



The Pakistan Credit Rating Agency Limited

PAK-QATAR GENERAL TAKAFUL LIMITED

(PAK-QATAR)

IFS RATING REPORT

	NEW [FEB-17]	PREVIOUS [FEB-16]
Insurer Financial Strength (IFS) Rating	A	A
Outlook	Stable	Stable

Profile & Ownership

- Pak-Qatar General Takaful Limited (PQTL) started operations in 2007
- H.E. Sheikh Ali bin Abdullah Al-Thani – member of Qatar's Royal Family – is the significant shareholder with 53% stake in PQTL; majorly through Qatar state owned financial institutions
- The other major sponsor is Mr. Said Gul, with 37% stake
- These sponsors also own majority stake in Pak-Qatar Family Takaful

Governance and Management

- A seven-member board; chaired by H.E. Sheikh al-Thani
- Majority of board members are executives of sponsoring financial institutions and associated with the company since inception
- Mr. Said Gul is Managing Director, a Qatar based Entrepreneur, though Pakistani national
- Mr. Javed muslim is CEO, he carries insurance related experience of over two decades and joined PQTL in 2015
- The management team comprises experienced professionals

Business Risk

- GPW portfolio dominated by motor segment (56%), followed by fire (26%), miscellaneous (12%) and marine (6%)
- Holds market share of 1% at end Sep 16
- Completely shed off health portfolio (CY16: nil, CY15: PKR 4mln, CY14: PKR 290mln); part of strategy to avert huge losses
- Motor segment declined by 29% facing tough competition from window takaful, lately allowed to conventional insurers
- Non-motor segments increased massively by 55%, diversifying into large corporates through coinsurance and SME sector in direct
- Loss ratio significantly improved to 52% (CY15: 63%) showing remarkable improvement in fire, marine and miscellaneous
- Consolidated underwriting loss reduced by 46% to PKR 12mln (PTF: surplus PKR 8mln, SHF: loss PKR 20mln) in CY16, furthermore, excluding one off losses in health, underwriting results improve to a profit PKR 7mln
- Combined ratio clocked in at 102%, however, adjusted with health, improves to 99%
- Stable stream of investment income, mostly from bank deposits and fixed income mutual funds, enabling an operating ratio (PTF+SHF) of 99%

Business Strategy

- Going forward, envisages prudent growth strategy
- Bottomline centric approach to continue, improving profitability
- Continued focus on rationalizing segment mix with focus on non-motor
- Envisages tapping non-conventional avenues; capitalizing sales network; Product innovation also on cards; Bank enlistments
- Window takaful by conventional insurers will continue posing challenge

Financial Risk

- Liquid investments (Dec16: PKR 404mln) represents 98% of its equity base Sound liquidity position, providing 2 times cushion to gross outstanding claims at end-Sep16, though decreased from 2.7 times at Sep15
- Compliant with SECP's requirements for solvency at end-Dec16 with a margin of PKR 38mln
- Increase in premium receivable days (CY16: 203, CY15: 120, CY14: 138) is because of more business is written in 3Q with banks and corporates in line with credit policy; aging analysis showing comfortable results
- Claim outstanding by more than one year constitutes 41% of total claims ; warranting management attention (Days 9M16: 180, 9M15: 89)
- Strong reinsurance arrangements with reputed international reinsurers rated A- and BBB+. Going forward, with strengthening of HR in reinsurance department, management expects to improve panel of reinsurers

RATING RATIONALE

PakQatar - being an early entrant in Islamic insurance (takaful); both general and life - has achieved good brand recognition. This gives strength to PQTL's business profile. The rating, in addition to this, reflects sound risk absorption capacity of the company. Capital injections over recent period have augmented this. Notably, the management follows a conservative stance (high liquidity, low risk philosophy) for its investment book. Hence, stable, though relatively low, investment income supplements profits. The management has made concerted efforts to establish PQTL's business positioning; the efforts need to continue in the wake of intensive competition from window takaful. The business plan is gradual penetration into non-motor avenues, after shedding off health to group's family takaful company. Recent engagements in the top management, having exposure to the insurance industry, has benefitted PQTL. Association of the company with Qatar-based investors is also a consideration.

KEY RATING DRIVERS

The rating is dependent on the management's ability to cohesively execute the business plan; herein, improvement in market share and underwriting profitability is also important. Meanwhile, prudent management of premium receivables from corporate customers is essential. Furthermore, implementation of real time IT infrastructure along with recently upgraded MIS should, among others, strengthen the claims management system.

INDUSTRY

General Takaful, completing its tenth year in Pakistan, has achieved sizable growth in Gross Contribution (GPW) during 2016; though system share is currently ~7% in the overall general insurance pie of the country. Traditionally comprising few dedicated takaful operators, the industry is expected to grow fast with the advent of large conventional insurers commencing window takaful operations. Simultaneously, the competition has stiffened for dedicated takaful operators. Predominant portion of GPW portfolio comes from motor segment (~78%). Limited re-takaful options and restrictions on Shariah compliant investment avenues is a challenge.

PakQatar General Takaful Limited (PQTL)

	<i>PKR mln</i>		
	30-Sep-16	31-Dec-15	31-Dec-14
BALANCE SHEET*			
Investments			
Liquid Investments	428	484	443
Insurance Related Assets	543	263	477
Other Assets	246	156	196
TOTAL ASSETS	1,217	903	1,115
Equity (SHF)	448	403	471
Waqf / Participants' Takaful Fund (PTF)	1	1	(148)
Underwriting Provisions	247	233	318
Insurance Related Liabilities	331	210	343
Other Liabilities	190	63	131
TOTAL EQUITY & LIABILITIES	1,217	910	1,115
Profit and Loss Account (Participants' Takaful Fund / PTF)			
Gross Contribution Written (GPW)	551	0	0
Net Contribution Revenue	181	-	-
Net Claims	(200)	-	9
Net (Expenses) / Income	-	-	-
Net Investment Income	1	-	-
Surplus / (Deficit)	(18)	-	9
Profit and Loss Account (Shareholders' Fund / SHF)			
Wakala Income	234	272	345
Commission & Operational Expenses	(220)	(295)	(350)
Investment Income	18	27	37
Profit Before Tax	32	3	32
RATIO ANALYSIS*			
Underwriting Results			
Loss Ratio	48%	63%	64%
Combined Ratio	88%	125%	118%
Performance			
Operating Ratio	84%	119%	116%
Liquidity & Solvency			
Liquidity Ratio – times	2.0	4.3	1.9

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund



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.

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Name of Issuer
Sector
Type of Relationship

PakQatar general Takaful Company
 Insurance - General
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
28-Feb-17	A	Stable	Maintain
29-Feb-16	A	Stable	Maintain
19-Mar-15	A	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Insurance | General - View Point | Nov 16

Rating Analysts

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[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](#)

Rating Shopping

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

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Surveillance

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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

Reporting of Misconduct

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 and SECP

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

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