



The Pakistan Credit Rating Agency Limited

**Rating Report**

**5th Pillar Family Takaful Limited**

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Rating History				
Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
22-Dec-2023	A+ (ifs)	Stable	Maintain	-
09-Mar-2023	A+ (ifs)	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Life Insurance market is dominated by public sector company (~61% share as of Jun-23). While, the private sector holds only ~39% of the market share. Gross Premium (GPW) of the industry stood at PKR ~203bln during 6MCY23 (6MCY22: PKR~175bln), showing a YoY growth of ~16%. GPW is bifurcation i.e., between regular premium products (1st year premium, second year renewal premium and subsequent year renewal premium), single premium products and group life policies. ~45% of the total premium pertains to renewal premium products, and is followed by premium booked under the category of group life without cash values at ~41% during Jun-23. Net Premium stood at PKR~ 199bln during 6MCY23 (6MCY22: PKR~171bln;), showing a YoY increase of ~16%. On the claims end, Net Claims stood at PKR ~179bln during 6MCY23 as compared to PKR ~122bln during 6MCY22. The total investment book of the insurance industry stood at PKR ~2,336bln during 6MCY23 (6MCY22: PKR ~2,009bln). Going forward, the overall outlook of the industry remains stable.

The ratings reflect emerging profile of 5th Pillar in the Life Insurance industry. The ratings is based on a unique business model, which combines commercial rationality and religious objectives into one binding package. The business is at the initial stages where the foundational work is being accomplished including signing up with the banks, undertaking training programs for the business development force and marketing tools etc. The ratings derive comfort from the strength and prominent position of the sponsors in international and local business market. The Company operates in takaful business by offering Hajj and Umra savings plan to lower middle and middle class people in the society. However, going forward the management aims to expand their product suite by offering various saving plans including; children education plans, marriage savings plans, retirement and pension plans. Moreover, the aim is to build the market share by investing in digitization. The business is expected to pick up from the next year. Meanwhile, support form the investment income is the mainstay. During this time period, the equity base has to support, wherein which, if dilution comes, sponsors are expected to come forward.

The ratings are dependent on the continued tangible support and guidance from the key sponsors. The successful unfolding of the model is of absolute necessity. The equity of the company needs to be kept liquid and in safe investment avenues.

Disclosure	
<b>Name of Rated Entity</b>	5th Pillar Family Takaful Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Life Insurance Rating(Mar-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-23)
<b>Rating Analysts</b>	Nabia Rauf   nabia.rauf@pacra.com   +92-42-35869504

## Profile

**Legal Structure** 5th Pillar Family Takaful Limited ("5th Pillar" or "the Company") was incorporated as a public unlisted company on 05-Mar-20.

**Background** Kuwait International Investment Holding Company, 5th Pillar Holdings Limited and Muhammadi Family & Associates (Muhammadi Family) initiated this project to facilitate Hajj and Umrah to middle and low middle income Muslims. The Company received its Takaful operator license from Security Exchange Commission of Pakistan (SECP) on 04-Oct-21.

**Operations** The Company mainly operates in Takaful business. The Company is engaged to provide Shariah-compliant products i.e.: Hajj and Umrah Saving plans.

## Ownership

**Ownership Structure** The major stake (~42%) of the Company is held by Kuwait International Investment Holding Company. While, (~26%) is held by 5th Pillar Holdings Limited. The remaining stake is held by Muhammadi Family - Mr. Muhammad Ali (~25%) and Ms. Saima Sohail Tabba (~7%).

**Stability** Ownership of the Company seems to remain stable as the sponsors hold a prominent position in various sectors of the local and international business sectors.

**Business Acumen** The sponsors have strong acumen and diversified business portfolio providing significant support to the Company.

**Financial Strength** The Company gathers financial strength from its sponsors, if needs be.

## Governance

**Board Structure** The overall control of the Company lies among eight-member Board. Seven members of the Board are Non - Executive Directors and the Chief Executive Officer (CEO) of the Company is an Executive Director. Five directors are representatives of Kuwaiti Companies, two directors represent Muhammadi Family.

**Members' Profile** The Chairman of the Board, Mr. Saleh Naser Al-Selmi is associated with the Company and serving as the Chairman of the Board since 2020. He holds an overall experience of more than four decades. All other Board members possess diversified professional background and rich business acumen. They have served at leading positions locally and internationally throughout their professional career.

