



The Pakistan Credit Rating Agency Limited

PAK QATAR FAMILY TAKAFUL LIMITED

IFS RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Insurer Financial Strength (IFS) Rating	A	A
Outlook	Positive	Positive

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DECEMBER 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 56 branches.
- Major shareholding in the hands of (i) H.E. Sheikh Ali Bin Abdullah Al-Thani - belongs to Qatar's Royal Family (10%), (ii) Three Qatar based Financial Institutions (31%), and (iii) Pak Qatar Investment Private Limited (28%). 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.

Business Risk

- Gross Contribution (GC) grew by 12% in 1HCY17; enabling to sustain market share at 4% (including public sector)
- First year persistency clocks in at 1HCY17: 73% (1HCY16:71%), while second year persistency stood at 1HCY17: 85% (1HCY16:91%).
- The net investment income decreased (1HCY17: PKR 9mln, 1HCY16: PKR 22mln), mainly on the account of loss on disposal of investment.
- Subsequently, the company witnessed a reduced profit after tax of PKR 5mln (1HCY16: PKR 20mln)

Business Strategy

- Envisages continuing business growth targets while focus on profitability.
- Increased focus on facilitating its customers, through new app 'Elaaj'.
- Focus on increasing business through its own sales force.

Financial Risk

- The financial risk profile has been strengthened based on fresh injection (PKR 248.7mln).
- The net shareholders equity has been increased to PKR 1,060mln which includes paid up capital of PKR 995mln, thereby comfortably complying with the minimum capital requirement as mandated by SECP.
- SHF's financial profile is supported by high liquid investments (PKR 16.5bln) representing 93% of the total asset base.
- The liquid investments comprise cash and bank deposits (35%), government securities (13%), equities (37%) and debt securities (15%).
- SF's investments provide an adequate cushion to technical reserves.
- The company manages six funds under its portfolio i.e. Aggressive, Balanced, Conservative, Secure Wealth fund, Banca growth and Banca conservative funds.
- 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).

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. 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	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
Investments				
Liquid Investments	16,520	14,669	11,171	7,810
Insurance Related Assets	619	624	548	409
Other Assets	604	1,107	379	373
TOTAL ASSETS (SHF + PTF)	17,743	16,400	12,099	8,593
Equity	1,060	782	597	440
Balance of Takaful Statutory Funds	15,942	14,880	10,897	7,675
Insurance Related Liabilities	515	464	434	309
Other Liabilities	226	274	171	169
TOTAL EQUITY & LIABILITIES (SHF + PTF)	17,743	16,400	12,099	8,593
INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
REVENUE ACCOUNT				
Gross Contribution Written (GC)	3,910	7,494	6,721	5,077
Participants Investment Fund (PIF)	(2,465)	(4,316)	(3,733)	(2,576)
Retakaful Expense	(163)	(392)	(366)	(292)
Wakala Fee	(594)	(1,470)	(1,704)	(1,503)
Net Claims	(537)	(896)	(580)	(412)
Operating Income/(Expenses)	(197)	(223)	(122)	(136)
Investment Income	10	23	24	21
Technical reserves incurred during the year	50	(101)	(57) #	(96)
Surplus Before Distribution	14	118	181	83
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	19	166	134	56
RATIO ANALYSIS	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Claims Ratio - PTF	78%	68%	63%	58%
Combined Ratio	99%	93%	83%	91%
Performance				
Operating Ratio	99%	92%	82%	90%
Investment Yield (SHF + PTF+PIF)	1%	10%	8%	10%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.0	1.1	1.1



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. 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.

<p>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'.</p>	<p>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.</p>	<p>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 6 (six) months, the rating should be considered withdrawn.</p>	<p>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.</p>
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Name of Issuer Pak Qatar Family Takaful Company
Sector Life Insurance and Family Takaful
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	IFS Rating	Outlook	Action
06-Dec-17	A	Positive	Maintain
23-Jun-17	A	Positive	Maintain
09-Aug-16	A	Stable	Maintain

Related Criteria and Research

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

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[Rating Team Statement](#)

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

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