



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
06-Dec-2018	A	-	Stable	Maintain	-
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
28-Feb-2017	A	-	Stable	Maintain	-
29-Feb-2016	A	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects adequate risk absorption capacity – strengthened by capital injections – of the company. However, in more recent years, intense competition has resulted in pressure on the profitability of the sector. 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 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 an upgraded MIS should, among others, strengthen the claims management system.

#### Disclosure

<b>Name of Rated Entity</b>	Pak Qatar General Takaful Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance(Jun-18)
<b>Related Research</b>	Sector Study   General Insurance(Nov-18)
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## Profile

**Legal Structure** PakQatar Takaful Limited (PQTL) is the largest dedicated Takaful Company of Pakistan and is incorporated as unquoted public limited company.

**Background** The company started its operations in Aug-07 as the third takaful company in the country, providing risk coverages to all segments of general takaful. PQTL, with its head office in Karachi, operates through three business Hubs – South, Central and North – with a total of 18 branches in 9 cities.

**Operations** The North Zone comprises of branches in Islamabad, Rawalpindi, Abbottabad and Peshawar, Central zone comprising branches in Lahore, Gujranwala, Faisalabad, Multan, & Sialkot while South zone consists of branches in Karachi, Hyderabad & Quetta

## Ownership

**Ownership Structure** H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali) effectively controls 54% shareholding in the company directly and indirectly through Masraf Al Rayan, Qatar International Islamic Bank, and Qatar Islamic Insurance Co.

**Stability** There has been no change in the ownership structure of the company

**Business Acumen** H.E Ali indirectly controls the stake in PakQatar through three institutions owned by family and friends; i) Qatar International Islamic Bank (rated A2 by Moody's) is majorly owned by Ezdan Holding group (23%) and Qatar Investment Authority (17%), ii) Masraf Al –Rayan incorporated in 2006 (rated Aaa3 / P-1 by Moody's), enjoys 25% market share in Shariah Compliant banking assets and 5% share in domestic banking assets.iii) Qatar Islamic Insurance Company (rated Baa2 by Moody's) is the 6th largest insurance company in Qatar insurance sector and 2nd largest in takaful, with portfolio dominated by motor segment (56%).

**Financial Strength** Pak-Qatar Family Takaful is another venture of sponsors in Pakistan's Life Insurance sector. Incorporated in 2006, the company has fast grown to become 3rd largest life insurer in the private sector at end Sept-18.

## Governance

**Board Structure** PakQatar has a seven-member board including the Managing Director – Mr. Said Gul. Mr. Gul has been associated with the company since inception

**Members' Profile** H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali) is the Chairman of the board. He holds Chairmanship of various prominent organizations of Qatar having an experience over more than two decades

**Board Effectiveness** BoD's participation is good in annual meetings which are held in Qatar. Online MIS is provided to directors that enable them to keep updated with progress of the company.

**Financial Transparency** The company's financial statements are audited by EY. The qualification regarding the MCR for period ended Dec-17 was removed. Half year review (Interim) of 1H18 was conducted by EY whereby a clean report was issued.

## Management

**Organizational Structure** The management team of the company comprises qualified and experienced professionals. The organizational structure is well laid down, with clearly delineated reporting lines.

**Management Team** Mr. Zahid Hussain is the CEO of the company. Mr. Hussain has an experience of over three decades and is assisted by a team of professionals heading all department of the company.

**Effectiveness** MIS reports are being generated on daily, monthly and quarterly basis. These MIS reports being used by management comprehensively cover agent-wise, branch-wise contribution and claims positions on real-time basis.

**Claim Management System** The claim processing process is centralized, where only data entry rights are available to branches. For engineering segment, branches have no data entry authority. Claim reporting is done by branch who is attending the claim.

**Investment Management Function** PQTL has a formal investment policy document approved by BoD and Shariah Board, reviewed annually. As per the IPS, the structure of investment decision making is three-tiered – (i) Board Investment Committee (IC), (ii) Management Investment Committee (MIC), and supervised by (iii) Shariah Board.

**Risk Management Framework** The company's Risky assets ratio as a % of equity has improved to .42x at end Sep -18 as against .06x of the same period last year, on account of injected equity during CY17.

