



The Pakistan Credit Rating Agency Limited

PAK QATAR FAMILY TAKAFUL LIMITED (PQFTL)

IFS RATING REPORT

	PREVIOUS [AUG-16]	CURRENT [MAY-17]
Insurer Financial Strength (IFS) Rating	A	A
Outlook	Stable	Positive

May 2017

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 45 branches and have bancatakaful arrangements with 13 banks.
- Major shareholding in the hands of (i) H.E. Sheikh Ali Bin Abdullah Al-Thani - belongs to Qatar's Royal Family (6%), (ii) Three Qatar based Financial Institutions (36%), and (iii) Pak Qatar Investment Private Limited (38%). Technical partner is FWU AG (15%), a German based firm having operations in Europe and Middle East, maintains permanent establishment in Pakistan - by virtue of this technical arrangement.
- Sponsors except FWU AG, 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, FWU AG also have one representation on the board. [Mr. Said Gul represents himself through Pak Qatar Investment (Private) Limited.]
- Mr. Nasir Ali Syed, the CEO of the company since 2012, carries more than two decades of experience in the life insurance industry.
- Mr. Ali Adbullah Darwesh retired on completion of his 3 years term at AGM of 2016 and Mr. Furrugh Viqaruddin Junaidy appointed as independent director for 3 years term at the AGM.

Business Risk

- Bancatakaful - front end with FWU - contributes 52% to the topline
- Gross Contribution (GC) grew by 11% in CY16; enabling to sustain market share at 4% (including public sector)
- First year persistency clocks in at CY16: 67% (CY15:71%), while second year persistency stood at CY16: 89% (CY15:87%).
- The investment income, mainly coming from TDR's, Sukuks and unrealized gain on revaluation of available for sale investments (statutory funds: 10%, shareholders' funds: 8%)

Business Strategy

- Envisages continuing business growth targets while focus on profitability.
- Share Capital of the company be increased by Rs. 35.5mln and Rs. 248.7mln equivalent to 5% and 35% of existing share capital, through the issue of bonus shares and right shares respectively. Current paid up capital is PKR. 710mln and after this net equity will be in excess of PKR 1bln.
- Expanding through alternate distribution channels, through introducing a new app that will be completed by 3rd quarter.

Financial Risk

- Shareholders Fund (SHF) has converted in accumulated surplus of PKR 71mln in CY16 from net deficit of PKR 114mln in CY15.
- SHF's financial profile is supported by high liquid investments (PKR 622mln) representing 80% of the equity base.
- 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), Hannover Retakaful and Hannover Re (rated 'AA-' by S&P).
- Equity injection (Rs 248.7mln) will strengthen Pak Qatar's financial profile.

RATING RATIONALE

The rating reflects sustained market position of the company, having decent foothold in takaful industry. The company has gained momentum in terms of business expansion. The company benefits from its brand as being the dedicated takaful company having significant size. Pak Qatar family's financial position has strengthened, given profitability, enabling reversal of Qard e Hasna. 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 has been strengthened based on fresh injection (Rs. 248.7mln). Pak Qatar Family Takaful has strong liquidity coverage to policyholder's liabilities, which is further topped up by a cushion from liquid investments of the shareholder's fund.

KEY RATING DRIVERS

The 'positive outlook' captures the 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 with enhanced profitability.

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate cuts brought revaluation gains, investment would be at lower returns.



Pak Qatar Family Takaful Limited

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
Investments			
Liquid Investments	14,669	11,171	7,810
Insurance Related Assets	624	548	409
Other Assets	1,107	379	373
TOTAL ASSETS (SHF + PTF)	16,400	12,099	8,593
Equity	782	597	440
Balance of Takaful Statutory Funds	14,880	10,897	7,675
Insurance Related Liabilities	464	434	309
Other Liabilities	274	171	169
TOTAL EQUITY & LIABILITIES (SHF + PTF)	16,400	12,099	8,593

INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
REVENUE ACCOUNT			
Gross Contribution Written (GC)	7,494	6,721	5,077
Participants Investment Fund (PIF)	(4,316)	(3,733)	(2,576)
Retakaful Expense	(392)	(366)	(292)
Wakala Fee	(1,470)	(1,704)	(1,503)
Net Claims	(896)	(580)	(412)
Operating Income/(Expenses)	(223)	(122)	(136)
Investment Income	23	24	21
Technical reserves incurred during the year	(101)	(57) #	(96)
Surplus Before Distribution	118	181	83
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)			
Profit/(Loss) before Tax	166	134	56

RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Claims Ratio - PTF	68%	63%	58%
Combined Ratio	93%	83%	91%
Performance			
Operating Ratio	92%	82%	90%
Investment Yield (SHF + PTF+PIF)	10%	8%	10%
Liquidity & Solvency			
Liquidity Ratio – times	1.0	1.1	1.1

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
22-Jun-17	A	Positive	Maintain
9-Aug-16	A	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Life Insurance and Family Takaful Viewpoint | April-17

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[Rating Team Statement](#)

Rating Procedure

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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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