



The Pakistan Credit Rating Agency Limited

EAST WEST INSURANCE COMPANY LIMITED (EWI) IFS RATING REPORT

	NEW [Nov-16]	PREVIOUS [Nov-15]
Insurer Financial Strength (IFS) Rating	A+	A
Outlook	Stable	Stable

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NOVEMBER 2016

Profile & Ownership

- EWI commenced commercial operations as a general insurance company in 1983 and is listed on the Pakistan Stock Exchange
- EWI's operations are currently carried out from a nationwide network of 52 business places including 3 principal offices, 8 regional offices, 19 agency offices and 22 branch offices
- Sponsors, Yunus family, control 63% stake in EWI; also control majority stake (72%) in East West Life Assurance Company Limited. However, the company has been sold to AWT, pending regulatory approval.

Governance & Management

- 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
- Mr. Naved, well-qualified from the US and UK, has been associated with the company for the last three decades as CEO
- The company's top management consists of qualified and experienced professionals, having long standing relationship with the company
- The company affairs are managed, through Executive Committee, consisting of three executive directors and senior management personnel from finance, operations and marketing divisions

Business Risk

- EWI's GPW mix is dominated by fire (37%) and miscellaneous (36%), followed by motor (14%), and marine segment (13%); misc. is dominated by engineering
- Top ten clients contribute 11% to the GPW, as EWI focuses on small and medium sized clients
- EWI's GPW progressed with a decent growth of 17% in 9M16; thereby, improving market share amidst high competition to ~3% (9M15: 2.6%)
- Combined ratio strengthened to 91% (9M15: 93%), wherein the improvement of 6% in expense ratio has compensated for 4% rise in the loss ratio
- Loss ratio (47%) is at par with peers, reflecting positively on business risk profile of the company. Whereas, expense ratio (44%) is high viz-a-viz peers.
- The company reported an enhanced underwriting profit of PKR 69mln (9M15: PKR 44mln) translating into a YoY growth of 57%
- Investment income improved to PKR 100mln (9M15: PKR 44mln) mainly due to higher gain from disposal of investments and dividend income, mainly money market mutual funds. This boosted the profitability of the company, hence, PAT recorded an increase of 27%.

Business Strategy

- Focus on diversification – engineering and health, – besides fire segment for the company's growth.
- The company 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.
- Re-entry in crop and livestock insurance is also on cards
- EWI plans to launch window takaful operations; plan has been finalized, tentatively entering the market in 1QCY17.

Financial Risk

- EWI's liquid investment book (9M15: PKR 954mln) constitutes 1.06x of its equity base
- Liquid investment book predominantly comprises risk free government securities and money market funds (70%), followed by equity scripts and equity funds (19%), debt securities including income funds (6%) and bank deposits (5%)
- EWI has strong risk absorption capacity reflected by liquid assets coverage to outstanding claims (9M16: 2.6times)
- The company maintains low premium days 9M16: 17days (9M15: 8days), reflecting excellent efficiency in recovery of receivables
- Reinsurance panel comprises Trust International Bahrain (Rated A- by A.M. Best), Labuan Re (Rated A- by AM Best) and PRCL

RATING RATIONALE

The ratings take into account overall improvement in the risk profile of the company. Persistent growth enabled sizeable rise in market share in recent years (9M16: ~3%, CY12: 1.8%). Prudent underwriting practices alongwith a focus on diversified products and customers helped the company to demonstrate continued healthy underwriting performance. Revamped investment management framework has been beneficial, thereby adding a sizeable cushion to the bottomline. Rolling out the advanced IT infrastructure and real time insurance solution, expected to complete by end-Dec16, would augment the control environment. The company envisages strengthening its footprints, while pitching medium and small sized risks, with enduring focus on the crop and livestock insurance. The financial risk profile benefits from the company's strong liquidity position; cash generation efficiency of the company is higher. The longevity of the company is supported by a consensus document among the sponsoring family members regarding the succession of key roles, though material implementation progress is yet to be achieved.

KEY RATING DRIVERS

The rating is dependent on company's ability to improve its market position with sustained profitability. The liquidity position and, hence, financial risk profile should remain afloat alongwith growth. Timely implementation of upgraded IT infrastructure and MIS is critical for the rating.

INDUSTRY SNAPSHOT

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 10%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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**GENERAL INSURANCE
Financials [Summary]**

East West Insurance Company Limited (EWI)

	30-Sep-16	31-Dec-15	<i>PKR mln</i> 31-Dec-14
BALANCE SHEET	9M15	Annual	Annual
Investments			
Liquid Investments	954	895	762
Other Investments	68	68	50
	1,021	963	812
Insurance Related Assets	302	193	216
Other Assets	547	419	371
TOTAL ASSETS	1,870	1,575	1,399
Equity	901	756	665
Underwriting Provisions	572	412	349
Insurance Related Liabilities	260	272	256
Other Liabilities	137	136	129
TOTAL EQUITY & LIABILITIES	1,870	1,575	1,399
INCOME STATEMENT	30-Sep-15	31-Dec-14	31-Dec-13
Gross Premium Written (GPW)	1,530	1,768	1,420
Net Premium Revenue (NPR)	762	870	760
Net Claims	(360)	(378)	(305)
Net Operational Expenses	(332)	(410)	(387)
UNDERWRITING RESULTS	69	82	67
Investment Income	100	40	106
Other Income/ (expense)	3	62	(2)
PROFIT BEFORE TAX	171	184	172
Unappropriated Profit/ (loss) Brought Forward	204	164	94
Unappropriated Profit/ (loss) Carried Forward	350	204	164
RATIO ANALYSIS	30-Sep-15	31-Dec-14	31-Dec-13
Underwriting Results			
Loss Ratio	47%	43%	40%
Combined Ratio	91%	91%	91%
Performance			
Operating Ratio	91%	79%	77%
Investment Yield	28%	5%	15%
Liquidity & Solvency			
Liquidity Ratio – times	2.6	2.5	3.2

East West Insurance Company Limited (EWI)

Nov 2016

www.pacra.com



RATING SYMBOLS & DEFINITIONS:

**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.

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.



[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

East West Insurance Company Limited
 Insurance - General
 Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Dissemination Date	Rating	Outlook	Action
14-Nov-16	A+	Stable	Upgrade
30-Nov-15	A	Stable	Maintain
1-Dec-14	A	Stable	Maintain
25-Oct-13	A	Stable	Maintain
2-May-13	A	Stable	Upgrade
22-Jan-13	A-	Positive	Maintain

[Related Criteria and Research](#)

Methodology:
Research:

Insurer Financial Strength Rating
 Insurance | General - viewpoint | Nov-16

[Rating Analysts](#)

Muneeb Rashid muneeb.rashid@pacra.com (92-42-35869504)	Amara S. Gondal amara.gondal@pacra.com (92-42-35869504)
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[Rating Team Statement](#)

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer. PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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[Probability of Default \(PD\)](#)

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