



The Pakistan Credit Rating Agency Limited

Rating Report

Takaful Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Feb-2019	A-	-	Stable	Maintain	-
27-Dec-2018	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Takaful Pakistan Limited, a dedicated Takaful company, has witnessed signs of revival in its business and financial profile after the acquisition by new owners. The group of new sponsors reflect a balanced mix of business acumen - needed to grow insurance business in the tough landscape of the insurance industry - and a strong backing of financial support - to take off the company from its current position. Compliance with SECP's minimum capital requirement has been ensured. The equity position is expected to be enhanced. Sponsors have pledged an explicit undertaking to enhance the equity by internal growth and/or capital injection. The business has picked up steam; momentum is expected to continue in the foreseeable future as a result of sustained effort to improve underwriting business. The company envisages a diverse segmental mix though it is currently following a motor-centric approach in the beginning to build up business volumes, a testimonial of the strength of the new sponsors. Takaful Pakistan will be undertaking banking enlistment to achieve diverse segmental mix while focusing on Health, Fire and Marine Takaful. Reinsurance arrangements have been augmented in line with increased growth of the company.

The rating is dependent on the management's ability to capitalize on the group's well-built platform for business expansion. At the same time, the equity level must improve and segmental income stream should likewise go up. Liquidity needs to be upheld. Upgradation of I.T infrastructure is essential.

Disclosure

Name of Rated Entity	Takaful Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance(Jun-18)
Related Research	Sector Study General Insurance(Nov-18)
Rating Analysts	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504



Profile

Legal Structure Takaful Pakistan Limited (TP) is an unlisted public limited company incorporated in June 2006, with its registered head-office in Karachi.

Background The company since early 2017 had been seeking prospective investors to inject PKR 200mln in order to revive the company, as it had been non-compliant with respect to the Minimum Capital Requirement (MCR) regulated by the SECP. In January 2018, the board approved the new investors; headed by Mr. Salim Godil and Mr. Rizwan Hussain.

Operations The company is managed and supervised by a Shariah Adviser, with the capacity to underwrite risks in all avenues of General Insurance namely, Property (Fire & Engineering), Marine, Motor, Liabilities, etc. It currently operates branches in Lahore and Peshawar besides its Head Office in Karachi.

Ownership

Ownership Structure Mr. Salim Godil (and family), Mr. Rizwan Hussain (and family) own 68% shareholding of the company, collectively. Other prominent shareholders include, Al Baraka Bank Pakistan Limited, Mal al Khaleej Investments LLC and Sitara Chemical Industries Limited.

Stability The new owners of the Takaful Pakistan have envisaged long term goals for the company aiding the stability of the company.

Business Acumen Mr. Salim Godil owns Toyota Central Motors, one of the largest Toyota auto dealership in Pakistan. He also owns three other dealership centres in the city and is a major player in the auto dealership market in Karachi. Besides the dealership centres, Mr. Godil is also the owner of Central Builders & Developers, Metro Radio Cab, Bukhari Travels and Streit Pakistan. He brings along sound business acumen to benefit from.

Financial Strength The group companies and the prominent corporate shareholders provide a solid financial footing to Takaful Pakistan.

Governance

Board Structure Takaful Pakistan has a seven-member board.

Members' Profile The seven member board includes the Managing Director & CEO– Mr. Rizwan Hussain. Mr. Rizwan has been recently inducted into the company after the change of ownership. Mr. Salim Godil – Chairman is also a recent inductee in the board. The longest serving board member is Mr. Syed Tariq Hussain, associated with the company since the last eleven years. Mr. Ahmed Shuja Kidwai, CEO of Al-Baraka Bank has also been associated with the board since 2012 bringing along vast experience.

Board Effectiveness Takaful Pakistan has at present four committee's namely Audit, Risk, Investment and HR. The company has emphasized greater focus on the compliance function. Takaful Pakistan has taken on board Ernst & Young Chartered Accountants for Internal Audit Services, Deloitte Yousuf Adil Chartered Accountants for Business Processes Development Services.

Financial Transparency The company's financial statements are audited by KPMG Taseer Hadi & Co. The auditors expressed an unqualified opinion in the latest financial statements.

Management

Organizational Structure The organizational structure of Takaful Pakistan is well laid down, with clearly delineated reporting lines.

Management Team Takaful Pakistan has witnessed a change in the management since the takeover of the new owners. Mr. Muhammad Irfan, Chief Financial Officer has been a steady figure and has been associated with the company for a long time. The company has reformed its operating structure in two divisions namely Motor and Non Motor, headed by newly inducted qualified and experienced professionals namely Mr. Kamran Hanif and Mr. Umair Ismail for Motor and Non Motor departments respectively.