## Business Risk

**Industry Dynamics** Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.

**Relative Position** The company is classified as a small company (general insurance industry) with a market share of less than 1%.

**Revenue** The company experienced an impressive growth in the top line by 185% at end Sep'18 as compared to the same period last year (9MCY18: PKR 452mln, 9MCY17: PKR 243mln). In the last quarter of CY17, GPW increased by 253% (PKR 243mln to PKR 615) mln with Motor business being the highest contributor(56%). At Sept-18 end, GPW of all segments showed a considerable increase with Misc. segment growing the most (195%) followed by Motor (81%), Fire (71%) and Marine (50%) as compared to corresponding period last year.

**Profitability** PTF had a surplus fund at Sep-18 of PKR 9mln (9MCY17: PKR 4mln). The increase of 66% on account of net claims expense (9MCY18: PKR 291, 9MCY17: 175mln) was set off by a corresponding increase of 67% in the Net Contribution Revenue (9MCY18: PKR 137, 9MCY17: 82mln) as compared to the same period last year. SHF posted an underwriting loss (PKR 5mln) at Sep-18 as against a loss of PKR 15mln at end Sep-17. Improved Wakala income of PKR 179 mln (9MCY17: PKR 95mln) was the catalyst in the shrinkage of loss.

**Investment Performance** The investment income stood at PKR 14mln (PTF: PKR 4mln; SHF: PKR 10 mln) at end Sep18 (9MCY17: PKR18mln) showing an overall decrease of 22% on YoY basis.

**Sustainability** Going forward, the company envisages prudent growth strategy and expects a reasonable growth at end CY18. The company envisions growth primarily Motor business, Banker's blanket and Marine business.

## Financial Risk

**Claim Efficiency** The claims efficiency ratio stood at 121 days improving from 311 days in the same period last year on account of improved receivable contribution

**Re-Insurance** PQTL is strengthened by its Re-Takaful arrangements with Africa Re ('A-' by S&P), Labuan Re ('A-' by AM Best), Saudi Re ('BBB+' by S&P) and Emirates Re ('BBB+' by AM Best).

**Liquidity** The liquid coverage at end Sep-18 deteriorated slightly to 1.7x (9MCY17: 1.9x).

**Capital Adequacy** The company has an equity of PKR 560mln at end Sep'18. The paid up capital is marginally above the MCR

**PakQatar General Takaful Limited (PQTL)**

BALANCE SHEET*	---- PKR (mln) ----		
	Sep-18	Dec-17	Dec-16
<b>Investments</b>			
Liquid Investments	545	464	392
Insurance Related Assets	504	620	397
Other Assets	203	201	245
<b>TOTAL ASSETS</b>	<b>1,251</b>	<b>1,284</b>	<b>1,034</b>
Equity (SHF)	320	562	539
Waqf / Participants' Takaful Fund (PTF)	130	(114)	(127)
Underwriting Provisions	188	219	252
Insurance Related Liabilities	496	530	272
Other Liabilities	117	88	98
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,251</b>	<b>1,284</b>	<b>1,034</b>

Profit and Loss Account (Participants' Takaful Fund / PTF) - Extracts	Sep-18	Dec-17	Dec-16
Gross Contribution Written (GPW)	452	615	653
Net Contribution Revenue	137	168	218
Net Claims	(167)	(211)	(249)
Investment Income	4	1	1
Surplus / (Deficit) before Investment Income	9	12	8

Profit and Loss Account (Shareholders' Fund / SHF) - Extracts	Sep-18	Dec-17	Dec-16
Wakala Income	179	233	256
Investment Income	10	25	23
Underwriting Profit/ (Loss)	(5)	(16)	(21)
Profit Before Tax	7	11	4

RATIO ANALYSIS*	Sep-18	Dec-17	Dec-16
<b>Underwriting Results</b>			
Loss Ratio	53%	53%	53%
Expense Ratio	72%	63%	52%
Combined Ratio	125%	116%	105%
<b>Performance</b>			
Operating Ratio	120%	109%	100%
Investment Yield (SHF + PTF)	2%	2%	3%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	1.7	0.9	2.3

\* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund



## 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
<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> 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><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 within six (6) 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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**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

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- (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)

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- (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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