



The Pakistan Credit Rating Agency Limited

Rating Report

Salaam Takaful Limited (Formerly: Takaful Pakistan 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
01-Feb-2022	A+	-	Stable	Upgrade	-
01-Feb-2021	A	-	Stable	Upgrade	-
28-Aug-2020	A-	-	Stable	Maintain	-
29-Aug-2019	A-	-	Stable	Maintain	-
27-Feb-2019	A-	-	Stable	Maintain	-
27-Dec-2018	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Salaam Takaful Limited (STL or the Company), a dedicated Takaful company, has demonstrated unprecedented growth since the takeover by new shareholders and the CEO in 2018. Initially a motor-centric company, it has expanded its footprints into the other segment such as health and miscellaneous. The Company has increased focus on its customer service experience through interplay of technology and digital customer interactions which has provided an edge to the company-amidst high competition. It has diligently worked on innovative ideas by employing latest technologies and expects that such strategy will create value by improving customer service. The business has picked up sizably and consistent rapid growth being quite visible. STL has achieved a significant Gross Contribution Revenue of PKR 2.2bln in CY21 (CY20: PKR 1.6bln), depicting a growth rate of 38% on a YoY basis. Such an achievement was materialized through efficient utilization of its branch network and online presence. Segmental concentration remains high in the motor and health segment, with further diversification in untapped segment being expected, going forward. The underwriting profitability of the Company has increased on account of considerable contribution from the health segment. The continued promising augmentation of equity position; owing to the shareholders injection of PKR 300mln as subscription money of right shares. Additionally, the Company has plans of further equity injection by end of first & third quarter of CY-22, which will likely boost liquidity and create room for further expansion. Such a strong sponsor commitment provides comfort to the rating. The shareholders are aligned on the business philosophy and share vision for future in a documented way. Going forward, business expansion combined with business diversification is projected in order to strengthen STL’s footprint in the general insurance industry.

During CY21, bank financing and automotive sector growth facilitated the industry progression. As COVID re-emerged through its “Omicron” variant, its potential implications remain yet to unfold in the coming year. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify market position.

The rating is dependent on the management’s ability to capitalize on the group’s well-built platform for business expansion. Upholding of liquidity and enhancement in equity levels along-with diversity in revenue stream and improved contribution from investments remain essential factors.

Disclosure

Name of Rated Entity	Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Wajahat Arjumand Ansari wajahat.ansari@pacra.com +92-42-35869504

Profile

Legal Structure Salaam Takaful Limited (STL) formerly known as Takaful Pakistan, is an unlisted public limited company incorporated in June-06, 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 MCR requirement as per desired by the SECP. In January 2018, the board approved the new investors; namely, Mr. Salim Godil, Mr. Shehzad Salim Godil, Mr. Rizwan Hussain and Mr. Salman Hussain.

Operations The Company has 250+ staff members. It maintains nine branches, with three branches based in Karachi. The head office, based in Karachi, is also expanding as the company envisages growth in the upcoming years.

Ownership

Ownership Structure The Company retains shareholding from four key investors, namely; i) Salim Habib Godil ii) Shahzad Salim Godil iii) Rizwan Hussain iv) Salman Hussain, along-with various prominent organizations such as House Building Finance Company Limited which is owned by SBP. Other prominent groups include; Al Baraka Bank Limited, Mal Al Khaleej Investment Llc and Sitara Chemical Industries.

Stability The new shareholders along with experienced leadership and team of qualified professionals have envisaged long term goals for the company aiding the stability of the Company.

Business Acumen The Company retains shareholding from various prominent financial institutions, well renowned insurance industry professionals and executives from business conglomerate of Pakistan.

Financial Strength The new shareholders of the Company provide a solid financial footing to Salaam Takaful Limited.

Governance

Board Structure Salaam Takaful has a diversified Board structure adding significant value to the business and have been able to create a conducive growing and enabling environment for STL. The Company has also inducted an experienced female Board member which has been perceived positively by the industry. Moreover, on one hand banking and financial institutions on Board of Directors provide financial stability, while on the other hand a mix of insurance related experience with a technology touch have been instrumental in the rapid growth of STL.

Members' Profile The members of the board possess a diversified professional profile, with inclusion of executives from business conglomerates and insurance industry veterans providing a unique mix of leadership to the Company.

Board Effectiveness Salaam Takaful at present comprises of three board committees namely Audit, Investment and HR. The Company has emphasized greater focus on the compliance function lately and all these committees are governed according to the corporate governance requirement.

Transparency The auditors of the Company, KPMG Taseer Hadi & Co, provided an unqualified opinion on the financial statements of CY20.

Management

Organizational Structure A lean organizational structure has been maintained by the Company, with reporting lines delineated towards the CEO of the Company.

Management Team Mr. Rizwan Hussain as CEO of the Company brings a unique mix of experience along with shareholding/ownership in the company at the same time. He presides over Salaam Takaful Ltd as Managing Director & CEO with a vision to turnaround the Company.

Effectiveness The organization has three management committees; Underwriting and Retakaful & Co-takaful Committee, Benefit (Claim) Settlement Committee and Risk Management & Compliance Committee

MIS An in-house MIS was created by Salaam Takaful, namely 'Takaful Management System'. 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 A centralized claims processing system is implemented by Salaam Takaful, where only data entry rights are available to branches. When a claim is incurred, loss is reported, reserves are recorded with estimated loss amount, and surveyor is appointed.

