



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
25-Nov-2022	AA (ifs)	-	Stable	Maintain	-
31-Mar-2022	AA (ifs)	-	Stable	Harmonize	-
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	-

#### Rating Rationale and Key Rating Drivers

The assigned rating of East West Insurance Company Limited takes into account the sustained fundamentals of the Company. Over the year, all segments of the Company have performed admirably and contributed to a better top line with a lean toward Fire and Engineering segments. Conservative strategy involving prudent underwriting practices along with a focus on diversified products helped to demonstrate continued healthy underwriting profitability, supplementing the top line. Augmentation in equity and liquid assets owing to healthier cashflows offers strength to the capital structure which in turn has lent support to the rating. A significant spike in investment performance in close supervision of key management personnel has been observed. Resultantly, an increased investment income supplements the bottom line of the Company on a consistent basis. As an element of continued succession planning, sponsors are nurturing future leaders of the Company.

In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR 113bln in CY21 compared to PKR 102bln in CY20, exhibiting a growth of 11.1%. The industry reported a significant increase of 57% in underwriting results to PKR 7bln in CY21 (CY20: PKR 4bln). The net income of the industry grew by 30% to PKR 13bln in CY21 (CY20: PKR 10bln). However, recent floods have caused significant losses to the economy. This will affect the insurance industry's performance during the ongoing quarters.

The rating is dependent on the company's ability to improve its market position with continued profitability. The liquidity position and, hence, financial risk profile should remain afloat along with growth. Sustaining underwriting profitability will be crucial going forward.

#### 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(Mar-22),Methodology   Rating Modifiers(Jun-22)
Related Research	Sector Study   General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

**Profile**

**Legal Structure** East West Insurance Company Limited was incorporated as a public limited company in 1983.

**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 to 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 a strong propensity in the past to protect the Company.

**Governance**

**Board Structure** The total number of directors on the board is eight among which one is female director. Out of eight directors, three are independent, two non-executive and three are executive directors. Four board committee exists on the board namely; Audit, Ethics Human Resource & Remuneration, Investment and Nomination.

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

**Board Effectiveness** During the year, five board 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 financial statements for CY21.

**Management**

**Organizational Structure** The Company has a simplified organizational structure with clear reporting lines, ensuring the segregation of duties. In order to run the Company's operations smoothly.

**Management Team** With its head office in Karachi, the operations of the company are managed by three principal offices in Karachi, Lahore, and Islamabad. The company's top management consists of qualified and experienced professionals, have a 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** Most of the senior management have overall experience and affiliation with the company is more than 30 years. There are four management committees on the board; Underwriting, Claims Settlement, Reinsurance & Co-Insurance, and Risk Management. The committee meets quarterly to discuss all operational issues of the organization and provides 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 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 Ahsan Mehmood Alvi. Other members of the committee include Naved Yunus, 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).

**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** The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remain very modest as compared to other jurisdictions while the insurance sector remains underdeveloped relative to its potential. In terms of Gross Premium Written (GPW), Pakistan's general insurance industry had a total size of PKR~108,322mln in CY20, (less than ~1% of its GDP), with a growth of ~3.7% from the previous year (CY19: PKR~104,453mln). Currently, the general insurance industry has witnessed a growth of ~19% on a YoY basis as of Sep-21, ensuring sustainability.

**Relative Position** East West Insurance with a market share of ~3.5% is classified among medium-sized companies in the industry in terms of GPW for the period ending June'22.

**Revenue** The GPW of the company witnessed an increase of ~23% in 6MCY22: PKR 2354.52mln (6MCY21: PKR 1918.365mln) on a YOY basis. The Company recorded a GPW of PKR 2355mln in 6MCY22. The GPW mix is dominated by Fire and Property Damage (32%) and Engineering (27%), followed by the motor (14.7%), Marine (11.1%) and miscellaneous (13%). Fire and Property Damage has always been the dominant segment for the Company.

**Profitability** The company reported an underwriting profit of PKR 190mln (6MCY19: PKR 171mln). The Profit before tax increased to PKR 282mln in 6MCY22 from PKR 259mln in 6MCY21 due to improved investment income. The Profit before tax in 6MCY22 is PKR 278mln. The combined ratio of the company is 80.5% for 6MCY22.

**Investment Performance** The 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 showed a ~75% YoY increase as Company reported an investment income of PKR ~42mln for the 6MCY21. The Company reported an investment yield of 7.4% for 6MCY22.

**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. EWI further aims to increase its footprints in agriculture and microinsurance.

**Financial Risk**

**Claim Efficiency** EWI's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, stands at 1.4x for 6MCY22. (CY21: 1.6x) The claims days outstanding in 6MCY22 is 117 days and in CY21 it was 168 days.

