



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
20-Dec-2019	A+	-	Stable	Maintain	-
21-Jun-2019	A+	-	Stable	Maintain	-
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 a decent foothold in the takaful industry. PakQatar has been able to improve its system share gradually while maintaining growth in the form of sustainable persistency. The company benefited from its association with FWU, a Germany based firm, in the form of technical partnership. The company stands on good footing on stand alone basis. Investment related losses have dampened the surplus position, calling for contribution from the shareholder fund. Furthermore, profits from individual segments needs to be improved. The liquidity of the company adequately covers the outstanding obligations of the company. Going forward, the company envisages continued business growth while focusing on improved profitability.

The rating denotes the ability of the company to capitalize on the market share whilst sustaining the persistence. Product diversification in non-Banca segments should be translated into size-able volumes with enhanced profitability. Meanwhile, monetary 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	PACRA_Methodology_LI_FY19(Jun-19)
Related Research	Sector Study Life Insurance(Jun-19)
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

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) Two 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 Two Qatar based financial institutions have a shareholding in PQFTL, these are; i) Qatar International Islamic Bank (rated A by Fitch and Capital Intelligence) is majorly owned by Ezdan Holding Group and Qatar Investment Authority & ii) Qatar Islamic Insurance Company (rated BBB+ by A.M. Best).

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 eight-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.

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 CY18 and performed the half review for the IH CY19 financial statements.

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 four key individuals – Chief Executive Officer (CEO), Director finance, 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 the progress of the company. Further, the 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, is 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 Life insurance sector has seen stupendous growth in recent years (CAGR 3 years: 13%). Major growth is led by the public sector, which grew by average 15%; while growth in private sector was 11% .With the advent of takaful window, another avenue has emerged which may benefit the sector in future.

Relative Position PQFTL is the largest life takaful operating company in Pakistan, having 5% market share in Life Insurance Sector. In terms of Takaful Operators PQFTL is the largest life insurer.

Persistency The company has first-year persistency ratio of 69% and 83% in second year at end Sep-19 (Sep-18: First year Persistency 62%, Second-year Persistency 79%).

Revenue The posted a topline of PKR 5.9bln rising by 8% YoY at end Sep-19 (Sep-18: PKR 5.5bln). The individual family segment was the forte of the company comprising 73% of the total GPW followed by Group health (22%) and Group Family (5%).

Profitability The company posted a surplus before distribution of PKR 79 at end Sep-18 (9M CY18: Profit : PKR95mln). The combined ratio of the company is also on the higher side clocking in at 113%.

Investment Performance The investment income stood at PKR42mln as against in PKR10mln YoY at end Sep-19. This increase was on account of increased return on the government securities amidst the rising interest rates.

Sustainability Going forward, the company envisages continued business growth targets while focussing on gradual upward profits. To improve persistence, the company has formulated various marketing techniques, thereby increasing client retention. The company has currently made a loss on the its takaful operation (PKR 70mln loss) at end Sep19.

Financial Risk

Claim Efficiency At end Sep-19, the claims efficiency ratio stood at 45days as against 41.3 days of the same period last year, on account of increased claims.

Re-Insurance Pak-Qatar 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-19 (Sep18: 1.1x, Dec 18: 1x) amidst the rising 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 PKR1.32ln at end Sep-19



Pak Qatar Family Takaful Limited

	PKR mln	PKR mln	PKR mln	PKR mln
	30-Sep-19	30-Dec-18	30-Sep-18	31-Dec-17
BALANCE SHEET				
Investments				
Liquid Investments	19,090	19,811	19,354	17,519
Insurance Related Assets	1,317	717	1,053	748
Other Assets	2,099	1,368	1,184	797
TOTAL ASSETS (SHF + PTF)	22,505	21,896	21,591	19,065
Equity	1,325	1,493	1,317	1,157
Balance of Takaful Statutory Funds	20,126	18,927	19,256	17,216
Insurance Related Liabilities	679	673	668	480
Other Liabilities	374	803	350	212
TOTAL EQUITY & LIABILITIES (SHF + PTF)	22,505	21,896	21,591	19,065
INCOME STATEMENT				
REVENUE ACCOUNT				
Gross Contribution Written (GC)	5,954	7,817	5,502	8,263
Participants Investment Fund (PIF)	(3,078)	(4,503)	(3,133)	(5,186)
Retakaful Expense	(317)	(373)	(274)	(356)
Wakala Fee	(898)	(1,146)	(748)	(1,243)
Net Claims	(1,186)	(1,192)	(842)	(1,057)
Operating Income/(Expenses)	(307)	(319)	(279)	(298)
Investment Income	42	28	10	18
Technical reserves incurred during the year	(130)	(127)	(141)	(32)
Surplus Before Distribution	79	184	95	110
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	(64)	155	(44)	174
RATIO ANALYSIS				
Underwriting Results				
Claims Ratio - PTF	88%	66%	62%	71%
Combined Ratio	114%	91%	105%	94%
Performance				
Operating Ratio	113%	90%	105%	93%
Investment Yield (SHF + PTF+PIF)	6%	3%	4%	-2%
Liquidity & Solvency				
Liquidity Ratio – times	1.0	1.0	1.0	1.1

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+	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	
AA-	
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	
A-	
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	
BBB-	
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	
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. "C" Ratings signal imminent default.
CC	
C	
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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