**Board Effectiveness** During 6MCY23, the Board met twice. The Board is assisted by three committees; Investment Committee, Ethics, Human Resource & Remuneration and Human Audit Committee. All committees are chaired by Non-Executive Directors and meet on regular basis. Minutes are adequately maintained.

**Financial Transparency** External Auditors M/S. KPMG Taseer Hadi & Co. Chartered Accountants has issued an unqualified audit report pertaining to the financial statements for CY22. The Company has outsourced internal audit function from M/S. BDO & Co. Chartered Accountants that reports independently to its respective BoD Committee. Both the firms are QCR rated and on SBP's panel in category "A"

## Management

**Organizational Structure** The Company has a defined organizational structure. The Company operates through twelve departments; i) Information Technology, ii) Finance, iii) Human Resource iv) Administration, and v) Marketing vi) Compliance, vii) Customer services, viii) Underwriting, ix) Actuarial services, x) Sales, xi) Operations, xi) Training & Development and xii) Corporate Solutions. All the Heads of respective departments directly report to the CEO, who then reports to the BoD.

**Management Team** Mr. Nasar us Samad Qureshi is serving as the CEO (Chief Executive Officer) and associated with the Company since inception of the Company. He holds an overall experience of more than four decades. Mr. Awais Hanif serves as the Chief Financial Officer (CFO) of the Company since 2022. He holds an overall professional experience of more than ten years. He is assisted by a team of professionals.

**Effectiveness** The Company has three management committees namely; (i) Underwriting & Re-takaful Committee, (ii) Claim Settlement Committee and (iii) Risk Management Committee. All the committees comprise three members and are headed by the CEO of the Company. These committees meet on quarterly basis and minutes are adequately maintained.

**Claim Management System** System The Company has formal claims matrix as all the claims require approval from the CFO and CEO respectively.

**Investment Management Function** The Company has outsourced its investment management function to Al-Meezan Investment Management Limited, standing as the first and largest Shariah-Compliant Asset Manager in Pakistan. Al-Meezan Investment Management Limited is rated by PACRA (AM1).

**Risk Management Framework** The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The system and policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

## Business Risk

**Industry Dynamics** Life Insurance market is dominated by public sector company (~61% share as of Jun-23). While, the private sector holds only ~39% of the market share. Gross Premium (GPW) of the industry stood at PKR ~203bln during 6MCY23 (6MCY22: PKR~175bln), showing a YoY growth of ~16%. GPW is bifurcation i.e., between regular premium products (1st year premium, second year renewal premium and subsequent year renewal premium), single premium products and group life policies. ~45% of the total premium pertains to renewal premium products, and is followed by premium booked under the category of group life without cash values at ~41% during Jun-23. Net Premium stood at PKR~ 199bln during 6MCY23 (6MCY22: PKR~171bln); showing a YoY increase of ~16%. On the claims end, Net Claims stood at PKR ~179bln during 6MCY23 as compared to PKR ~122bln during 6MCY22. The total investment book of the insurance industry stood at PKR ~2,336bln during 6MCY23 (6MCY22: PKR ~2,009bln). Going forward, the overall outlook of the industry remains stable.

**Relative Position** The Company operates as a small player and holds a market share of ~0.03% in terms of Gross Premium Written (GPW).

**Persistency** During 6MCY23, the persistency clocked at ~90%, owing to retained contribution form group premium.

**Revenue** The Company generates the revenue primarily from sale of flagship product i.e., Hajj and Umrah saving plans. The Company started its operations during CY22 and recorded total contribution of ~PKR 53mln. However, during 6MCY23, the total contribution stood at ~PKR 51mln, mainly emanating from group premiums.

**Profitability** During CY22, the underwriting results of the Company reported at ~PKR 22mln. In line with the inception of the operations, the Company recorded net loss of ~PKR 86mln, owing to higher management expenses and adequate investment income. However, the Company recorded net profit of ~PKR 6mln during CY21, due to controlled expenses. During 6MCY23, the underwriting results of the Company stood at ~PKR 23mln. The Company followed the similar trend and recorded a net loss of ~PKR 38mln as compared to loss of ~PKR 28mln during 6MCY22, showing an improvement of ~40% to reduce the loss gradually.