Effectiveness The organization has inducted Ms. Naheed Shiraz Merchant as its Head of Legal, Compliance & Company Secretary. It has three management committees; Underwriting and Retakaful & Co-takaful Committee, Benefit (Claim) Settlement Committee and Risk Management & Compliance Committee.

Claim Management System The claim processing process is centralized and are paid centrally by the finance department in HO, having dedicated staff for claims settlement, only after due verification of compliance with claims procedures and approvals.

Investment Management Function Takaful Pakistan has a formal investment policy document approved by BoD and Shariah Board, reviewed annually.

Risk Management Framework Underwriting and policy issuance is centralized at the head office level. Branches have the authority to issue policies; however, policy posting and new customer database rights are only available to Head office. The company is in process of developing a comprehensive SOP's for Risk framework.

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 With less than 1% market share in the general insurance industry, the company is classified amongst the small players.

Revenue During 9M18, the GPW increased to PKR 230mln (9M17: PKR 123) reflecting a healthy increase emphasizing the new management's desire to bolster the business portfolio. Loss ratio remained on a higher side (9M18: 62%, CY17: 43%) mainly due to a high Net Premium Revenue. Similarly, the expense ratio is high (9M18: 55%, 9M17:41%) due to a significant increase in management expenses, which is likely to rationalize with growth in business.

Profitability Over the year, the deficit quantum of PTF has been turned into profits. The Combined ratio also affected by the increase in expense ratio and clocked in at 140% up from 120% in CY17.

Investment Performance Investment income increased to 19% from 6% in 9M18, the company follows a robust investment policy with diversified investment portfolio as per respective risk appetite with placements in Bank Deposits, Mutual Funds, Sukuks and Equity Shares.

Sustainability The company plans to diversify its segmental mix; gradually moving away from its motor-centric policy. With strong sponsor support and increased synergies with associated companies, the company expects to increase its presence within the insurance industry of Pakistan.

Financial Risk

Claim Efficiency The claims outstanding days is high at 455 (CY17: 249 days) due to significant increase in business volume.

Re-Insurance TP has its Re-Takaful arrangements with Africa Re ('A-' by S&P), Labuan Re ('A-' by AM Best), Saudi Re ('A3' by Moody's), GIC Re ('A-' by AM Best), Singapore Re ('A-' by AM Best) and Pak Re (AA- by JCR-VIS). Treaty arrangement predominantly comprises quota share & surplus treaties, while the company has XoL protection on motor segment.

Liquidity TP's equity has witnessed an improvement after the injection of equity by the new owners'. This has resulted in improved financial risk position as compared to the previous years as liquidity position against outstanding claims is at 3.7 times at 9M18 (CY17: 1.9).

Capital Adequacy TP was non-compliant with the minimum capital requirements before the takeover by the new management. The owners after completing the takeover ensured Minimum Capital Requirement was met. TP as at end-Sep18, has a paid-up capital of PKR 500mln, as required by SECP.



Takaful Pakistan

BALANCE SHEET

Investments

	Sep-18 PKR mln	Dec-17 PKR mln	Dec-16 PKR mln
Liquid Investments	550	335	379
Insurance Related Assets	85	40	49
Other Assets	225	74	132
TOTAL ASSETS	860	448	559

Equity (SHF)	353	174	180
Waqf / Participants' Takaful Fund (PTF)	37	21	1
Underwriting Provisions	153	42	79
Insurance Related Liabilities	163	157	203
Other Liabilities	153	55	98
TOTAL EQUITY & LIABILITIES	860	448	559

Profit and Loss Account (Participants' Takaful Fund / PTF)

	Sep-18	Dec-17	Dec-16
Gross Contribution Written (GPW)	230	150	219
Net Contribution Revenue	84	138	239
Net Claims	52	59	129
Net (Expenses) / Income	7	3	(18)
Net Investment Income	4	7	9
Profit/Loss before tax (deficit transferred to participant's equity)	14	14	(41)

Profit and Loss Account (Shareholders' Fund / SHF)

	Sep-18	Dec-17	Dec-16
Wakala Income	47	74	116
Commission & Operational Expenses	(95)	(83)	(104)
Investment Income	11	14	12
Profit Before Tax	(36)	4	24

RATIO ANALYSIS*

Underwriting Results

	Sep-18	Dec-17	Dec-16
Loss Ratio	62%	43%	54%
Expense Ratio	77%	82%	96%
Combined Ratio	140%	125%	149%

Performance

Operating Ratio	118%	120%	146%
Investment Yield (SHF + PTF)	4%	6%	6%

Liquidity & Solvency

Liquidity Ratio – times	3.7	1.9	2.2
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* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

Takaful Pakistan

February 2019



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

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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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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