

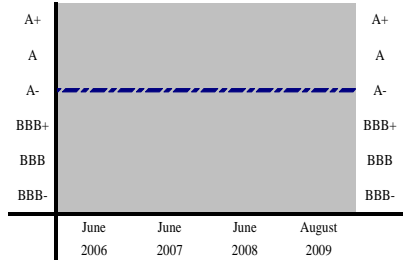


RATINGS (AUGUST 2009)

EAST WEST INSURANCE COMPANY LIMITED (EWI)

	NEW	PREVIOUS
Insurer		
Financial Strength (IFS)	A-	A-
Outlook	n.a.	Positive

IFS RATING – HISTORY



FINANCIAL DATA

PKR (mln)

	1Q09*	Dec-08	Dec-07
Total Equity	724	867	644
GPW	160	614	502
Net Profit	(142)	266	326
Equity/NPW %	163	220	187
Liquid Assets/ Total Assets %	64	70	67

* Based on unaudited accounts for 3 months ended March 31, 2009.

ANALYSTS

Ali Eeman
+92 42 5869504
ali@pacra.com

Rana Muhammad Nadeem
+92 42 5869504
nadeem@pacra.com

PROFILE

- EWI commenced operations as a general insurance company in 1983 and is listed on the Karachi Stock Exchange. Yunus family holds the majority shareholding (68% at end-08) in the company. The family also owns East West Life Assurance Company Limited (formerly Metropolitan Life Assurance Company of Pakistan Limited).
- Mian Mehboob Ahmad, having extensive exposure in the insurance sector, is the Chairman of BoD. The sponsors dominate the rest of the board with five out of total seven members including the CEO, belonging to the Yunus family.

RATING RATIONALE AND KEY RATING DRIVERS

- EWI's rating reflects the relative stability in the company's underwriting performance supported by its fairly diversified product mix and extensive outreach. At the same time, the rating takes into account the company's high exposure to stock market resulting in a huge unrealized loss on its investment portfolio, which has weakened the equity base, in turn, the risk absorption capacity of the company. Meanwhile, given planned growth in business volumes, the risk management procedures and guidelines require strengthening to manage any pressure on profitability.
- The rating is dependent on rationalization of the investment portfolio in order to ensure a more stable bottom-line performance, while improving the company's overall risk absorption capacity. Moreover, the company's ability in consolidating its existing position by capitalizing on potential business opportunities, while improving internal controls and information systems would remain critical.

ASSESSMENT

- EWI, unlike other non-captive insurance companies of similar size, which are relying heavily on a single segment mainly motor business for volume growth, it has a relatively balanced portfolio owing to the advantage of its extensive outreach. The overall business mix of the company is dominated by fire segment (50%), followed by a largely even distribution between marine (17%), motor (16%) and misc. (17%).
- EWI maintained robust gross premium written (GPW) growth (2008: 22%, 2007: 24%) on back of increase in all business segments. However, net premium revenue (NPR) growth despite being strong tapered-off from last year (2008: 27%, 2007: 35%) due to a moderate increase in cession levels (2008: 36%, 2007: 32%). The loss ratio on the other hand witnessed a slight rise (2008: 42%, 2007: 39%), mainly resulting from increase in fire and motor related claims on account of unrest that was prevalent during the year. However, EWI maintained its combined ratio (2008: 80%, 2007: 83%) largely at last year's level. Nonetheless, continuing pressure resulting from socio-economic downturn is likely to dampen the profitability of EWI going forward, as also witnessed during 1Q09.
- During 1H08, EWI's investment income increased significantly mainly due to sizeable capital gains on selected equity stocks. Subsequently, a sudden fall in the stock market led to significant decline in the market value of the company's investments, which the company still holds. EWI's investment portfolio at end-Dec 08 was pre-dominantly invested in equities with a significantly high concentration in a single scrip, despite management's stated plans to rationalize its investment portfolio, (69% of total investments and 48% of total assets at end-Dec 08), exposing it to high degree of concentration risk. However, the management decided to defer recognition of unrealized losses on its investments held as Available for Sale (AFS) as per SECP's directives. The effect of this deferment was evident in 1Q09 where EWI recognized a loss on investment income of PKR 145mln (outstanding unrecognized loss: PKR 340mln at end-1Q09). In absence of an effective investment strategy and requisite risk management systems, EWI would remain exposed to high market risk.
- Going forward, the management intends to maintain its growth momentum, while largely maintaining the underwriting profitability. It intends to penetrate in corporate sector while further strengthening its presence in the livestock and crop insurance. Although the management has followed a conservative stance towards risk in the past, the intended expansion would require further strengthening of risk management framework and timely implementation of upgraded core software. Furthermore, penetration into corporate segment would require competing with larger insurance companies, which would be difficult for EWI considering its relatively weak brand equity.

- EWI follows adequate risk management procedures and guidelines, however, it relies on fragmented IT resources and does not maintain any comprehensive documented standard operating guidelines, which may result in informal practices and may lead to inappropriate pricing and undesired exposures. However, cognizant of this situation, the management is under process of developing in-house core software, which is expected to strengthen the internal control framework at EWI.
- EWI maintains adequate reinsurance arrangements for all of its segments with a significant cover from "A" and above rated re-insurers.
- Over the years, EWI had improved its risk absorption capacity on back of a strong equity base emanating from significant capital market gains. During 2008, the management deferred recognition of unrealized AFS losses preventing a potential loss in equity. This potential erosion in equity has largely diminished the relative advantage EWI had built over its peers in recent years.

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. None of the information in this document may 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 written consent. Our reports and ratings constitute opinions, not recommendations to buy or to sell.