



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Family Takaful Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jun-2018	A-	-	Stable	Maintain	-
11-Dec-2017	A-	-	Stable	Maintain	-
30-Mar-2017	A-	-	Stable	Maintain	-
31-Mar-2016	A-	-	Stable	Maintain	-
21-Apr-2015	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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 (~0.65% 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.

The rating is dependent upon continued improvement in the company's system share, which has not seen rise over the years and surplus in takaful fund, sustained liquidity position. At the same time, upholding strong governance practices is critical. The sponsors' financial profile was relatively stretched, which is now improving.

Disclosure

Name of Rated Entity	Dawood Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Insurer Financial Strength (IFS) Rating Life(Jun-17)
Related Research	Sector Study Life Insurance(Jun-18)
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DAWOOD FAMILY TAKAFUL (DFTL)

PROFILE

Incorporated	2009
Major Business	Life Insurance
Legal Status	Unquoted Public Limited Company
Head Office	Karachi

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 4years: 18%), 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 increase brought revaluation losses.

OWNERSHIP

- DFTL, an unlisted Shariah-compliant Life Insurer, commenced operations beginning 2009.
- DFTL is majorly owned by Dawood Group holding 51% stake, followed by the Bank of Khyber (15%) and GulfCap (8%).
- Operates through a network of 40 branches majorly divided in North, Central and South, with majority of the revenue (55%) coming from the central region.
- First Dawood Group pursued an Increasing diversification in the financial sector. Currently, the group has interests in asset management, brokerage, Islamic insurance and Modaraba sectors.

GOVERNANCE

- DFTL has a seven-member BoD. This includes CEO, three representatives of FDG, including one executive director, one of BoK, and two independent directors.
- Chairman of the board - Mr. Rizwan ul Haque - is associated with First Dawood Investment Bank since long, and is a well-known and seasoned banker.
- Majority of the board members attended all board meetings, showing interest in the company's affairs. Minutes of the meetings reflect active participation by majority of board members and ability to raise relevant questions while appraising performance of the company.

MANAGEMENT

- The company deploys lean organizational structure with six departments reporting directly to CEO. These include; 1) Operations, 2) Actuarial Services, 3) Finance, 4) Marketing, 5) Training & Development, and 6) IT.
- Core management team comprises experienced professionals.
- Mr. Ghazanfar-ul-Islam, who had been associated with the company for eight years as CFO, was appointed as CEO in Mar'18. Mr. Ghazanfar has vast insurance industry experience and modaraba experience prior to that. CFO position is being overseen by Mr. Muhammad Rizwan now.

BUSINESS RISK

- During CY17, company's Gross Contribution (PKR 1,313mln) grew by 11%, enabling it to sustain its market share of ~0.63%.
- DFTL's Gross Contributions (GC) predominantly come from unit-linked products (CY17: 98%), rest in group (CY17: 4%). The business is geographically diversified in central region (55%), north (30%), and south (15%). bancatakaful is just 4% of the total GPW & 30% of single premium.
- First year Gross Contribution decreased by 0.63% (CY16: 11%). The persistency in renewable GC decreased to 62.9% (CY16: 65.4%); it is still in a competitive position with peers. The composition in terms of life risk (PTF) and investment risk (PIF) has been changed to 41:59, respectively (CY16: 51:49).
- The wakala fee expense increased to 68.5% (CY16: 63%) of net contribution. The combined ratio of PTF improved to 87% (CY16: 97%) increasing surplus by 35%.
- Claims ratio though increased to 6.8% (CY16: 5.7%) still remains significantly lower than peers; while investment yield declined to -2% (CY16: 10%).
- Shareholders net loss declined to PKR 5mln (CY16: PKR 15mln) due to improved operator fee on the back of increase in business.
- Going forward the management intends to keep a lookout for business opportunities. Primarily, the company envisages enhancing business and is targeting to achieve sizeable growth in topline; June 2018 will reflect the results. The company has started spending on the training of sales agents, a batch of 300 agents being trained. The company also plans to review its HR policies to improve its employees' productivity. Another significant challenge to the company has been created through window takaful operations by conventional insurers.

FINANCIAL RISK

- The company's investment book (PKR 3,282mln), represents 59% of its equity base at end CY17.
- At CY17, investment book is predominantly deployed (94%) in statutory funds. The investment book of statutory funds is conservatively deployed in bank deposits (54%), followed by equities (25%), government securities (2%) and debt securities (20%).
- The liquidity base of the company – in shareholders' fund, Takaful fund and the Investment fund provides the comfort. The liquid assets, at end-CY17, adequately cover company's liabilities toward participants by 1.2x.
- DFTL has paid-up capital of PKR 750mln. At CY17 net shareholder's equity of the company is PKR 370.2mln down from PKR 375mln in CY16 and is expected to further decline unless DFTL achieves break-even.
- DFTL has in place reinsurance treaty arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P). Catastrophic arrangements provide DFTL with cushion to absorb unforeseen risks.



**Family Takaful
Financials [Summary]**

Dawood Family Takaful Limited

PKR mln

BALANCE SHEET	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-14
Investments				
Liquid Investments	2,647	2,647	2,002	1,281
Others (Sukuk - non-liquid)	-	-	-	172
	2,647	2,647	2,002	1,453
Insurance Related Assets	56	47	57	36
Other Assets	360	360	240	252
TOTAL ASSETS (SHF + PTF)	3,063	3,054	2,299	1,741
Equity	394	394	393	447
Balance of Takaful Statutory Funds	2,481	2,481	1,749	1,155
Insurance Related Liabilities	71	84	82	58
Other Liabilities	99	95	75	81
TOTAL EQUITY & LIABILITIES (SHF + PTF)	3,044	3,054	2,299	1,741
INCOME STATEMENT	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-14
REVENUE ACCOUNT				
Gross Contribution Written (GC)	1,313	1,178	1,040	837
Participants Investment Fund (PIF)	(778)	(574)	(475)	(316)
Retakaful Expense	(46)	(46)	(49)	(45)
Wakala Fee	(335)	(352)	(328)	(325)
Net Claims	(33)	(32)	(31)	(29)
Operating Income/(Expenses)	80	4	8	4
Investment Income	21	44	28	22
Technical reserves incurred during the year	(137)	(160)	(141)	(98)
Surplus Before Distribution	84	62	50	50
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	6	6	(38)	(39)
RATIO ANALYSIS	31-Dec-16	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Loss Ratio	7%	6%	6%	6%
Combined Ratio	87%	97%	96%	94%
Performance				
Operating Ratio	83%	89%	90%	89%
Investment Yield (SHF + PTF)	-2%	10%	7%	9%
Liquidity & Solvency				
Liquidity Ratio – times	1.2	1.1	1.2	1.2
<i>SHF: Shareholders' Fund</i>				
<i>PTF: Participants' Takaful Fund</i>				
Dawood Family Takaful Limited				
Dec-17				



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

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- (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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