



The Pakistan Credit Rating Agency Limited

DAWOOD FAMILY TAKAFUL LIMITED (DFTL)

IFS RATING REPORT

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

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

MARCH 2017

<p><u>Profile & Ownership</u></p> <ul style="list-style-type: none"> DFTL, an unlisted Shariah-compliant Life Insurer, commenced operations beginning 2009 Operates through a branch network of 41 branches DFTL is majorly owned by Dawood Group holding 43% stake, followed by the Bank of Khyber (15%), and GulfCap (8%) <p><u>Governance & Management</u></p> <ul style="list-style-type: none"> Seven member board, including the CEO Major representation of Dawood Group (three members), and rest of BoK (one member), two independent directors and CEO Chairman of the board, Mr. Rizwan-ul-Haque, holds senior position at associated bank Executive role held by Mr. Rafique Dawood at DFTL board; Chairman at other FDG companies Mr. Nasir Mahmood, the CEO of DFTL since Mar14, previously headed the sales function Team of professionals assists the CEO <p><u>Business Risk</u></p> <ul style="list-style-type: none"> Gross Contributions (GC) predominantly come from unit-linked products (96%), rest in group (4%) During CY16, DFTL's GC (PKR 1,178mln) rose by 13%, enabling it to sustain its market share of 1% Persistency in renewable GC increased to 65% (CY15: 63%); comparable with peers PTF's performance improved with operating ratio of 88% (CY15: 90%), reporting the surplus to PKR 62mln (CY15: PKR 50mln) PIF's claims ratio (surrenders/withdrawals) reported 29% (CY15: 21%) Company has achieved break even in CY16 with profit & loss account reporting a net profit of PKR 3mln <p><u>Business Strategy</u></p> <ul style="list-style-type: none"> Aggressive growth strategy, in line with industry's growth potential Expanding footprints through Bancatakaful on the cards Focus on profitability continued Penetration into retail segment through Bancatakaful remains to be seen <p><u>Financial Risk</u></p> <ul style="list-style-type: none"> DFTL has maintained surplus over its technical reserves, which is expected to insulate the company from any unfavorable movement in its assets, going forward The liquid assets, excluding tied up sukuks, provide 1.1 times coverage to policyholders' liabilities Sizeable investment book (CY16: PKR 2,604mln) predominantly classified under Statutory funds (92%); conservatively deployed in bank deposits (65%), equities (21%), government securities (3%) and debt securities (11%) Investment book of SHF (CY16: PKR 207mln) is deployed in sukuks (25%) and bank deposits (73%); sukuk portfolio is tied up investments in group companies - repayments being received as per restructured terms Reinsurance agreements with Hannover Re (rated 'A' by S&P) and Munich Re (rated 'AA-' by S&P; moderate cessation 	RATING RATIONALE
	<p>The rating denotes strong capacity of the company to meet policyholder and contractual obligations. The rating reflects DFTL's ability to continue capturing takaful volumes, though this is enough only to sustain market share (~1% in 2016). This is helping the company in gradually bridging the gap towards operational break-even. However, it requires continued business expansion and maintained efficiency. Herein, the company is eyeing bancassurance as an important source of contribution. The Takaful Fund (PTF) combined with Shareholders' Fund (SHF) amount to an aggregate surplus at end-Dec16. A sound IT infrastructure provides support to the operational efficacy of DFTL. The company has adequate risk absorption capacity. However, investment book of shareholders' fund still has a proportion of non-performing sukuk investments; some of them are being repaid at agreed restructured terms.</p>
	KEY RATING DRIVERS
	<p>The rating is dependent upon continued improvement in surplus in takaful fund, sustained liquidity position, and nurturing of recently achieved core profitability. At the same time, upholding strong governance practices is critical. The sponsors financial profile was relatively stretched, which is now improving.</p>
INDUSTRY SNAPSHOT	
<p>Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector growth (6%). Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover, targeting niche market. Investment portfolios of life insurers are highly skewed towards government securities (primarily PIBs). Interest rate cuts brought revaluation gains augmenting bottom-line.</p>	



**Family Takaful
Financials [Summary]**

Dawood Family Takaful Limited

PKR mln

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	2,604	2,002	1,281
Others (Sukuk - non-liquid)	-	-	172
	2,604	2,002	1,453
Insurance Related Assets	47	57	36
Other Assets	346	240	252
TOTAL ASSETS (SHF + PTF)	2,996	2,299	1,741
Equity	375	393	447
Balance of Takaful Statutory Funds	2,484	1,749	1,155
Insurance Related Liabilities	84	82	58
Other Liabilities	95	75	81
TOTAL EQUITY & LIABILITIES (SHF + PTF)	3,038	2,299	1,741
INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
REVENUE ACCOUNT			
Gross Contribution Written (GC)	1,178	1,040	837
Participants Investment Fund (PIF)	(574)	(475)	(316)
Retakaful Expense	(46)	(49)	(45)
Wakala Fee	(352)	(328)	(325)
Net Claims	(32)	(31)	(29)
Operating Income/(Expenses)	4	8	4
Investment Income	44	28	22
Technical reserves incurred during the year	(160)	(141)	(98)
Surplus Before Distribution	62	50	50
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)			
Profit/(Loss) before Tax	3	(38)	(39)
RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	6%	6%	6%
Combined Ratio	97%	96%	94%
Performance			
Operating Ratio	89%	90%	89%
Investment Yield (SHF + PTF)	10%	7%	9%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.2	1.2

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

Dawood Family Takaful Limited

Mar-17

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.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Issuer
Sector
Type of Relationship

Dawood Family Takaful
 Insurance - Life
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
30-Mar-17	A-	Stable	Maintain
31-Mar-16	A-	Stable	Maintain
31-Mar-15	A-	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Insurance | Life & Family Takaful- View Point | April 16

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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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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer. 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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