



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-2021	A+	-	Stable	Maintain	-
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 the maintained market position of the Company, garnering a strong foothold in the takaful industry. Pak-Qatar has been able to sustain its system share gradually while controlling costs among the pandemic and simultaneously benefiting from the large investment book leading to improved investment income. 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 profit despite slight YoY decline in net contribution is healthy as the Company envisages greater operational efficiency bolstered by investment income. This has driven down the management and commission expenses when comparing results CY20 and CY19. The liquidity is adequate; though steadily rising. Going forward, the management aims to penetrate into untapped segments while continuing to focus on improving profitability.

During CY20, the total GPW of the industry grew by 4.6% to PKR 233bln in CY20 as against a decline of 1.2% to PKR 223bln in CY19. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. However, due to present pandemic situation, the demand for Life Insurance products is expected to increase over near term which in-turn is expected to result in new business growth for the industry.

The rating denotes the ability of the Company to capitalize on the market share whilst sustaining the performance. 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>	Methodology   LI(Jun-20)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-20)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Pak-Qatar Family Takaful Limited (PQFTL) is an unquoted public company with head office located in Karachi.

**Background** PQFTL started its operations in Aug-2007.

**Operations** The Company's business is categorized under the umbrella of three statutory funds i.e. (i) Individual Family – plans sold through Direct Sales Force 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 is in the hands of Mr. Said Gul & his associated Company (35% via Pak-Qatar Investment (Pvt.) Limited) and (4%) individually, and H.E. Sheikh Ali Bin Abdullah Al-Thani (10%) - belonging to Qatar's Royal Family. Technical partner is FWU AG firm (holding 15%) having operations in Europe and Middle East, while maintaining permanent establishment in Pakistan - by virtue of this technical arrangement stability. Qatar International Islamic Bank and Qatar Islamic Insurance Company each hold (10%) and (11%) respectively.

**Stability** There has been no change in the ownership structure recently and is therefore considered stable.

**Business Acumen** Two Qatar based financial institutions have shareholding in PQFTL, these are; i) Qatar International Islamic Bank holding 10% (rated A by Fitch and Capital Intelligence) & ii) Qatar Islamic Insurance Company holding 11% (rated A- by A.M. Best).

**Financial Strength** PQFTL's synergistic 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) customized 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 bank officials selling FWU products.

## Governance

**Board Structure** PQFTL has an 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 PQFTL. Mr. Said Gul also represents Pak Qatar Investment (Pvt.) Limited in the capacity of Director as representative on the board of PQFTL.

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

**Board Effectiveness** The participation of board members remained strong. This is mainly because Mr. Said Gul & Mr. Zahid endeavor to ensure remaining board members also participate in the board meetings. PQFTL's board meetings are held inside Pakistan as well as outside Pakistan depending upon director's availability.

**Financial Transparency** The auditors of the Company, EY Ford Rhodes, Chartered Accountants, issued an unqualified audit report pertaining to annual financial statements for CY20.

## 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, and iv) Risk Management and Compliance Committee.

**Management Team** Mr. Said Gul being founding Member & Director, plays the role of bridge on behalf of the board, as liaison through four key individuals – CEO, Director Finance, 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 Pak-Qatar General Takaful as part of strategic move.

**Effectiveness** An online MIS is provided to Mr. Said Gul that keeps him updated with the progress of the company. Furthermore, 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 Statement, (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, which is 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 funds 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** During CY20, the total GPW of the industry grew by 4.57% (PKR 233bln) while having shown muted decline of 1.24% in CY19 (PKR 223bln). Two factors in particular contributed towards the industry growth i) Decline in discount rate which remained stable at 7% and ii) Recovery of stock market from under stress performance. The past year has been very challenging due to COVID-19 pandemic which has caused immense stress on most businesses.

**Relative Position** PQFTL is the largest Life Takaful operating Company in Pakistan, having ~4% market share in Life Insurance Sector. In terms of dedicated Takaful Operators, PQFTL is the largest life insurer.

