



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Qatar General 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
28-Aug-2019	A	-	Stable	Maintain	-
27-Feb-2019	A	-	Stable	Maintain	-
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	-
19-Mar-2015	A	-	Stable	Initial	-

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. The management needs to continue efforts in the wake of intensive competition from window takaful sector. The rating incorporates the association of the company with Qatar based investors., having presence in the life sector, strengthening the brand. Increase in business volume and takaful presence needs improvement hence therein.

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

Name of Rated Entity	Pak Qatar General Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_GI_FY19(Jun-19)
Related Research	Sector Study General Insurance(May-19)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure PakQatar is the Largest dedicated Takaful Company 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 is 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 famil 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. Second majority shareholder, Mr. Said Gul, is amongst promoters of the company. He is entrepreneur in Qatar. Mr. Gul possesses more than two decades of extensive experience of construction industry

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 4th largest life insurer in the private sector at end-May'19.

Governance

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

Members' Profile Mr. Zahid Hussain Awan is the CEO of the company.

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 the progress of the company.

Financial Transparency EY Ford Rhodes Chartered Accountants are the auditors of the company.

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 Awan is the CEO of the company. 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 CEO & The Board Effectiveness

Effectiveness

MIS

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 PakQatar 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 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). Treaty arrangement predominantly comprises quota share & surplus treaties, while the company has XoL protection on motor segment.

Business Risk

Industry Dynamics Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform

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

Revenue At end Mar'19, the company registered the gross contribution of PKR 174mln. Motor segment was the forte of the company, comprising 62% of the total revenue, followed by Fire (16%), Others (13%) and Marine (9%).

Profitability The underwriting loss for SHF at Mar'19 was PKR 3mln (3MCY18: PKR mln) amidst inflated management expenses

Investment Performance The investment income (SHF) stood at PKR 5mln at end Mar'19 (3MCY18: PKR4mln) whereas PTF investment made a loss of PKR 1.2mln on account of loss made on the disposal of the investment.

Sustainability Going forward, the company envisages prudent growth strategy and expects a reasonable growth at CY19. The company sees growth in primarily Motor business, Banker's blanket and Marine business.

Financial Risk

Claim Efficiency The claims efficiency ratio stood at 76 days at end Mar'19, the improvement is on account of better claims management and reduced claims expenses

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 PQTL has a sound liquidity coverage at end Mar'19 ~ 2.3x

Capital Adequacy The company has an equity of PKR564mln at end Mar'19. The paid-up capital is just above MCR

**PakQatar General Takaful Limited (PQTL)**

	---- PKR (mln) ----			
BALANCE SHEET*	Mar-19	Dec-18	Dec-17	Dec-16
Investments				
Liquid Investments	783	713	464	392
Insurance Related Assets	421	409	620	397
Other Assets	367	214	201	245
TOTAL ASSETS	1,571	1,337	1,284	1,034
Equity (SHF)	764	760	562	539
Waqf / Participants' Takaful Fund (PTF)	(110)	(118)	(114)	(127)
Underwriting Provisions	209	218	219	252
Insurance Related Liabilities	445	381	530	272
Other Liabilities	263	97	88	98
TOTAL EQUITY & LIABILITIES	1,571	1,337	1,284	1,034
Profit and Loss Account (Participants' Takaful Fund / PTF) - Extracts	Mar-19	Dec-18	Dec-17	Dec-16
Gross Contribution Written (GPW)	174	678	615	653
Net Contribution Revenue	55	192	168	218
Net Claims	(69)	(232)	(211)	(249)
Investment Income	(1)	7	1	1
Surplus / (Deficit) before Investment Income	(1)	5	12	8
Profit and Loss Account (Shareholders' Fund / SHF) - Extracts	Mar-19	Dec-18	Dec-17	Dec-16
Wakala Income	67	258	233	256
Investment Income	5	11	25	23
Underwriting Profit/ (Loss)	(3)	2	(16)	(21)
Profit Before Tax	(4)	13	11	4
RATIO ANALYSIS*	Mar-19	Dec-18	Dec-17	Dec-16
Underwriting Results				
Loss Ratio	20%	51%	53%	53%
Expense Ratio	156%	71%	63%	52%
Combined Ratio	176%	123%	116%	105%
Performance				
Operating Ratio	176%	119%	109%	100%
Investment Yield (SHF + PTF)	1%	2%	2%	3%
Liquidity & Solvency				
Liquidity Ratio – times	2.3	2.3	0.9	2.3

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

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.

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-	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.
B+ B B-	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.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
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.

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'.

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.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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)

Independence & Conflict of interest

(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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