

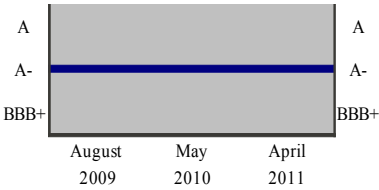


RATINGS (MAY 2011)

EAST WEST INSURANCE COMPANY LIMITED (EWI)

	NEW	PREVIOUS
Insurer Financial Strength (IFS)	A-	A-

IFS RATING – HISTORY



FINANCIAL DATA

PKR (mln)	2010	2009
Equity	338.2	329.7
GPW	562.5	631.8
Adjusted Underwriting Results	(19.8)	28.8
Pre-tax Profit/ (loss)	15.5	(527.9)
Combined ratio (%)	105.6	95.9
Operating ratio (%)	95.3	220.8
Liquidity ratio (x) (Adjusted liquid assets/ net claims expense)	2.6	1.6
Solvency ratio (%) (Net Claims expense/ Financial Base)	39.7	20.6

ANALYSTS

Amara Gondal
+92 42 35869504
amara.gondal@pacra.com

Jhangeer Hanif
+92 42 35869504
jhangeer@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects EWI's strong risk absorption capacity, reflected in comparatively higher solvency and liquidity profile. Although the company's underwriting performance has been impacted due to decline in business and a slight increase in loss ratio, the investment income, to some extent, supported the bottomline. The gradual rationalization of investment portfolio with more focus on low risk avenues is likely to continue supplementing EWI's profitability. In the wake of pressure on GPW expansion, EWI has strengthened its marketing function though the related benefits are yet to be seen.
- The rating is dependent on the management's ability to withstand pressure on topline, in the context of intense competition in the insurance industry. For this, formulation and adoption of a cohesive strategy, including strengthening of MIS, is vital for the company's business.

ASSESSMENT

▪ Pakistan's insurance sector experienced accelerated growth and robust profitability until the economic environment in Pakistan was upbeat. Ever since the economic downturn in 2008, the sector has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. Consequently, the industry growth as well as overall profitability continues to remain under pressure. The year 2010 though witnessed some recovery in terms of GPW expansion, the bottomline experienced a steep dip due to floods related losses. Nevertheless, the industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services. Moreover, the regulator has taken a strict stance to invariably implement governing regulations in the industry. Entry of a broad array of reinsurers in the market is also expected to bode well for risk absorption capacity of the insurance sector.

▪ During 2010, EWI continued to generate major business from the fire segment (45%), followed by marine (19%), motor (16%), and the miscellaneous segments (20%). The miscellaneous segments majorly comprised engineering and crop insurance. The top ten client concentration remained low.

▪ EWI's gross premium written (GPW) declined by 11% during 2010, reflecting fall in all business segments except marine. This was mainly due to intensifying competition coupled with slow growth in the insurance industry, leading to pricing issues. The impact on EWI's business was more pronounced in the form of underwriting loss. The loss ratio increased to 46% (2009: 41%), mainly in motor, further pushing the combined ratio to 106% (2009: 93%). Nevertheless, the company's loss ratio is still below than peers. The investment income improved to PKR 32mln (2009: loss PKR 533mln), mainly driven by rationalization of EWI's investment portfolio, enabling bottom line profitability as against last year loss.

▪ 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, North, and Punjab). However, EWI's IT infrastructure is weak when compared to peers, which lately have shown significant progress in this regard. Cognizant of this situation, the management is in the process of developing in-house core software, though the benefit of the same is expected to remain limited.

▪ Going forward, EWI would remain focused on strengthening its marketing function while consolidating its existing branch network. For this, the company has lately executed a consultancy arrangement with a senior resource, having extensive experience in insurance industry. The company intends to consolidate its existing business volumes while targeting a moderate growth (10%) in GPW for 2011. The company expects to achieve the targeted growth through penetration in the corporate, livestock, and crop insurance sectors. However, capturing the corporate segment would require effective deployment of a cohesive business strategy. Meanwhile, competing with larger insurance companies for GPW growth would remain a challenge for EWI.

▪ EWI maintains adequate reinsurance arrangements for all of its segments with a significant cover from "A-" and above rated re-insurers. EWI's cession has been increased in 2010 to 44% (2009: 37%) due to quota share covenants added to surplus treaties in the fire and marine segments.

▪ EWI's investment portfolio constitutes 37% of its total assets at end-Dec10. The company has rationalized its investment book, by divesting its stake in Jahangir Siddiqui & Co., which represented 91% of the book. The divestiture was at a higher price, compared to the market price, to the sponsors (net benefit: PKR 35mln). At end-Dec10, the investment book was dominated by equities and equity based mutual funds (36%), followed by Government securities and money market funds (27%), debt securities (21%), and bank deposits (17%). Gradually, EWI intends to reduce its market exposure by enhancing the proportion of money market funds.

▪ The liquidity of the company improved during 2010, mainly a function of restructured investment book. Though the solvency ratio deteriorated to 40% (2009: 21%), yet it remained better than peers.

PROFILE

▪ EWI commenced commercial operations as a general insurance company in 1983 and is listed on the Karachi Stock Exchange. Yunus family effectively holds the majority shareholding in the company. The family also controls majority stake in East West Life Assurance Company Limited.

▪ EWI's board of directors comprises seven members, including the managing director. Chief Justice (Retired) Mian Mehboob Ahmad is the Chairman of BoD. The rest of the board is dominated by the sponsors, with five of the remaining six members including the MD, belonging to the Yunus family. Mr. Naved Yunus, Managing Director, is assisted by a team of experienced professionals. Moreover, two Executive Directors, Mr. Javed Yunus and Mr. Pervez Yunus, are involved in managing EWI's operations in the North and Punjab regions of the country, respectively.