



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
29-Aug-2019	A-	-	Stable	Maintain	-
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. Convergence is fast happening. The company has increased focus on its customer service experience by using technology innovation and digital customer interactions. 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 sizeably. In the foreseeable future, momentum is expected to continue in the foreseeable future as a result of sustained effort to propel business growth. 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. The company has also been aggressively pursuing health business, and intends to generate volumes by incorporating technology in the Health Takaful product. 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 being carried out and front-end customer based applications are being developed.

Disclosure

Name of Rated Entity	Takaful Pakistan 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	Faraan Taimoor faraan.taimoor@pacra.com +92-42-35869504



General Insurance

The Pakistan Credit Rating Agency Limited

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 Sitar 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 including the Managing Director & CEO– Mr. Rizwan Hussain. Mr. Rizwan has been inducted into the company after the change of ownership. Mr. Salim Godil – Chairman was inducted in 2018.

Members' Profile Five of the seven directors in the board possess less than two years of experience on the board of Takaful Pakistan. 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 Yousaf 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. The company has reformed it's operating structure in two divisions namely Motor and Non Motor, headed by qualified and experienced professionals. It plans to further recruit experienced professionals in lieu of increased business activity.

Effectiveness The organization has inducted Ms. Naheed Shiraz Merchant as it's 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.

MIS TP is operating core takaful application named as 'Takaful Management System' (TMS). It was developed in 2007 by the In-housed IT department. All modules of the application are integrated with each other. The system is capable of generating complete MIS reporting at all times with integrated underwriting, claims, and agency and finance modules.

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 CY18, the GPW increased impressively to PKR 376mln (CY17: PKR 150mln) reflecting a healthy increase emphasizing the new management's desire to bolster the business portfolio. Loss ratio remained on a higher side (CY18: 54%, CY17: 43%) mainly due to a high Net Premium Revenue and increased claims due to high business volumes.

Profitability The expense ratio is high (CY18: 109%, CY17: 82%) due to a significant increase in management expenses. The Combined ratio also affected by the increase in expense ratio and clocked in at 163% up from 140% in CY 17.. Over the year, the deficit quantum of PTF has been turned into profits, a good omen for the company. However, the SHF recorded a massive deficit, mainly on the account of high management expenses.

Investment Performance Investment income increased to 8% from 6% in CY18, the company follows an investment policy with funds mostly from bank deposits and fixed income mutual funds.

Sustainability The company plans to follow a motor-centric policy for the next 2-3 years. TP foresees immense potential in the travel segment and is currently in the process to develop a product aimed at the Hajj and Umra travelers. There are also planning to venture into the agri-market as there is no takaful product currently available in the market for this avenue. 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 at 300 (CY17: 262 days) due to increased contributions due but unpaid.

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 Takaful Pakistan has an equity of PKR 421mln, substantial increase from PKR 257mln as at CY17. The increase was mainly due to the injection of capital to ensure the MCR coupled with increased contributions of Qard-e-Hasna from PTF. The net losses remain substantial, as a result company lags behind in this parameter with its peers.

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, in line with SECP's requirement.



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Takaful Pakistan

GENERAL INSURANCE (TAKAFUL)

Financials [Summary]

BALANCE SHEET

	Mar-19 PKR mln	Dec-18 PKR mln	Dec-17 PKR mln	Dec-16 PKR mln
Investments				
Liquid Investments	672	591	335	379
Other Investments	109	109	40	-
Insurance Related Assets	164	62	40	49
Other Assets	337	190	64	132
TOTAL ASSETS	1,283	953	479	559
Equity (SHF)	408	421	257	180
Waqf / Participants' Takaful Fund (PTF)	5	(1)	(3)	1
Underwriting Provisions	387	222	42	79
Insurance Related Liabilities	253	170	136	203
Other Liabilities	231	141	47	98
TOTAL EQUITY & LIABILITIES	1,283	953	479	559

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

	Mar-19	Dec-18	Dec-17	Dec-16
Gross Contribution Written (GPW)	292	376	150	219
Net Contribution Revenue	106	145	138	239
Net Claims	(52)	(78)	59	129
Net (Expenses) / Income	(0)	5	3	(18)
Net Investment Income	(1)	(0)	7	9
Profit/Loss before tax (deficit transferred to participant's equity)	8	4	14	(41)

Profit and Loss Account (Shareholders' Fund / SHF)

	Mar-19	Dec-18	Dec-17	Dec-16
Wakala Income	47	70	74	116
Commission & Operational Expenses	(61)	(159)	(83)	(104)
Investment Income	5	11	14	12
Profit Before Tax	(9)	(77)	4	24

RATIO ANALYSIS*

	Mar-19	Dec-18	Dec-17	Dec-16
Underwriting Results				
Loss Ratio	49%	54%	43%	54%
Expense Ratio	61%	109%	82%	96%
Combined Ratio	110%	163%	125%	149%
Performance				
Operating Ratio	103%	153%	120%	146%
Investment Yield (SHF + PTF)	4%	4%	6%	6%
Liquidity & Solvency				
Liquidity Ratio – times	3.1	3.6	2.3	2.2

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

Takaful Pakistan

August 2019

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	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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B	
B-	
CCC	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.
CC	
C	"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.
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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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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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- (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 principle 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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