



## **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 is up for sale 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 miscellaneous (45%) and fire (32%), followed by motor (12%), and marine segment (11%); misc. is dominated by engineering
- EWI's GPW progressed with a decent growth of 28% in 1HCY17; however, market share remained stagnant at 3% (1HCY16: 3%)
- Loss ratio maintained at 42% (1HCY16: 42%); remains at par with peers
- Combined ratio improved marginally to 84% (1H16: 85%) on account of decline in expense ratio
- The company reported an enhanced underwriting profit of PKR 86mln (1H16: PKR 73mln), up by 18% YoY
- Investment yield declined to 3% (1HCY16: 16%); however, the investment income remained stagnant at PKR 28mln (1HCY16: PKR 28mln)

## **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 Takkaful Operations next year

## **Financial Risk**

- EWI's liquid investment book at end-Jun17 is PKR 941mln and constitutes 0.82x of its equity base
- Liquid investment book predominantly comprises risk free government securities and money market funds (93%), followed by equity scripts and equity funds (1%), debt securities including income funds (.6%) and bank deposits (5%)
- EWI's risk absorption capacity, reflected by liquid assets coverage to outstanding claims, declined to 1.4x (1HCY16: 2.5x), owing to the increase in outstanding claims.
- The company benefits of low premium days 1H17: 11.6days (1H16: 19.2 days), 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 rating takes into account the sustained fundamentals of the company. The sound business profile has enabled the company to sustain its market share. Prudent underwriting practices along with a focus on diversified products helped the company to demonstrate continued healthy underwriting profitability. The implementation of advanced IT infrastructure and real time insurance solution in the key offices is considered positive. However, complete rollout countrywide is targeted by end-Mar18. The adequate liquidity position and strong financial risk profile of the company lend support to rating. The rating incorporates the effective working capital management, though with growing volumes, this will be a challenge. Going forward, the company envisages to strengthen its footprints with plans to launch window takaful operations with enduring focus on the crop and livestock insurance.

## **KEY RATING DRIVERS**

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.

## **INDUSTRY SNAPSHOT**

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). 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; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



The Pakistan Credit Rating Agency Limited

East West Insurance Company Limited (EWI)

## GENERAL INSURANCE Financials [Summary]

	<i>PKR mln</i>		
	30-Jun-17	31-Dec-16	31-Dec-15
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	941	1,077	895
Other Investments	211	54	68
	1,152	1,131	963
Insurance Related Assets	705	565	193
Other Assets	823	640	419
<b>TOTAL ASSETS</b>	2,680	2,336	1,575
Equity	1,062	982	756
Underwriting Provisions	775	654	417
Insurance Related Liabilities	702	554	272
Other Liabilities	141	146	136
<b>TOTAL EQUITY &amp; LIABILITIES</b>	2,680	2,336	1,575
<b>INCOME STATEMENT</b>			
	30-Jun-17	31-Dec-16	31-Dec-15
Gross Premium Written (GPW)	1,258	2,067	1,768
Net Premium Revenue (NPR)	544	981	870
Net Claims	(229)	(469)	(378)
Net Operational Expenses	(228)	(412)	(410)
<b>UNDERWRITING RESULTS</b>	86	100	82
Investment Income	15	196	40
Other Income/ (expense)	0	1	62
<b>PROFIT BEFORE TAX</b>	101	297	184
Unappropriated Profit/ (loss) Brought Forward	274	204	164
Unappropriated Profit/ (loss) Carried Forward	354	274	204
<b>RATIO ANALYSIS</b>			
	30-Jun-17	31-Dec-16	31-Dec-15
<b>Underwriting Results</b>			
Loss Ratio	42%	48%	43%
Combined Ratio	84%	90%	91%
<b>Performance</b>			
Operating Ratio	81%	92%	79%
Investment Yield	3%	66%	5%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	1.4	2.0	2.5

East West Insurance Company Limited (EWI)

October 2017

[www.pacra.com](http://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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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>D</b>	<b>Distressed</b> 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.

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Rated Entity

**Name of Rated Entity** East West Insurance Company Limited  
**Sector** Insurance - General  
**Type of Relationship** Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Rating	Outlook	Action
03-Oct-17	A+	Stable	Maintain
13-Mar-17	A+	Stable	Maintain
14-Nov-16	A+	Stable	Upgrade
30-Nov-15	A	Stable	Maintain
01-Dec-14	A	Stable	Maintain
25-Oct-13	A	Stable	Maintain

Related Criteria and Research

**Methodology:** Insurer Financial Strength Rating  
**Research:** Insurance | General - viewpoint | Nov-16

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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.

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