



The Pakistan Credit Rating Agency Limited

PAKQATAR FAMILY TAKAFUL LIMITED (PQFTL)

IFS RATING REPORT

	INITIAL [AUG-16]	REPORT CONTENTS
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AUGUST 2016

Profile & Ownership

- PakQatar Family Takaful (PQFTL), an unquoted public company, started its operations in Aug-07
- Engaged in Islamic life insurance in the country, the company operates through a network of 43 branches and have bancatakaful arrangements with 14 banks
- Major shareholding in the hands of (i) H.E. Sheikh Ali Bin Abdullah Al-Thani - belongs to Qatar's Royal Family (7%), (ii) Three Qatar based Financial Institutions (35%), and (iii) Mr. Said Gul & Family (38%). Other Stakeholder (15%) and technical partner is FWU AG, a German based firm having operations in Europe and Middle East, maintains permanent establishment in Pakistan - by virtue of this technical arrangement
- Mr. Gul residing in Qatar, is among the main sponsor of the company
- Sponsors also own majority stake in Pak-Qatar General Takaful

Governance & Management

- Seven-member board including the Managing Director Mr. Said Gul, associated with the company since inception
- Chairman, H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali), has holding in PQFTL and in Qatar's Financial Institutions'. Each financial institution has separate nominee director on the board of PQFTL, while Mr. Said Gul represents himself and FWU AG has one representation on the board
- Mr. Nasir Ali Syed, the CEO of the company since 2012, carries more than two decades of experience in the life insurance industry

Business Risk

- Bancatakaful - front end with FWU - contributes 54% to the topline
- Gross Contribution (GC) grew by 32% in CY15; enabling to sustain market share at 4% (including public sector)
- First year persistency clocks in at (CY15: 72%), though improved YoY, lags behind peers, while second year persistency stood at (CY15: 88%)
- Combined surplus (statutory fund and shareholders fund) of PKR 315mln increased noticeably by 127%, reflecting positively on business risk profile
- The investment income, mainly coming from bank deposits, significantly improved (statutory funds: 16%, shareholders' funds: 7%)

Business Strategy

- Envisages aggressive business growth targets while focus on profitability enhanced
- To improve persistency, various marketing techniques formulated, thereby increasing client retention
- Enhanced focus on in-house developed bancatakaful, meanwhile set high growth targets of FWU-bancatakaful, going forward
- Expanding through alternate distribution channels, through telecommunication companies, web-based selling, and tablets; however, the success in terms of volume remains to be seen

Financial Risk

- Shareholders Fund (SHF) has continued to remain in net deficit of PKR 114mln, though significantly reduced YoY
- SHF's financial profile is supported by high liquid investments (PKR 477mln) representing 80% of the equity base; the investment yield outperformed its benchmark rate in CY15
- The statutory fund's (SF) retained reserve is in surplus of PKR 417mln, whereas, SHF is in net deficit; out of which Qard-e-Hasna clocks in at PKR 63mln
- SF's investments provide an adequate cushion to technical reserves
- Reinsurance agreements, covering larger risks than peers, with Munich Re (rated 'AA-' by S&P) and Hannover Re (rated 'AA-' by S&P)

RATING RATIONALE

The rating reflects sustained market position of the company, having decent foothold in bancatakaful. In this segment, the company benefits from technical collaboration with FWU AG. The technical collaboration allows PakQatar Family to use FWU's Sales and Administration System, customized Banca product (mutually developed) - backed by strong reinsurance arrangements and FWU's services for acquiring the distribution partner. The growth pattern, though high, is behind large players in recent years. Moreover, after having established branch network, PakQatar Family is gradually expanding wings through alternate distribution networks; wherein the success remains to be seen. Meanwhile, competition from window takaful should be managed well. The profitability of the company has remained strong as compared to peers, reflecting strong business profile. The Financial risk profile is supported by adequate liquidity coverage to policyholders' liabilities, which is further topped up by a cushion from liquid investments of the shareholders' fund.

KEY RATING DRIVERS

The rating is dependent upon company's ability to improve its market share while improving the persistency of Gross Contribution. Product diversification in non-banca segments should be translated into sizeable volumes. The continued profitability would enable the company to completely return Qarz-e-Hasna to the shareholders' funds, thereby making the statutory funds - health - self-subsistent fully.

INDUSTRY SNAPSHOT

Pakistan's life sector continues to remain dominated by a single state owned life insurer, while eight private sector companies hold 37% of the market share; they have taken significant growth in recent years due to bancassurance. The contribution of Family Takaful is small (4.6%). With advent of window takaful, the Family Takaful is expected to take growth, however, raising competition. The penetration in terms of insurable lives is moderate, implying further growth potential. The sector faces challenges due to lack of awareness, low disposable income of the masses, and developing stage of the sector itself.



The Pakistan Credit Rating Agency Limited

**Family Takaful
Financials [Summary]**

Pak Qatar Family Takaful Limited

	<i>PKR mln</i>		
	31-Dec-15	31-Dec-14	31-Dec-13
BALANCE SHEET			
Investments			
Liquid Investments	11,171	7,810	5,593
Insurance Related Assets	548	409	279
Other Assets	379	373	317
TOTAL ASSETS (SHF + PTF)	12,099	8,593	6,189
Equity	597	440	445
Balance of Takaful Statutory Funds	10,897	7,675	5,396
Insurance Related Liabilities	434	309	201
Other Liabilities	171	169	147
TOTAL EQUITY & LIABILITIES (SHF + PTF)	12,099	8,593	6,189
INCOME STATEMENT			
REVENUE ACCOUNT			
Gross Contribution Written (GC)	6,721	5,077	4,461
Participants Investment Fund (PIF)	(3,733)	(2,576)	(2,246)
Retakaful Expense	(366)	(292)	(222)
Wakala Fee	(1,704)	(1,503)	(1,407)
Net Claims	(580)	(412)	(301)
Operating Income/(Expenses)	(122)	(136)	(121)
Investment Income	24	21	14
Technical reserves incurred during the year	(57)	(96)	(76)
Surplus Before Distribution	181	83	102
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)			
Profit/(Loss) before Tax	(58)	(39)	(69)
RATIO ANALYSIS			
Underwriting Results			
Claims Ratio - PTF	63%	58%	51%
Combined Ratio	83%	91%	85%
Performance			
Operating Ratio	82%	90%	84%
Investment Yield (SHF + PTF+PIF)	8%	10%	15%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.1	1.1

Pak Qatar Family Takaful Limited

Aug-16

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. Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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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Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Pak Qatar Family Takaful Company
 Life Insurance and Family Takaful
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
9-Aug-16	A	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Life Insurance and Family Takaful Viewpoint | Mar-16

Rating Analysts

Muneeb Rashid Amara S. Gondal
muneeb.rashid@pacra.com amara.gondal@pacra.com
 (92-42-35869504) (92-42-35869504)

[Rating Team Statement](#)

Rating Procedure

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

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