



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
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	-
01-Dec-2014	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. Sponsors are nurturing future leadership of the company, while giving exposure to the company's business. 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. Succession planning is essential for future prospect of the company. The strength of liquidity position and strong financial risk profile of the company lend support to rating. The company is expected to issue right shares for the purpose of strengthening the equity. The company is also negotiating with a foreign partner, giving them a stake which will enhance East West Insurance Company Limited expertise in the motor segment. This deal is expected to be accomplished next year. 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.

Disclosure

Name of Rated Entity	East West Insurance Company Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Harris Ghaffar harris.ghaffar@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. 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 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 review for half yearly statements.

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 Naved Yunus as Deputy Director.

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 branch level; 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 of 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. 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 a standard operating procedures manual, incorporating detailed guideline to be followed prior to issuance of premium policy.

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 a stable progression with a growth of 6% in 9MCY19. The GPW mix is dominated by miscellaneous (42%) and fire (31%), 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 170mln (9MCY18: PKR 143mln) mainly on the back of increased premium written. However, the Profit before tax decreased to PKR 165mln from PKR 195mln as investment income declined. The company recorded a gain of PKR 3mln from its Window Takaful Operations. The combined ratio of the company remained stagnant at 86%.

Investment Performance Increased focus is on the investment income and EWI has appointed a portfolio manager in this regard. Saad Younus is also looking after the investments. Company is hopeful that the increased investment income will supplement the bottom-line of the company on a consistent basis.

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 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. 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 1.5x . The company benefits from low premium days 9MCY19: 25 days (9MCY18: 16 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 9MCY19 is PKR 885mln and constitutes 0.87 of its equity base. Liquid investment book predominantly comprises equity securities, risk free government securities debt securities and bank deposits. . Liquid Assets stand at 0.7x of the Net Premium Revenue.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The company has an equity of PKR 1.2bln. East West Insurance Company Limited increased its share capital by PKR 761mln through 25% bonus shares declared in 3Q18. The company intends to increase equity through rights issue. The paid up capital will cross PKR 1bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

East West Insurance Company Limited

PKR mln

BALANCE SHEET*	Sep-19	Dec-18	Sep-18	Dec-17
Investments				
Liquid Investments	885	958	961	1,042
Other Investments	242	254	316	212
	<u>1,126</u>	<u>1,212</u>	<u>1,277</u>	<u>1,254</u>
Insurance Related Assets	900	741	747	705
Other Assets	1,230	1,019	1,167	730
TOTAL ASSETS	<u>3,257</u>	<u>2,972</u>	<u>3,191</u>	<u>2,689</u>
Equity	1,217	1,125	1,287	1,049
Underwriting Provisions	1,187	1,091	1,061	832
Insurance Related Liabilities	621	624	680	688
Other Liabilities	233	131	163	120
TOTAL EQUITY & LIABILITIES	<u>3,257</u>	<u>2,972</u>	<u>3,191</u>	<u>2,689</u>
INCOME STATEMENT - Extracts	Sep-19	Dec-18	Sep-18	Dec-17
Gross Premium Written (GPW)	2,389	3,107	2,256	2,531
Net Premium Revenue (NPR)	1,252	1,459	1,049	1,055
Net Claims	(550)	(634)	(446)	(470)
Net Operational Expenses	(531)	(681)	(460)	(459)
UNDERWRITING RESULTS	170	144	143	126
Investment Income	(10)	(1)	52	(39)
PROFIT BEFORE TAX	165	146	195	89
RATIO ANALYSIS - Conventional	Sep-19	Dec-18	Sep-18	Dec-17
Underwriting Results				
Loss Ratio	44%	43%	42%	45%
Combined Ratio	86%	90%	86%	88%
Performance				
Operating Ratio	87%	90%	81%	84%
Investment Yield	0%	0%	27%	-2%
Liquidity & Solvency				
Liquidity Ratio – times	1.5	1.6	1.5	1.4

* Includes Window Takaful

East West Insurance Company Limited (EWI)
November 2019

Insurer Financial Strength (IFS) 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.

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+	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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B	
B-	
CCC	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.
CC	
C	
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. 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, 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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