



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 |
|--------------------|------------------|-------------------|----------|----------|--------------|
| 30-Jun-2020        | A+               | -                 | Stable   | Maintain | -            |
| 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 improved market position of the company, garnering a decent foothold in the takaful industry. PakQatar has been able to sustain its system share gradually while registering 6% growth in the form of sustainable persistency. The company has benefited from its association with FWU, a Germany based firm, in the form of technical partnership whereas the sponsors add impetus in the form of synergic benefits. The growth in topline is healthy as the company envisages greater business volumes. This has driven up the management and commission expenses. The liquidity is adequate; though on the rise. Going forward, the new management aims to penetrate into untapped segments while focusing on improved profitability.

Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to the underperformance of equity markets, which made the unit-linked investment funds unattractive to policy holders for investment purposes. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products.

The rating denotes the ability of the company to capitalize on the market share whilst sustaining the persistence. Maintaining the surplus in takaful fund and liquidity position is essential.

#### Disclosure

|                              |   |
|------------------------------|---|
| <b>Name of Rated Entity</b>  | Pak-Qatar Family Takaful Limited                        |
| <b>Type of Relationship</b>  | Solicited   |
| <b>Purpose of the Rating</b> | IFS Rating  |
| <b>Applicable Criteria</b>   | PACRA_Methodology_LI(Jun-19)                            |
| <b>Related Research</b>      | Sector Study   Life Insurance(Jun-19)                   |
| <b>Rating Analysts</b>       | 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 (4% individually and 35% via Pak-Qatar Investment (Private) Limited (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%) 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 endeavor 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 CY19

## 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. Azeem Peerani has taken over the charge of the company from Mr. Nasir Ali Syed, who has been appointed as the new CEO of PQGT as part of strategic move

**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** Prior to COIVD-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to the underperformance of equity markets, which made the unit-linked investment funds unattractive to policy holders for investment purposes. The current pandemic has further affected the life insurance industry, with the growth expected to plummet. Additional reduction in investment linked policies and heightened claims are expected. Moreover, increase in surrenders is likely as a result of economic stagnation. The large investment book is however likely to cushion any impact. The industry intends to sustain its existing position while aiming to launch innovative products

**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 65% and 82% in second year at end Dec-19 (Dec-18: First year Persistency 61%, Second-year Persistency 79%).

**Revenue** The company posted a topline of PKR 8.3bln rising by 6% YoY at end Dec-19 ( Dec-18: PKR 7.8bln). The individual family segment was the forte of the company comprising 75% of the total GPW followed by Group health (19%) and Group Family (6%). During the period 3MCY20, company posted the topline of PKR1.7bln registering a marginal decline of 5%

**Profitability** The company posted a profit before tax of PKR84mln at end Dec-19 (CY18: Profit : PKR155mln). The combined ratio of the company is also on the higher side 55%( CY18: 50%) due to the rise in the management expense of the company. During 3MCY20, the company's SHF posted a loss PKR 48mln and the PTF posted too posted a deficit of PKR 345,000

**Investment Performance** The investment income stood at PKR52mln as against in PKR28mln YoY at end Dec-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 focusing 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 its takaful operation (PKR 0.34mln loss) at end March 20.

## Financial Risk

**Claim Efficiency** At end Dec-19, the claims efficiency ratio stood at 23days as against 29 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 Dec-19 ( Dec18: 1.1x, Dec 19: 1.6x) amidst the rising liquid assets.

**Capital Adequacy** The company has a paid-up capital of above PKR 1.37bln, well above the MCR whereas the net equity was PKR1.38bln at end Dec-19



Pak Qatar Family Takaful Limited

|   | PKR mln<br>31-Mar-20 | PKR mln<br>31-Dec-19 | PKR mln<br>31-Dec-18 | PKR mln<br>31-Dec-17 |
|---|----------------------|----------------------|----------------------|----------------------|
| <b>BALANCE SHEET</b>                              |                      |                      |                      |                      |
| <b>Investments</b>                                |                      |                      |                      |                      |
| Liquid Investments                                | 20,408               | 22,980               | 19,811               | 17,492               |
| Insurance Related Assets                          | 802                  | 879                  | 717                  | 588                  |
| Other Assets                                      | 2,161                | 1,981                | 1,368                | 968                  |
| <b>TOTAL ASSETS (SHF + PTF)</b>                   | <b>23,371</b>        | <b>25,840</b>        | <b>21,896</b>        | <b>19,048</b>        |
| Equity  | 1,154                | 1,308                | 1,468                | 1,137                |
| Balance of Takaful Statutory Funds                | 20,953               | 23,368               | 19,548               | 17,217               |
| Insurance Related Liabilities                     | 787                  | 742                  | 777                  | 616                  |
| Other Liabilities                                 | 477                  | 422                  | 103                  | 78                   |
| <b>TOTAL EQUITY &amp; LIABILITIES (SHF + PTF)</b> | <b>23,371</b>        | <b>25,840</b>        | <b>21,896</b>        | <b>19,048</b>        |

|  | 31-Mar-20     | 31-Dec-19 | 31-Dec-18  | 31-Dec-17  |
|--|---------------|-----------|------------|------------|
| <b>INCOME STATEMENT</b>                              |               |           |            |            |
| <b>REVENUE ACCOUNT</b>                               |               |           |            |            |
| Gross Contribution Written (GC)                      | 1,689         | 8,287     | 7,817      | 8,263      |
| Participants Investment Fund (PIF)                   | (918)         | (4,453)   | (4,503)    | (5,186)    |
| Retakaful Expense                                    | (97)          | (426)     | (373)      | (356)      |
| Wakala Fee   | (407)         | (1,722)   | (1,565)    | (1,590)    |
| Net Claims   | (351)         | (1,646)   | (1,192)    | (1,057)    |
| Operating Income/(Expenses)                          | (2)           | 66        | 99         | 50         |
| Investment Income                                    | 15            | 52        | 28         | 16         |
| Technical reserves incurred during the year          | 71            | (127)     | (127)      | (32)       |
| <b>Surplus Before Distribution</b>                   | <b>(0.35)</b> | <b>31</b> | <b>184</b> | <b>108</b> |
| <b>PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)</b> |               |           |            |            |
| Profit/(Loss) before Tax                             | (49)          | 84        | 155        | 173        |

|                                 | 31-Mar-20 | 31-Dec-19 | 31-Dec-18 | 31-Dec-17 |
|---------------------------------|-----------|-----------|-----------|-----------|
| <b>RATIO ANALYSIS</b>           |           |           |           |           |
| <b>Underwriting Results</b>     |           |           |           |           |
| Claims Ratio                    | 46%       | 54%       | 50%       | 16%       |
| <b>Liquidity &amp; Solvency</b> |           |           |           |           |
| 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   | <b>Exceptionally Strong.</b> 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+   | <b>Very Strong.</b> 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+    | <b>Strong.</b> 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+  | <b>Good.</b> 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+   | <b>Weak.</b> 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+    | <b>Very Weak.</b> 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   | <b>Very high credit risk.</b> 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     | <b>Distressed.</b> 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)

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- (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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