



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
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 rating takes into account the improved fundamentals of the company. The sound business profile has enabled the company to improve its market share. Prudent underwriting practices along with a focus on diversified products helped the company to demonstrate continued healthy underwriting profitability, hence supplementing the bottom-line. The implementation of advanced IT infrastructure and real time insurance solution in the key offices is considered positive. The sustainability of the company has been augmented with the creation of independent structure for the ownership, identification and induction of future leadership of the company. The strength of liquidity position and strong financial risk profile of the company lend support to rating. The sponsors are at advanced stage of beefing up the equity. This may be achieved by inducting a new foreign partner or by the way of right issue, for which the sponsors are on the same page. The rating incorporates the effective working capital management, though with growing volumes, this will be a challenge.

The rating is dependent in 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. Effective utilization of upgraded IT infrastructure and MIS should benefit in bringing sophistication in structure and reporting. Succession of key roles is essential.

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(Jun-18)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Faraan Taimoor faraan.taimoor@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 52 business places including 3 principal office, 9 regional offices, 21 agency offices and 22 branch offices.

Ownership

Ownership Structure Yunus family holds the majority shareholding in the company through nine individuals – belonging to families of four 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 summarises 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 eight member board of directors is equally split between the sponsors – four members (including the CEO – Mr. Naved Yunus) of Yunus family and four 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's exist on the board namely ; Executive, Audit, Ethics Human Resource & Remuneration and Investment.

Financial Transparency The company's auditor, BDO Ebrahim & Company , Chartered Accountants, has issued an unqualified audit report for CY18.

Management

Organizational Structure The company affairs are managed, through 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 Naveed Yunus as Deputy Director.

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

Claim Management System Claim approval authority is retained at the Principal Offices' level. Subsequent to the reporting of loss by the client, site visit is conducted through SECP authorized surveyors.

Investment Management Function The investment committee comprises of two board members and two members from the senior management and an advisor. 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 a standard operating procedures manual, incorporating detailed guideline to be followed prior to issuance of premium policy. The MIS system has also been rolled out in the head office whereas the complete rollout in the branches would be completed in 2019.

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

Relative Position East West Insurance with a market share of ~3.5% is classified amongst medium sized companies of the industry in terms of GPW.

Revenue The GPW of company witnessed steady progression with an impressive growth of 23% in CY18. The GPW mix is dominated by miscellaneous (41%) and fire (32%), followed by motor (15%), and marine segment (12%). The miscellaneous segment is dominated with engineering underwriting. Furthermore crop, bond, health and travel insurance provide impetus to this category. Segmental diversification is good for business risk profile of the company.

Profitability The company reported an enhanced underwriting profit of PKR 144mln (CY17: PKR 126mln) on the back of increased premium written. Subsequently, the Profit before tax increased to PKR 146mln from PKR 89mln . The company recorded a loss of PKR 1mln from it's Window Takaful Operations. The combined ratio of the company stood at 90% up from 84% in CY17 as a consequence of increased expense ratio.

Investment Performance The investment loss was recorded at PKR 1mln. The company booked impairment loss of PKR 50mln in accordance with IAS 39. East West Insurance has decided to invest in short term securities as a short term practice.

Sustainability The company's focus on diversification – engineering and health – besides fire segment bodes well for it's growth. It also envisages tapping large projects in 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 micro insurance. East Insurance also commenced Window Takaful Operations in 2017.

Financial Risk

Claim Efficiency EWI's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, stands at 1.5x (CY17: 1.6x). The company benefits from low premium days CY18: 15 days (CY17: 13 days), reflecting excellent efficiency in recovery of receivables.

Re-Insurance Reinsurance panel comprises Trust International Bahrain (Rated A- by A.M. Best), Labuan Re (Rated A- by AM Best) and PRCL (Rated AA- by JCR-VIS). The non-proportional treaties, having enhanced capacity, allow the company to enter large business, although this also entails high risk retention on company's books

Liquidity EWI's liquid investment book at CY18 is PKR 907mln and constitutes 0.8x of its equity base. Liquid investment book predominantly comprises equity securities, risk free government securities debt securities and bank deposits. The liquidity, low in comparison with peers, is expected to be jacked up.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The company has an equity of PKR 1.1bln. East West Insurance Company Limited increased its share capital by PKR 761mln through 25% bonus shares declared in 3Q18. The sponsors are at advanced stage of beefing up further equity. This may be achieved by inducting a new foreign partner or by the way of right issue, for which the sponsors are on the same page.



GENERAL INSURANCE Financials [Summary]

The Pakistan Credit Rating Agency Limited

East West Insurance

	PKR mln		
BALANCE SHEET*	Dec-18	Dec-17	Dec-16
Investments			
Liquid Investments	958	1,042	1,077
Other Investments	254	212	54
	1,212	1,254	1,131
Insurance Related Assets	741	705	565
Other Assets	1,019	730	640
TOTAL ASSETS	2,972	2,689	2,336
Equity	1,125	1,049	982
Underwriting Provisions	1,091	832	654
Insurance Related Liabilities	624	688	554
Other Liabilities	131	120	146
TOTAL EQUITY & LIABILITIES	2,972	2,689	2,336
INCOME STATEMENT - Extracts			
	Dec-18	Dec-17	Dec-16
Gross Premium Written (GPW)	3,107	2,531	2,067
Net Premium Revenue (NPR)	1,459	1,055	981
Net Claims	(634)	(470)	(469)
Net Operational Expenses	(681)	(459)	(412)
UNDERWRITING RESULTS	144	126	101
Investment Income	(1)	(39)	196
PROFIT BEFORE TAX	146	89	297
RATIO ANALYSIS - Conventional			
	Dec-18	Dec-17	Dec-16
Underwriting Results			
Loss Ratio	43%	45%	48%
Combined Ratio	90%	88%	88%
Performance			
Operating Ratio	90%	84%	68%
Investment Yield	0%	-2%	2%
Liquidity & Solvency			
Liquidity Ratio – times	1.6	1.4	2.0

* Includes Window Takaful

East West Insurance Company Limited (EWI)

May 2019

www.pacra.co



INSURER FINANCIAL STRENGTH (IFS) RATING RATING SCALE & DEFINITIONS

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

RATING 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-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	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.
CCC CC C	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.
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.

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'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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 principal 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)

Independence & Conflict of interest

- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (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). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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