**Investment Performance** During CY22, the investment income of the Company increased ~6% and stood at ~PKR 56mln (CY21: ~PKR 53mln). During 6MCY23, the investment income of the Company stood at ~PKR 32mln (6MCY22: ~PKR 25mln), witnessing an increase of ~28%. The increase is mainly due to higher returns on government securities.

**Sustainability** Going forward, the Company is planning add value through process automation and also offering various saving plans including; Children Education, Marriage Saving, Retirement and Pension Plans.

## Financial Risk

**Claim Efficiency** As of CY22, the Company reported outstanding claims of ~PKR 9mln. As of 6MCY23, outstanding claims reported at ~PKR 23mln, however no claims were reported in the previous periods.

**Re-Insurance** The Company has re-takaful arrangements with international re-takaful provider "Hannover Re" (rated "AA-" by S&P).

**Cashflows & Coverages** As of CY22, the liquidity of the Company stood at 26.5x. Liquid assets of the Company decreased ~28% and reported at ~PKR 482mln (CY21: ~PKR 674mln). Liquid investment to outstanding claims stood at 54x, depicts strong coverage. As of 6MCY23, the liquidity of the Company stood at 23.5x and the liquid assets recorded at ~PKR 1.7bln (6MCY22: ~PKR 0.6bln), showing an increase of ~204%. Liquid investment to outstanding claims stood at 75x, indicating strong coverage.

**Capital Adequacy** As of CY22, the equity decreased ~14% and recorded at ~PKR 594mln (CY21: ~PKR 688mln). However, as of 6MCY23, due to equity injection of ~PKR 2bln, the equity base surged and stood at ~PKR 1.8bln (6MCY22: ~PKR 0.6bln).



PKR mln

**5th Pillar Family Takaful Limited**  
Private Limited Company

Jun-23	Dec-22	Jun-22	Dec-21
6M	12M	6M	12M

**A BALANCE SHEET**

1 Investments	1,745	482	566	674
2 Insurance Related Assets	7	31	-	-
3 Other Assets	73	43	18	21
4 Fixed Assets	241	194	169	0
<b>Total Assets</b>	<b>2,065</b>	<b>749</b>	<b>753</b>	<b>696</b>
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	76	53	-	-
7 Other Liabilities	35	25	9	8
8 Borrowings	99	78	88	-
<b>Total Liabilities</b>	<b>210</b>	<b>155</b>	<b>97</b>	<b>8</b>
<b>Equity</b>	<b>1,855</b>	<b>594</b>	<b>657</b>	<b>688</b>

**B INCOME STATEMENT**

1 Gross Premium Written	51	53	-	-
2 Net Insurance Premium	23	22	-	-
3 Underwriting Expenses	-	-	-	-
<b>Underwriting Results</b>	<b>23</b>	<b>22</b>	<b>-</b>	<b>-</b>
4 Management Expenses	(158)	(156)	(50)	(43)
5 Investment Income	32	56	25	53
6 Other Income / (Expense)	61	0	(1)	10
7 Net Change in Reserve for Policyholders' Liabilities	-	-	-	-
<b>Profit Before Tax</b>	<b>(42)</b>	<b>(78)</b>	<b>(25)</b>	<b>21</b>
8 Taxes	3	(8)	(3)	(15)
<b>Profit After Tax</b>	<b>(38)</b>	<b>(86)</b>	<b>(28)</b>	<b>6</b>

**C RATIO ANALYSIS**

**1 Profitability**

Loss Ratio (Net Insurance Claims / Net Insurance Premium )  
Combined Ratio (Loss Ratio + Expense Ratio)

0.0%	0.0%	N/A	N/A
674.6%	715.1%	N/A	N/A

**2 Investment Performance**

Investment Income / Operating Profit

-31.6%	-72.5%	-103.8%	498.8%
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**3 Liquidity**

(Liquid Assets - Borrowings) / Outstanding Claims

69.31	47.36	N/A	N/A
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**4 Capital Adequacy**

Liquid Investments / Equity

0.94	0.81	0.86	0.98
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### Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
<b>AAA (ifs)</b>	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders 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++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
<b>D (ifs)</b>	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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

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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)

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- (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 | Clause 11-(A)(p).
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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)

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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