Investment Management Function A formal IPS has been drafted by Salaam Takaful, which is yearly reviewed and approved by the Shariah Advisor.

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 policy issuance is subject to the pre-inspection analysis on the basis of information collected by branches and captured on customized forms

Business Risk

Industry Dynamics During CY21, bank financing and automotive sector growth facilitated the industry progression. As COVID re-emerged through its "Omicron" variant, its potential implications remain yet to unfold in the coming year. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify market position.

Relative Position Salaam Takaful holds a market share of 1.67% for the period ended 9MCY21, deeming it as a small player of the general insurance industry.

Revenue Salaam Takaful was aggressively planning a motor focus contribution strategy; however, the Company has branched out in Health segment and has acquired exponential business through bank enlistments. The segment mix of Salaam Takaful is dominated by Health contributing 48.7% (PKR 721.5mln), followed by Motor contributing 42.8% (PKR 634.2mln), Fire & Property damage contributing 4.2% (PKR 62.5mln) and Miscellaneous contributing 2.0% (PKR 29.2mln).

Profitability During 9MCY21, a considerable increase of 41.8% in the topline of Salaam Takaful was observed (9MCY21: PKR 1480.7mln; 9MCY20: PKR 1044.4mln) with major business gained in the health and motor segments. The Company depicted improvement in the loss ratio trend, falling to 54.5% for the period ended 9MCY21 (9MCY20: 88.6%), with such a decrease in the ratio attributed to a considerable decrease in the motor claims

Investment Performance The investment income of the Company has remained stable over the period, as investments in fixed income securities and bank deposits generated an investment income of PKR 56.5mln for the period ended 9MCY21 (9MCY20: 55.5mln) depicting an increase of 1.9% on YoY basis.

Sustainability Salaam Takaful has placed strong emphasis on the use of technology to improve operating efficiency. This is bound to bring further improvement in the bottom-line. 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 73 days (9MCY20: 108 days) on account of limiting IBNR in relation to the claims expense.

Re-Insurance Salaam Takaful has its Re-Takaful arrangements with Labuan Re ('A-' by AM Best), Saudi Re ('A3' by Moody) Kuwait Re ('A-' by AM Best), Malaysian Re ("A-" by A.M Best), PRCL ("AA" by VIS) and Singapore Re ('A' by AM Best).

Cashflows & Coverages Salaam Takaful's equity has witnessed an improvement after the injection of equity by the new owners. This has resulted in stable financial risk position as compared to the previous years as liquidity position against outstanding claims is at 3.6 times at 9MCY21 (9MCY20: 2.5 times). The Company recovers the premium within 119 days (9MCY20: 69 days) on average.

Capital Adequacy Salaam Takaful has a total equity of PKR 807mln, increased from PKR 440mln, as at 9MCY21, with such a major increase attributed to a capital injection.



BALANCE SHEET	3Q21 PKR mln	CY20 PKR mln	Dec-19 PKR mln	Dec-18 PKR mln
Investments				
Liquid Investments	916	969	638	591
Other Investments	100	-	91	109
Insurance Related Assets	725	575	300	62
Other Assets	1,099	642	401	190
TOTAL ASSETS	2,841	2,185	1,431	953
Equity (SHF)	646	358	446	421
Equity Waqf / Participants' Takaful Fund (PTF)	162	84	28	(1)
Underwriting Provisions	1,499	1,014	655	309
Insurance Related Liabilities	210	235	213	170
Other Liabilities	324	495	89	54
TOTAL EQUITY & LIABILITIES	2,841	2,185	1,431	953

Profit and Loss Account (Participants' Takaful Fund / PTF)	3Q21	CY20	Dec-19	Dec-18
Gross Contribution Written (GPW)	1,481	1,606	1,032	376
Net Contribution Revenue	707	1,211	623	145
Net Claims	(624)	(690)	(317)	(78)
Net (Expenses) / Income	(20)	(32)	(4)	5
Net Investment Income	18	35	15	(0)
Profit/Loss before tax (deficit transferred to participant's equity)	78	56	28	4

Profit and Loss Account (Shareholders' Fund / SHF)	3Q21	CY20	Dec-19	Dec-18
Wakala Income	439	465	310	70
Commission & Operational Expenses	(462)	(491)	(327)	(159)
Investment Income	33	44	40	12
Profit Before Tax	10	18	23	(76)

RATIO ANALYSIS*	3Q21	CY20	Dec-19	Dec-18
Underwriting Results				
Loss Ratio	54%	57%	34%	36%
Expense Ratio	36%	35%	36%	80%
Combined Ratio	91%	92%	70%	116%
Performance				
Operating Ratio	85%	86%	64%	106%
Investment Yield (SHF + PTF)	8%	9%	5%	4%
Liquidity & Solvency				
Liquidity Ratio – times	3.6	3.8	3.6	3.6

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

Salaam Takaful Limited

Jan 2022

Insurer Financial Strength (IFS) Rating

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.

<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 some material identifiable event with indeterminable rating implications. 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 rating 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. 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, 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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent