q06, where the overall profits registered an appreciable increase, on the back of increasing investment income.
- Capitalizing on its extensive outreach, the management as a strategy focuses more on SMEs business, reflected by large number of small sized clients, and an overall low client concentration. The company has adequate risk management guidelines and policies in place. The overall business mix of the company is dominated by Fire segment (around 40-45%) with lesser proportion of business from the relatively high-risk textile sector, followed by one-third proportion of motor business, while the remaining share is divided between marine and miscellaneous insurance categories. While targeting to largely maintain the business mix in the coming years, the management is aiming to tap an increasing share in the crop insurance market. Within motor insurance, a sizeable portion of the business is derived from tractor insurance, which has remained a low risk segment. The management has plans to pursue many technology-based initiatives, aimed at improving the company's information systems. Besides enhancement in the efficiency of operations, this is also likely to strengthen the company's overall risk management framework.
- EWI maintains adequate reinsurance arrangements with credible international reinsurance companies carrying high international ratings, and has recently obtained excess of loss cover for crop insurance. However, due to low exposure per risk, the company's overall cession levels are on the lower side.
- With improving profitability prospects, and a moderate growth in business volumes, the company's overall financial base, relative to premium earned is expected to remain strong, going forward. The excess of EWI's admissible assets over total liabilities, as computed under the Insurance Ordinance 2000, is substantially higher than the minimum requirement under the said Ordinance, suggesting high solvency.

### Background

- EWI commenced commercial operations as a general insurance company in 1983 and is currently listed on the Karachi Stock Exchange. The shareholding in the company is effectively held by Yunus family. During 2005, Mian Mehboob Ahmad, Chief Justice (R) of Lahore High Court, also having extensive exposure in the insurance sector, has been appointed as the Chairman of BoD, which is expected to improve the quality of strategic policy making. The remaining members of the BoD, including the CEO, belong to Yunus family. The other major concern owned by the family is the Metropolitan Life Assurance Co. of Pakistan Ltd.
- The company writes various classes of general insurance business, and is the pioneer in the field of livestock insurance and recently extended coverage to loans against crops. The company has an extensive network of around 50 branches and agency offices spread across the country. With its head office in Karachi, the operations of the company are managed by three principal offices in Karachi, Lahore and Islamabad, with each principal office being headed by a member of the Yunus family, ensuring strong control over the affairs of the company.