



The Pakistan Credit Rating Agency Limited

# DAWOOD FAMILY TAKAFUL LIMITED (DFTL)

## IFS RATING REPORT

	NEW [NOV-17]	PREVIOUS [MAR-17]
Insurer Financial Strength (IFS) Rating	A-	A-
<b>Outlook</b>	Stable	Stable

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

NOVEMBER 2017

## **Profile & Ownership**

- DFTL, an unlisted Shariah-compliant Life Insurer, commenced operations beginning 2009.
- Operates through a branch network of 42 branches.
- DFTL is majorly owned by Dawood Group holding 43% stake, followed by the Bank of Khyber (15%), GulfCap and The Nazir High Court of Sindh Karachi (8%).

## **Governance & Management**

- 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.

## **Business Risk**

- Gross Contributions (GC) predominantly come from unit-linked products (97%) while the remaining attributed to group (3%).
- DFTL's GC stood at PKR 890mln (CY16: 1,78mln), enabling it to sustain its market share of 1%.
- Persistency in renewable GC stood at 58% (CY16: 66%); comparable with peers.
- PTF's operating ratio reduced to 87% (CY16: 89%), on the account of decreased combined ratio (9MCY17: 92%, CY16: 97%).
- PTF witnessed a surplus of PKR 43mln (CY16: PKR 62mln).
- PIF's claims ratio (surrenders/withdrawals) remained decreased to 27% (CY16: 29%).
- Company reported a net loss of PKR 22mln. (CY16: PKR 3mln profit). The net loss was mostly attributed to decreased wakala fee. (9MCY17: PKR 241mln, CY16: PKR 376mln).

## **Business Strategy**

- 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.

## **Financial Risk**

- 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 (9MCY17: PKR 3,081mln, CY16: PKR 2,604mln) predominantly classified under Statutory funds; conservatively deployed in bank deposits (54%), equities (27%), government securities (3%) and debt securities (16%).
- Investment book of SHF (9MCY17: PKR 181mln) is deployed in sukuks (27%) and bank deposits (66%); 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**

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 2017). 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. 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.

## **KEY RATING DRIVERS**

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.

## **INDUSTRY SNAPSHOT**

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.



**Family Takaful  
Financials [Summary]**

**Dawood Family Takaful Limited**

*PKR mln*

	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
<b>BALANCE SHEET</b>				
<b>Investments</b>				
Liquid Investments	3,081	2,647	2,002	1,281
Others (Sukuk - non-liquid)	-	-	-	172
	<b>3,081</b>	<b>2,647</b>	<b>2,002</b>	<b>1,453</b>
Insurance Related Assets	55	47	57	36
Other Assets	242	360	240	252
<b>TOTAL ASSETS (SHF + PTF)</b>	<b>3,379</b>	<b>3,054</b>	<b>2,299</b>	<b>1,741</b>
Equity	349	394	393	447
Balance of Takaful Statutory Funds	2,864	2,481	1,749	1,155
Insurance Related Liabilities	68	84	82	58
Other Liabilities	98	95	75	81
<b>TOTAL EQUITY &amp; LIABILITIES (SHF + PTF)</b>	<b>3,379</b>	<b>3,054</b>	<b>2,299</b>	<b>1,741</b>
<b>INCOME STATEMENT</b>				
	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
<b>REVENUE ACCOUNT</b>				
Gross Contribution Written (GC)	890	1,178	1,040	837
Participants Investment Fund (PIF)	(525)	(574)	(475)	(316)
Retakaful Expense	(33)	(46)	(49)	(45)
Wakala Fee	(219)	(352)	(328)	(325)
Net Claims	(31)	(32)	(31)	(29)
Operating Income/(Expenses)	59	4	8	4
Investment Income	15	44	28	22
Technical reserves incurred during the year	(113)	(160)	(141)	(98)
<b>Surplus Before Distribution</b>	<b>43</b>	<b>62</b>	<b>50</b>	<b>50</b>
<b>PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)</b>				
Profit/(Loss) before Tax	(22)	6	(38)	(39)
<b>RATIO ANALYSIS</b>				
	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
<b>Underwriting Results</b>				
Loss Ratio	9%	6%	6%	6%
Combined Ratio	92%	97%	96%	94%
<b>Performance</b>				
Operating Ratio	87%	89%	90%	89%
Investment Yield (SHF + PTF)	-1%	10%	7%	9%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	1.1	1.1	1.2	1.2
<i>SHF: Shareholders' Fund</i>				
<i>PTF: Participants' Takaful Fund</i>				
<b>Dawood Family Takaful Limited</b>				
Nov-17				



**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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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**  
**Sector**  
**Type of Relationship**  
**Purpose of the Rating**

Dawood Family Takaful  
 Insurance - Life  
 Solicited  
 Independent Risk Assessment

**Rating History**

Dissemination Date	IFS Rating	Outlook	Action
27-Nov-17	A-	Stable	Maintain
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 17

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[Rating Team Statement](#)

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