



The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Qatar Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	A+	-	Stable	Maintain	-
12-Jun-2018	A+	-	Stable	Upgrade	-
06-Dec-2017	A	-	Positive	Maintain	-
23-Jun-2017	A	-	Positive	Maintain	-
09-Aug-2016	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects sustained market position of the company, having decent foothold in takaful industry. The company has demonstrated momentum in terms of business expansion. The growth is a challenge especially due to slowdown in banca. The company benefits from its brand as being the dedicated takaful company having significant size. Moreover, after having established branch network, PakQatar Family is gradually expanding wings through alternate distribution networks; wherein the success remains to be seen. Meanwhile, competition from window takaful should be managed well. The profitability of the company has remained strong as compared to peers, reflecting strong business profile. The financial risk profile has been strengthened based on several fresh injection of equity. Pak Qatar Family Takaful has strong liquidity coverage to policyholder's liabilities, which is further topped up by a cushion from liquid investments of the shareholder's fund.

The rating depends upon the company's ability to improve its market share while improving the persistency of Gross Contribution. Product diversification in non-banca segments should be translated into size-able volumes with enhanced profitability. Meanwhile, financial metrics need to continuously improve.

Disclosure

Name of Rated Entity	Pak-Qatar Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology Life Insurance(Jun-18)
Related Research	Sector Study Life Insurance(Jun-18)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504



Profile

Legal Structure PakQatar Family Takaful Limited (PQFTL) is an unquoted public company

Background Pak-Qatar Family Takaful Limited (PQFTL) started its operations in Aug-07.

Operations The company's business is categorized under the umbrella of three statutory funds i.e (i) Individual Family – plans sold through DSF and Banka-Takaful as unit linked plans and Decreasing Term Assurance (DTA) as non-linked plans, (ii) Group Family, and (iii) Group Health. With its head office in Karachi, the company operates through three business Hubs – South, North and Central – with a total of 65 branches, deploying Direct Sales Force (DSF). Another major distribution network comprises Banca-Takaful arrangements with 14 major banks of the country.

Ownership

Ownership Structure Major shareholding in the hands of (i) Mr. Said Gul & his associated company (30% via Pak-Qatar Investment (Private) Limited and 9% via close family members), (ii) Three Qatar based Financial Institutions (29%), and (iii) H.E. Sheikh Ali Bin Abdullah Al-Thani - belongs to Qatar's Royal Family (10%). Technical partner is FWU AG (15%), a German based firm having operations in Europe and Middle East, maintains permanent establishment in Pakistan - by virtue of this technical arrangement stability.

Stability There has been no change in the ownership structure recently

Business Acumen Three Qatar based financial institutions have shareholding in PQFTL, these are; i) Qatar International Islamic Bank (rated A+ by Fitch and Capital Intelligence) is majorly owned by Ezzan Holding group and Qatar Investment Authority ii) Masraf Al –Rayan incorporated in 2006 (rated Aa3 by Moody's), iii) Qatar Islamic Insurance Company (rated BBB+ by A.M. Best) is the 6th largest insurance company in Qatar insurance sector and 2nd largest in takaful.

Financial Strength PQFTL's synergy relationship with FWU AG is guided by and properly documented in "Cooperation Agreement". This bodes well for the overall profile of the company. The agreement allows PQFTL to use (i) customised Banca product (mutually developed by PQFTL and FWU AG), (ii) FWU's Sales & Administration System (SIS), and (iii) FWU's services of acquiring the distribution partner. FWU maintains permanent establishment in Pakistan employing 26 individuals (including a sales team of ~15), to facilitate and train banks' officials selling FWU's products.

Governance

Board Structure Pak-Qatar Family has a seven-member board including Mr. Said Gul who has been associated with the company since inception and holds a vital position between the board of directors and management of Pak-Qatar Family. Mr. Gul also represents Pak Qatar Investment (Pvt.) Limited in the capacity of Director as representative on the board of Pak-Qatar Family. The board has five committees i) Executive Committee ii) Audit Committee iii) Investment Committee iv) Ethics, Human Resource and Remuneration Committee & v) Nomination Committee

Members' Profile H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali), royal family member, is chairman of the board, while Mr. Said and FWU has one representation each.

Board Effectiveness The participation of two board members remained full; Mr. Said Gul and Mr. Zahid Hussain. This is mainly because Mr. Gul & Mr. Zahid endeavour to ensure remaining board members also participate in the board meetings. Pak-Qatar Family's Board meeting are held inside Pakistan as well as outside Pakistan depending upon directors availability.

Financial Transparency The auditors of the company, EY Ford Rhodes, Chartered Accountants, issued an unqualified audit report pertaining to annual financial statements for CY17 and issued an unqualified review report for the half year ended 6MCY18.

Management

Organizational Structure The management team of the company comprises qualified and experienced professionals. The organizational structure is well laid down. The management has four committees i) Underwriting Committee ii) Re- takaful Committee iii) Claims Committee & iv) Risk Management and Compliance Committee.

Management Team Mr. Said Gul being founding Member & Director, plays the role of a bridge on behalf of the board, in liaison through three key individuals – Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Chief Internal Auditor (CIA). Mr. Nasir Ali Syed, the CEO of the company since 2012, carries more than two decades of experience in the insurance industry.