**Re-Insurance** The reinsurer panel comprises of total ten (10) reinsurers for different classes of treaties for Conventional and Window-takaful operations. The Company's top-rated reinsurer 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** EWI's liquid investment book at 6MCY22 is PKR 2,016mln (CY21: PKR 1,960mln). Liquid investment book predominantly comprises risk-free government securities debt securities, bank deposits & equity securities. The total investments of the company currently stand at PKR 2,804mln in 6MCY22 (CY21: 1,981mln).

**Capital Adequacy** The company is well equipped in capital adequacy as per the requirements of SECP. The Company's equity stood at PKR 2352mln for 6MCY22 (CY21: PKR 2,005mln). The paid-up capital of the company is PKR 1,599mln.



**East West Insurance Company  
Listed Public Limited**

PKR mln

	Jun-22	Dec-21	Dec-20	Dec-19
	6M	12M	12M	12M

**A BALANCE SHEET**

1 Investments	2,031	1,981	1,592	1,354
2 Insurance Related Assets	2,804	2,083	1,881	1,716
3 Other Assets	687	598	527	567
4 Fixed Assets	124	127	141	159
5 Window Takaful Operations	-	-	-	-
<b>Total Assets</b>	<b>5,646</b>	<b>4,788</b>	<b>4,142</b>	<b>3,796</b>
1 Underwriting Provisions	1,548	1,576	1,442	1,477
2 Insurance Related Liabilities	1,330	849	744	684
3 Other Liabilities	417	359	274	174
4 Borrowings	-	-	5	14
5 Window Takaful Operations	-	-	-	-
<b>Total Liabilities</b>	<b>3,295</b>	<b>2,783</b>	<b>2,466</b>	<b>2,349</b>
<b>Equity/Fund</b>	<b>2,354</b>	<b>2,010</b>	<b>1,683</b>	<b>1,451</b>

**B INCOME STATEMENTS**

**CONSOLIDATED INCOME STATEMENT**

1 Gross Premium Written/Gross Contribution Written	2,355	4,216	3,675	3,443
2 Net Insurance Premium/Net Takaful Contribution	1,407	2,269	1,954	1,579
3 Underwriting Expenses	(1,125)	(1,847)	(1,606)	(1,221)
<b>Underwriting Results</b>	<b>282</b>	<b>423</b>	<b>348</b>	<b>358</b>
4 Investment Income	74	92	84	31
5 Other Income / (Expense)	(79)	(142)	(129)	(139)
<b>Profit Before Tax</b>	<b>278</b>	<b>372</b>	<b>303</b>	<b>250</b>
6 Taxes	(71)	(45)	(66)	(51)
<b>Profit After Tax</b>	<b>206</b>	<b>327</b>	<b>236</b>	<b>199</b>

**PARTICIPANTS' TAKAFUL FUND - PTF**

1 Gross Contribution Written	175	327	206	197
2 Net Takaful Contribution	28	38	24	67
3 Net Takaful Claims	(32)	(44)	(33)	(15)
4 Direct Expenses Including Re-Takaful Rebate Earned	13	22	15	8
<b>Surplus Before Investment &amp; Other Income/(Expense)</b>	<b>9</b>	<b>15</b>	<b>6</b>	<b>60</b>
5 Investment Income	0	0	0	0
6 Other Income/(Expense)	-	-	-	(45)
<b>Surplus for the Period</b>	<b>9</b>	<b>16</b>	<b>6</b>	<b>15</b>

**OPERATOR'S TAKAFUL FUND - OTF**

1 Wakala Fee Income	62	114	77	45
2 Management, Commission & Other Acquisition Costs	(45)	(83)	(66)	(32)
<b>Underwriting Income/(Loss)</b>	<b>16</b>	<b>31</b>	<b>12</b>	<b>13</b>
3 Investment Income	0	0	0	3
4 Other Income/(Expense)	2	2	1	(4)
<b>Profit Before tax</b>	<b>18</b>	<b>33</b>	<b>13</b>	<b>12</b>
5 Taxes	-	-	-	-
<b>Profit After tax</b>	<b>18</b>	<b>33</b>	<b>13</b>	<b>12</b>

**C RATIO ANALYSIS**

**1 Profitability**

Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Combined Ratio (Loss Ratio + Expense Ratio)

44.1%	41.1%	43.5%	41.6%
79.9%	81.4%	82.2%	77.3%

**2 Investment Performance**

Investment Yield

7.4%	5.1%	5.7%	2.4%
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**3 Liquidity**

(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR

1.4	2.1	1.9	1.7
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**4 Capital Adequacy**

Liquid Investments / Equity (Funds)

85.7%	97.5%	93.3%	87.4%
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### 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>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>AA (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>A (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>BBB (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>BB (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>B (ifs)</b>	
<b>CCC (ifs)</b>	
<b>CC (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>C (ifs)</b>	
<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.

<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’.	<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.	<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.	<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.
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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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## **Regulatory and Supplementary Disclosure**

(Credit Rating Companies Regulations,2016)

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- 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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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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 | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principle of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (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](http://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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