



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
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	-
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 sustained fundamentals of the company. The sound business profile has enabled the company to maintain its market share amidst COVID-19. Prudent underwriting practices along with a focus on diversified products helped to demonstrate continued healthy underwriting profitability, supplementing the bottom-line. Sponsors are nurturing future leadership of the company; Chief Operating Officer has been nominated for this purpose. 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 equity has been augmented through right issue, though liquidity needs to be beefed up in line with the Company's relative position. The company plans to increase market presence in motor segment particularly through Window Takaful Operations. The rating incorporates the effective working capital management, though with growing volumes, this will be a challenge.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. Upsurge in auto sales and health products has been pivotal. Underwriting profitability i.e. core business has been cushioned through reduced management expenses while innovative products are being envisaged.

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	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
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 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 summarises 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 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 nine-member board of directors -four members of Yunus family and five 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 exists on the board namely; Executive, Audit, Ethics Human Resource & Remuneration and Investment.

Transparency The company's auditor, BDO Ebrahim & Company, Chartered Accountants, has issued an unqualified opinion on audit financial statements June-2020.

Management

Organizational Structure The company affairs are managed, through the 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 chief operating officer.

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 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 Naved Yunus. Other members of the committee include Ahsan Mehmood Alvi, 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) 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 standard operating procedures manual, incorporating detailed guidelines to be followed prior to the issuance of premium policy.

Business Risk

Industry Dynamics Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. Upsurge in auto sales and health products has been pivotal. Underwriting profitability i.e. core business has been maintained through reduced management expenses while innovative products are being envisaged. Investment income is being routed through equities, amid upsurge in PSX and diminished interest rates.

Relative Position East West Insurance with a market share of ~3% is classified amongst medium-sized companies of the industry in terms of GPW.

Revenue The GPW of the company witnessed a decline of 10% in 6MCY20: PKR 1,350mln (6MCY19: PKR 1,506mln) on a YOY basis. The Company recorded a GPW of PKR 2,350mln in 9MCY20. The GPW mix is dominated by miscellaneous (45%) and fire (34%), followed by motor (11%), and marine segment (10%). The miscellaneous segment is dominated by engineering underwriting. Furthermore crop, bond, health, and travel insurance provide impetus to this category. Segmental diversification is good for the business risk profile of the company.

Profitability The company reported an underwriting profit of PKR 190mln (6MCY19: PKR 171mln) increase mainly due to decrease in management expenses. However, the Profit before tax increased to PKR 178mln in 6MCY20 from PKR 118mln in 6MCY19 due to investment income increase. The Profit before tax in 9MCY20 is PKR 227mln. The company recorded a gain of PKR 8mln from its Window Takaful Operations. The combined ratio of the company is 84%.

Investment Performance 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 recorded a net investment income of PKR 37mln.

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 the 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 microinsurance. 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 1.9x. The claims days outstanding in 6MCY-20 is 255 days and in CY-19 it was 221 days.

Re-Insurance Reinsurance panel comprises Qatar General Insurance and re-insurance (Rated A-), Malaysian Re (Rated A-), Hannover Re-Malaysia(Rated AA-) and PRCL(Rated AA- by- VIS) . The non-proportional treaties, having enhanced capacity, allow the company to enter the large business, although this also entails high-risk retention on the company's books.

Liquidity EWI's liquid investment book at 6MCY20 is PKR 1,014mln (CY18: PKR 1,053mln). Liquid investment book predominantly comprises risk free government securities debt securities, bank deposits & equity securities, . Liquid Assets stand at 1.33x of the Net Premium Revenue.

Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The company has equity of PKR 1,581mln (CY19: PKR 1,447mln). The paid up capital of the company is PKR 1.029bln.



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE Financials [Summary]

East West Insurance Company Limited (EWI)

PKR mln

BALANCE SHEET*	Jun-20	Dec-19	Dec-18	Dec-17
Investments				
Liquid Investments	1,014	1,053	958	1,042
Other Investments	298	300	254	212
	<u>1,313</u>	<u>1,354</u>	<u>1,212</u>	<u>1,254</u>
Insurance Related Assets	1,141	1,094	741	705
Other Assets	1,230	1,347	1,019	730
TOTAL ASSETS	<u>3,683</u>	<u>3,796</u>	<u>2,972</u>	<u>2,689</u>
Equity	1,581	1,447	1,125	1,049
Underwriting Provisions	1,217	1,469	1,091	832
Insurance Related Liabilities	623	630	624	688
Other Liabilities	262	249	131	120
TOTAL EQUITY & LIABILITIES	<u>3,683</u>	<u>3,796</u>	<u>2,972</u>	<u>2,689</u>
INCOME STATEMENT - Extracts	Jun-20	Dec-19	Dec-18	Dec-17
Gross Premium Written (GPW)	1,350	3,246	3,107	2,531
Net Premium Revenue (NPR)	763	1,467	1,459	1,055
Net Claims	(320)	(642)	(634)	(470)
Net Operational Expenses	(318)	(691)	(681)	(459)
UNDERWRITING RESULTS	125	134	144	126
Investment Income	37	28	(1)	(39)
PROFIT BEFORE TAX	178	235	146	89
RATIO ANALYSIS - Conventional	Jun-20	Dec-19	Dec-18	Dec-17
Underwriting Results				
Loss Ratio	42%	44%	43%	45%
Combined Ratio	84%	91%	90%	88%
Performance				
Operating Ratio	77%	91%	90%	84%
Investment Yield	3%	1%	0%	-2%
Liquidity & Solvency				
Liquidity Ratio – times	1.8	1.7	1.6	1.4

* Includes Window Takaful

East West Insurance Company Limited (EWI)

November 2020

Insurer Financial Strength (IFS) Rating

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+ 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-	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.
B+ B 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.
CCC CC C	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.
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.

<p>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'.</p>	<p>Rating Watch 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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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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(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

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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.
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- (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)

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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)
- (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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