**Persistency** 1st and 2nd year persistency (CY20) stood at 61% and 80% (CY19: 65%, 82%) showing decline YoY largely due to COVID-19 pandemic.

**Revenue** During the 12M period CY20, the Company posted total contributions of PKR 8bln registering a YoY decline of 3.9% (CY19: PKR 8.3bln). For CY19 contributions rose by 6% YoY (CY18: PKR 7.8bln). The individual family segment was the forte of the Company comprising (80%) of the total gross contributions followed by group health (15%) and group family (5%).

**Profitability** The Company for CY20 posted a profit after tax of PKR 164mln which was an improvement YoY (CY19: PKR 55mln) because of operational efficiency and investment income.

**Investment Performance** The investment income for PTF stood at PKR 45mln for CY20 as against PKR 52mln for CY19. This decrease was on account of falling interest rate. Overall company level including the three funds (PIF+PTF+SHF) the investment income grew YoY by 23% from PKR 2.6bln for CY19 to PKR 3.2bln for CY20.

**Sustainability** Going forward, the Company envisages continued business growth targets while focusing on gradual upward profits. To improve persistency, the company has formulated various marketing techniques, thereby increasing client retention. The Company has currently generated a profit after tax of PKR 164mln at end CY20 (CY19: PKR 55mln). The sizeable and diversified investment book provides cushion going forward.

## Financial Risk

**Claim Efficiency** The claims efficiency ratio stood at 51.6 days (CY20) as against 37.3 days (CY19), on account of increased outstanding claims within Individual Family segment. At end CY18 claims efficiency ratio was stood at 38.3 days.

**Re-Insurance** PQFTL 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 providing the company with cushion against unforeseen risks.

**Liquidity** The liquidity continues to remain stable YoY at 1x as at end CY20 (CY19: 1x).

**Capital Adequacy** The Company has a paid-up share capital of PKR 1.3bln, well above the Minimum Capital Requirement whereas the total shareholder's equity rose from PKR 1.3bln (CY19) to PKR 1.5bln (CY20) due to rise in unappropriated profit.

## Family Takaful



### Pak Qatar Family Takaful Limited

	PKR mln	PKR mln	PKR mln
	31-Dec-20	31-Dec-19	31-Dec-18
<b>BALANCE SHEET</b>			
<b>Investments</b>			
Liquid Investments	27,223	22,980	19,811
Insurance Related Assets	1,039	879	717
Other Assets	1,868	1,981	1,368
<b>TOTAL ASSETS (SHF + PTF)</b>	<b>30,130</b>	<b>25,841</b>	<b>21,896</b>
Total Equity	1,458	1,308	1,468
Deferred Tax Liability	2	-	-
Total Policyholders Equity	786	759	673
Total Liabilities	27,884	23,774	19,755
<b>TOTAL EQUITY &amp; LIABILITIES (SHF + PTF)</b>	<b>30,130</b>	<b>25,841</b>	<b>21,896</b>
<b>INCOME STATEMENT</b>			
<b>REVENUE ACCOUNT</b>			
Gross Contribution Written (GC)	7,961	8,287	7,817
Participants Investment Fund (PIF)	(4,478)	(4,453)	(4,503)
Retakaful Expense	(404)	(426)	(373)
Wakala Fee	(1,799)	(1,722)	(1,565)
Net Claims	(1,329)	(1,646)	(1,192)
Operating Income/(Expenses)	67	66	99
Investment Income	45	52	28
Technical reserves incurred during the year	22	(127)	(127)
<b>Surplus Before Distribution</b>	<b>87</b>	<b>31</b>	<b>184</b>
<b>RATIO ANALYSIS</b>			
<b>Underwriting Results</b>			
Claims Ratio	61%	57%	50%
<b>Liquidity &amp; Solvency</b>			
Liquidity Ratio – times	1.0	1.0	1.0
<b>Pak Qatar Family Takaful Limited</b>			
<b>Jun-21</b>			

## 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	<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+ AA 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.
A+ A 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.
BBB+ BBB 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.
BB+ BB 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.
B+ B 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.
CCC CC C	<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.
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.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (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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