Effectiveness An online MIS is provided to Mr. Gul that keeps him updated with progress of the company. Further, company's information is available in real time to the CEO.

Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation/notification by the customer. Three claim Forms (in standard format); i) Claimant's Statements, ii) Physician's Statement, and iii) Employer's Statement – only in case of Group Takaful, are required to be filled and signed respectively. The claim on Waqf can be broadly categorized into Death Claims, Critical Illness and Disability.

Investment Management Function PQFTL has a formal investment policy document approved by BoD and Shariah Board, reviewed annually. The company maintains IPS for three funds separately – PTF, PIF, and SHF. The IPS incorporates separate investment strategies for each of the unit-linked fund within PIF – BT Growth, BT Conservative, Aggressive, Balanced, Conservative and Secure Wealth Fund.

Risk Management Framework The company has developed a detailed underwriting manual and guidelines are issued to the branches and updated from time to time. An underwriter's authority limit is assigned by CEO/COO on the basis of experience and qualification of each individual separately

Business Risk

Industry Dynamics Pakistan's life sector continues to remain split between state life and rest private sector with a ratio of 42:58. Since liberalization of the sector in early 90s, eight private sector companies have entered the market and now holds just above ~50% of the market share. Family Takaful- an Islamic life insurance- traditionally comprised two takaful operators.

Relative Position PQFTL is the largest takaful operating company in Pakistan, having 3% market share in Life Insurance Sector. In terms of Takaful Operators PQFTL is the largest life insurer with the majority market share ~ 86%.

Persistency The company has first year persistency ratio of 62 and 79% in second year at end Sep-18 (9MCY17 :First year Persistency 77%, Second year Persistency 88%).

Revenue The company posed a topline of PKR 5.5bln at end Sep-18 (9MCY17: PKR5.9bln) . The individual family takaful comprised 76% of the total GPW followed by group health (18.3%) and group family (5.3%).

Profitability The company posted an adjusted Loss of PKR 44mln despite the support from Investment income, on account of increased expenses at end Sep-18

Investment Performance At end Sep-18, the investment income from Statutory fund stood at PKR18mln (9MCY17: PKR14mln) on account of improved return on bank deposits amidst rising interest rate. The dividend income also showed an improvement at end Sep-18 rising to PKR 11mln

Sustainability Going forward, the company envisages continued business growth targets while focus on gradual upward profits. To improve persistency, the company has formulated various marketing techniques, thereby increasing the client retention.

Financial Risk

Claim Efficiency The claim ratio improved to 62% at end Sep-18 (Dec17: 71.%, Dec 16: 68%). The claims ratio for individual family improved to 15.5% (Dec 17: 26.6%), whereas the group health showed an improvement, reducing to 69.7% from 81% at end Sep-18. The Claims ratio for Group Family remained stable at 58%

Re-Insurance PakQatar Family is strengthened by its Re-Takaful arrangements with Munich Re (AA- by S&P) , Hannover Re (AA- by S&P) & Hannover Re-Takaful Catastrophic arrangements provide the company with cushion to absorb unforeseen risks.

Liquidity The liquidity remains stable at 1x at end Sep-18 (Dec17: 1.1x, Sep 17: 1x) amidst the rise in liquid assets.

Capital Adequacy The company has a paid up capital of above PKR 1.3bln, well above the MCR whereas the net equity was PKR1.31bln at end Sep-18



LIFE INSURANCE
Financials [Summary]

Pak Qatar Family Takkaful

BALANCE SHEET	30-Sep-18	31-Dec-17	30-Sep-17
Investments			
Liquid Investments	19,354	17,519	17,052
Investment in Associates			
Other Investments			
	19,354	17,519	17,052
Insurance Related Assets	1,053	748	434
Other Assets	1,184	797	812
TOTAL ASSETS	21,591	19,065	18,298
Equity	1,317	1,157	1,090
Statutory Fund	19,256	17,216	16,431
Insurance Related Liabilities	668	480	488
Other Liabilities	350	212	289
TOTAL EQUITY & LIABILITIES	21,591	19,065	18,298
INCOME STATEMENT	30-Sep-18	31-Dec-17	30-Sep-17
Net Premium			
Gross Premium	5,502	8,263	5,938
Reinsurance Expense	(274)	(356)	(265)
Net Premium	5,228	7,907	5,673
Net Claims	(842)	(1,057)	(791)
Expenses	(4,167)	(6,726)	(4,918)
Investment Income	18	18	14
Excess of Income over Expenditure (EoI)	237	143	(22)
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	(141)	(32)	38
SURPLUS BEFORE APPROPRIATIONS	95	110	16
RATIO ANALYSIS	30-Sep-18	31-Dec-17	30-Sep-17
Underwriting Results			
Gross Premium Written (GPW) Growth Rate	-7%	10%	15%
Premium Mix (Individual GPW/ Total GPW)	76%	83%	83%
Persistency Ratio (Individuals Funds)	62%	74%	77%
Loss Ratio (Net Claims as %age of net premium)	62%	71%	74%
Performance			
Return on Equity - Shareholder	-4%	13%	4%
Liquidity & Solvency			
Liquidity Ratio – times	1	1.1	1.0



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.

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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

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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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