



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Qatar General Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
28-Feb-2017	A	-	Stable	Maintain	-
29-Feb-2016	A	-	Stable	Maintain	-
19-Mar-2015	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

PakQatar being an early entrant in Islamic insurance (takaful), both general and life has achieved good brand recognition. The rating reflects adequate risk absorption capacity – strengthened by capital injections in the past and in this year too – of the company. However, in more recent years intense competition has resulted in reduced profitability which warrants management attention. Furthermore, 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 need to continue its efforts to fortify business profile in the wake of intensive competition from window takaful. The business plan is gradual penetration into nonmotor 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. The ratings incorporates the effect of association of the company with Qatar based investors.

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

Disclosure

Name of Rated Entity	Pak Qatar General Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
Rating Analysts	Nauman Mustafa nauman.mustafa@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

PAK-QATAR GENERAL TAKAFUL LIMITED (PQTL)		INDUSTRY SNAPSHOT
PROFILE		Pakistan general insurance continued growth trajectory (CAGR 4 years 12%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.
Incorporated	2006	
Major Business	Insurance	
Legal Status	Unquoted Public Limited Company	
Head Office	Karachi	
OWNERSHIP		GOOD
<ul style="list-style-type: none"> 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 54% stake in PQTL; majorly through Qatar state owned financial institutions. Mr. Said Gul – other major sponsor – has 37% stake. These sponsors also own majority stake in Pak-Qatar Family Takaful. 		
GOVERNANCE		GOOD
<ul style="list-style-type: none"> 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. Zahid Hussain is the CEO; he carries significant professional experience. Mr Saqib Zeeshan, possessing significant experience in sales and marketing, is the Deputy CEO. 		
MANAGEMENT		GOOD
<ul style="list-style-type: none"> The organizational structure is well laid down, with clearly delineated reporting lines. Six key individuals report directly to CEO; (i) Head of Operations, (ii) Head of Admin & Procurement, (iii) Head of Internal Audit (Only Administratively), (iv) Head of IT, (v) Head of Marketing and (vi) Head of HR. The CFO, being the group CFO, heads the finance team of both group companies; Pak Qatar General and Pak Qatar Family. He directly reports to the board. To ensure operational efficiency, Pak-Qatar has four management committees in place which includes; (i) Underwriting, (ii) Risk Management, (iii) Claims settlement and (iv) Re-takaful. The meetings of each committee are held quarterly; however the members meet as and when required to discuss unusual cases. 		
BUSINESS RISK		ADEQUATE
<ul style="list-style-type: none"> The company's market share is ~6% of the total General Insurance industry & 8.5% of General Takaful Industry. PQTL's Premium mix is fairly diversified. PQTL's GPW portfolio is dominated by motor segment (56%), followed by fire (26%), miscellaneous (12%), and marine (6%) at end-Dec 17. The business is geographically concentrated in south region 76.8%, followed by central region (16.8%) and north region (6.4%). GPW (PKR 615mln) witnessed a negative growth in CY17 (-5.8%) major decline in Fire (-19%) and Motor (-7%) while Pak-Qatar has shown positive growth in Marine (4%) and in Marine (23%). Net loss ratio of the company remained stable at (CY17: 53%, CY16: 53%). The company posted an underwriting profit of PKR (-4mln) in CY17, whereas in CY16 it showed loss of PKR (-13mln); a slight improvement. Investment income increased to PKR 26mln (CY16: PKR 24mln) mainly due to higher return on deposits. This boosted the profitability of the company from 9mln in CY16 to 24mln in CY17. Going forward, the company envisages prudent growth strategy and expects growth in FY18. The company sees growth in primarily Motor business, Banker's blanket and Marine business. Meanwhile, the company aims to focus on bottom line centric approach in order to improve its underwriting profitability. Product innovation is also on cards. Further, the company envisages expanding its non-conventional lines of business and capitalizing on marketing & distribution channels. The sales team has seen frequent changes; management expects current team to sustain. 		
FINANCIAL RISK		ADEQUATE
<ul style="list-style-type: none"> The company's investment book (PKR 464mln) represents 82.6% of its equity base at end CY17. The liquid investment portfolio is deployed in Government Securities (13.8%), Cash & Bank (35%), equities (16.4%) & debt securities (34.7%). The company's premium receivables declined in CY17 (155Days) from CY16 (159 Days). The company's capital has increased primarily due to equity injection (PKR 12.8mln). The company has re-insurance arrangements with some of the best renowned international reinsurers including Labuan Re ('A-' by AM Best), Kuwait Re ('A-' by AM Best), Africa Re ('A-' by A.M. Best), Saudi Re ('BBB+' by S&P) and Emirates Re ('BBB+' by A.M. Best). Treaty arrangement predominantly comprises quota share & surplus treaties, while the company has XoL protection on motor segment. The total share held by "A" category Re-Insurance is 75%; 5% short of 80% required. 		

PakQatar General Takaful Limited (PQTL)

BALANCE SHEET*	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14
	Annual	Annual	Annual	Annual
Investments				
Liquid Investments	464	392	484	443
Insurance Related Assets	622	397	263	477
Other Assets	190	245	156	196
TOTAL ASSETS	1,275	1,034	903	1,115
Equity (SHF)	562	539	536	471
Waqf / Participants' Takaful Fund (PTF)	(114)	(127)	(139)	(147)
Underwriting Provisions	219	252	233	318
Insurance Related Liabilities	530	272	210	343
Other Liabilities	88	98	63	131
TOTAL EQUITY & LIABILITIES	1,284	1,034	903	1,115

Profit and Loss Account (Participants' Takaful Fund / PTF)	31-Dec-17	31-Dec-16	31-Dec-14	31-Dec-14
Gross Contribution Written (GPW)	615	653	702	1,002
Net Contribution Revenue	168	218	376	506
Net Claims	(211)	(249)	(408)	(543)
Net (Expenses) / Income	55	39	32	43
Net Investment Income	1	1	9	7
Surplus / (Deficit) before Investment Income	13	9	9	6

Profit and Loss Account (Shareholders' Fund / SHF)	31-Dec-17	31-Dec-16	31-Dec-14	31-Dec-14
Wakala Income	233	256	272	345
Commission & Operational Expenses	(247)	(275)	(295)	(350)
Investment Income	25	23	27	37
Profit Before Tax	11	4	3	32

RATIO ANALYSIS*	31-Dec-17	31-Dec-16	31-Dec-14	31-Dec-14
Underwriting Results				
Loss Ratio	53%	53%	63%	64%
Expense Ratio	63%	52%	41%	35%
Combined Ratio	116%	105%	104%	99%
Performance				
Operating Ratio	109%	100%	98%	97%
Investment Yield (SHF + PTF)	-6%	3%	8%	10%
Liquidity & Solvency				
Liquidity Ratio – times	0.9	2.3	4.7	1.9

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

PakQatar General Takaful Limited (PQTL)

September 2017

www.pacra.com



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<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 within six (6) 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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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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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