



The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Qatar Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jun-2018	A+	-	Stable	Upgrade	-
06-Dec-2017	A	-	Positive	Maintain	-
23-Jun-2017	A	-	Positive	Maintain	-
09-Aug-2016	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects sustained market position of the company, having decent foothold in takaful industry. The company has demonstrated momentum in terms of business expansion. The company has limited reliance on single premium; persistency ratio is also good. 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 several fresh injection of equity. 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.

The rating depends upon 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 size-able volumes with enhanced profitability. Meanwhile, financial metrics need to continuously improve.

Disclosure

Name of Rated Entity	Pak-Qatar 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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PAK-QATAR FAMILY TAKAFUL LIMITED (PQFTL)		INDUSTRY SNAPSHOT
PROFILE		<p>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.</p>
Incorporated	2007	
Major Business	Life Insurance	
Legal Status	Unquoted Public Limited Company	
Head Office	Karachi	
OWNERSHIP		
<ul style="list-style-type: none"> ▪ PakQatar Family Takaful (PQFTL), an unquoted public company, started its operations in August 2007. ▪ 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 (29%), and (iii) Pak Qatar Investment Private Limited (30%). 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. ▪ The company operates through three business Hubs – South, North and Central – with a total of 65 branches, deploying Direct Sales Force (DSF). Another major distribution network comprises Banca-Takaful arrangements with 14 major banks of the country. Predominant portion of Banca-Takaful business comprise products mutually developed with FWU AG, a German based company. ▪ Sponsors except FWU AG, also own majority stake in Pak-Qatar General Takaful. 		
GOVERNANCE		
<ul style="list-style-type: none"> ▪ PakQatar Family has a seven-member board including – Mr. Said Gul being the Director since inception of the Company. ▪ H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali), royal family member, is chairman of the board, while Mr. Said and FWU has one representation each. ▪ 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		
<ul style="list-style-type: none"> ▪ The organizational structure is well laid down. The company has four Group Heads common for both Pak Qatar Family and Pak Qatar General – CFO, CIO, HR, and IT. ▪ Core management team comprises experienced professionals. ▪ On behalf of the board, Mr. Said Gul, oversees operations of the company through three key individuals – Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Chief Internal Auditor (CIA). ▪ Mr. Nasir Ali Syed, the CEO of the company since 2012, carries more than two decades of experience in the insurance industry. Before joining PakQatar Family, he remained HOO of Jubilee Life for 11 years. 		
BUSINESS RISK		
<ul style="list-style-type: none"> ▪ During CY17 company's gross contribution took a growth of 10% (Industry 16%) enabling the company to maintain its market share at 4%. The growth of Direct Sales was 29%, BANCA -2%, Group Life 17%, and Group Health 6%. ▪ PQFTL's Gross Contributions (GC), in CY17, is dominated by Individual Family (83%), and followed by Group Health (13%) and Group Family (4%). The business in Group Family includes a unique and exclusive arrangement by the name of Kafalah with Meezan Bank Limited to cover their account holders, whereby life risk is retained by PQFTL while the investment component is managed and kept by the bank. ▪ The persistency of the first year Gross Contribution increased to 74% (CY16: 67%); though comparable with close peers, still lags behind large players, while second year persistency stands at 89% (CY16: 89%). The composition of Gross Contribution in terms of investment risk (PIF) and life risk (PTF) has been changed to 63:37, respectively (CY16: 57:43). ▪ With improved persistency in second year and subsequent years, the wakala fee expense declined to 45.7% (CY16: 52.8%). ▪ Claims ratio 45.7% (CY17: 34%) has increased while investment yield declined to -1.5% (CY16: 10.4%). ▪ Shareholders net profit has arisen to PKR 174mln (CY16: PKR 166mln) on the back of increase in business. ▪ Going forward, the company envisages continued business growth targets while focus on gradual upward profits. To improve persistency, the company has formulated various marketing techniques, thereby increasing the client retention. 		
FINANCIAL RISK		
<ul style="list-style-type: none"> ▪ The company follows a conservative investment policy with investment book (end-Dec17: PKR 17.5bln). ▪ Company follows a diversified investment strategy with a balanced portfolio invested in cash and cash equivalents (33%), and risk-free securities – GoP Sukuks and TDRs (~33%) and rest in equity (34%). ▪ 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 1.1x, up from 1.0x in CY16. ▪ PQFTL has a sound capital base. Share capital of the company has been increased several times over the years; at end-March18 the company had a paid up capital of PKR 1,307mln with share premium of PKR 49.872mln and net shareholder's equity PKR ~1,432mln. ▪ PakQatar Family is strengthened by its Re-Takaful arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P). Catastrophic arrangements provide the company with cushion to absorb unforeseen risks. The treaty for FWU-Bancatakaful has been arranged by FWU from Hannover, providing 10% up to a maximum 500,000 for each benefit at company's own retention whereby expertise of underwriting by FWU at the time of policy issuance provides comfort to the company. The company has started proportional treaties (Quota Surplus), while increasing the capacity limits. 		



Pak Qatar Family Takaful Limited

	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14
BALANCE SHEET				
Investments				
Liquid Investments	17,519	14,669	11,171	7,810
Insurance Related Assets	748	624	548	409
Other Assets	797	1,107	379	373
TOTAL ASSETS (SHF + PTF)	19,065	16,400	12,099	8,593
Equity	1,157	782	597	440
Balance of Takaful Statutory Funds	17,216	14,880	10,897	7,675
Insurance Related Liabilities	480	464	434	309
Other Liabilities	212	274	171	169
TOTAL EQUITY & LIABILITIES (SHF + PTF)	19,065	16,400	12,099	8,593
INCOME STATEMENT				
	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14
REVENUE ACCOUNT				
Gross Contribution Written (GC)	8,263	7,494	6,721	5,077
Participants Investment Fund (PIF)	(5,186)	(4,316)	(3,733)	(2,576)
Retakaful Expense	(356)	(392)	(366)	(292)
Wakala Fee	(1,243)	(1,470)	(1,704)	(1,503)
Net Claims	(1,057)	(896)	(580)	(412)
Operating Income/(Expenses)	(298)	(223)	(122)	(136)
Investment Income	18	23	24	21
Technical reserves incurred during the year	(32)	(101)	(57)	(96)
Surplus Before Distribution	110	118	181	83
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	174	166	134	56
RATIO ANALYSIS				
	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results				
Claims Ratio - PTF	71%	68%	63%	58%
Combined Ratio	94%	93%	83%	91%
Performance				
Operating Ratio	93%	92%	82%	90%
Investment Yield (SHF + PTF+PIF)	-2%	10%	8%	10%
Liquidity & Solvency				
Liquidity Ratio – times	1.1	1.0	1.1	1.1
Pak Qatar 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

- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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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