



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2020	A	-	Stable	Maintain	-
20-Dec-2019	A	-	Stable	Maintain	-
21-Jun-2019	A	-	Stable	Upgrade	-
27-Dec-2018	A-	-	Positive	Maintain	-
12-Jun-2018	A-	-	Stable	Maintain	-
11-Dec-2017	A-	-	Stable	Maintain	-
30-Mar-2017	A-	-	Stable	Maintain	-
31-Mar-2016	A-	-	Stable	Maintain	-
21-Apr-2015	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The company denotes strong capacity of the company to meet policyholder and contractual obligations while reflecting its ability to continue capturing takaful volumes. The company has grown over the years, achieved net profitability position and aims to enhance it further through increasing network. A sound IT infrastructure provides support to the operational efficacy of DFTL. The company has adequate risk absorption capacity. The company reaps benefit from its brand image, impetus in building retail penetration. The management aims to establish strong footprints in the Punjab and Karachi region in order to garner increased business. The rating captures the resilience of the company over the years; the company has gradually expanded its wings. With the advent of COVID-19, DFTL aims to sustain its growth and market position.

Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. 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 is dependent upon continued improvement in the company's system share, surplus in takaful fund, and sustained liquidity position. At the same time, upholding strong governance practices are critical. The sponsors' financial profile was relatively stretched, which is now improving.

Disclosure

Name of Rated Entity	Dawood Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	PACRA_Methodology_LI(Jun-19)
Related Research	Sector Study Life Insurance(Jun-19)
Rating Analysts	Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504



Profile

Legal Structure Dawood Family Takaful Limited (DFTL), an unlisted Shariah-compliant Family Takaful operator, commenced operations beginning 2009.

Background All products in PTF-I are unit linked with the company offering eight products. Banca was launched in 2010. Current agreements with Silkbank, Soneri Bank and Bank Al-Baraka are in place.

Operations DFTL operates through a network of 45 branches majorly divided in North, Central and South, with majority of the revenue coming from the central region.

Ownership

Ownership Structure The majority shareholding of the Company owned by Dawood Group holding 53% stake, followed by the Bank of Khyber (15%) and GulfCap (8%).

Stability No change has been observed in the shareholding of the company.

Business Acumen First Dawood Group (FDG) represents a branch of the reputable Dawood family, which is one of the well-known business groups in Pakistan. FDG has the experience of operating financial institutions namely Dawood Islamic Bank Limited, B.R.R. Guardian Modaraba, First Dawood Investment Bank Ltd and 786 Investment Ltd.

Financial Strength First Dawood Group (FDG) has pursued an increasing diversification in the financial sector providing a solid financial footing to the company.

Governance

Board Structure The overall control of the company vests in a seven member Board of Directors. Elections of BOD is due at the end of this year as their tenor is ending.

Members' Profile The board includes the CEO, three representatives of FDG, one of BoK, and two independent directors.

Board Effectiveness Board members possess diversified backgrounds and rich business acumen. They provide their input to the management as well as participate in the decision-making process.

Financial Transparency The auditors of the company; Deloitte, expressed an unqualified audit opinion on the financial statements for CY19.

Management

Organizational Structure DFTL has a well-defined organisational structure and segregated reporting lines.

Management Team Mr. Ghazanfar-ul-Islam, who had been associated with the company for eight years as CFO, was appointed as CEO in Mar'18. Mr. Ghazanfar has vast takaful industry experience and Modaraba experience prior to that.

Effectiveness The company has five management committees, a) Underwriting Committee, b) Claims Committee, c) Risk Management & Compliance Committee, d) Human Resource Committee, and e) Re-Takaful Committee.

Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation/notification by the customer. The apportionment of the claim to retakaful operator's share is done automatically by the system. On the other hand, the claims on Participants' Investment Fund (PIF) can be made through partial or full redemption of units held in Personal Investment Account (PIA). Request for units redemption along with original policy from the customer, minimum PKR 10,000, is received and processed in the head office.

Investment Management Function The Investment Committee (IC), comprising Head of Actuary (HoA), an appointed third-party Actuary (Mr. Shujat Hussain), three BoD members, CEO, CIO and CFO, is responsible for implementation, modification, and execution of investment policy with respect to (i) Shareholders Fund (ii) Waqf Fund – Group and Individual, and (iii) PIF. HoA's ensures proper management of asset/ liability match. As per the investment policy, waqf fund is invested in low risk securities (including GoP Ijara Sukuks and bank deposits).

Risk Management Framework Risk is managed at department level, where every department has developed its own statement of risk tolerance, approved by the CEO. The company uses an In-House developed operating software to handle the operations relating to underwriting, claims administration, retakaful transactions, policy administration and unitized investment funds. Software runs on real time basis supported by Oracle.

Business Risk

Industry Dynamics Prior to COVID-19, the life insurance industry witnessed miniscule growth of 1% YoY as single premium declined due to multiple factors. 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 DFTL is classified as small-sized insurance company with a market share of nearly 1%.

Persistency First-year Gross Contribution have a growth rate of 30% from the last same CY(Dec-18) corresponding period with the second year persistency ratio decreased to 83%(CY18: 88%).

Revenue DFTL's Gross Contributions (GC) predominantly come from unit-linked products (97%) while the rest emanated from group business. The business is geographically diversified mainly concentrated in the central region. During CY19, the company's Gross Contribution (PKR 1,636mln) grew by ~11%.

Profitability The combined ratio of PTF stood at 84% (CY18: 90%) mainly on the account of a decrease in technical reserves in percentage age of Net Contribution Revenue. The surplus before distribution in PTF has increased up to PKR 194mln (CY18: PKR 86mln) mainly due to increase in investment income.

Investment Performance The company was able to increase its investment income to PKR 89mln (CY18: 31mln). This includes's Modarib fee. Majority of the investment income emanates from Return on Sukuks.

Sustainability The management's intention to established strong footprints in the Punjab region. The company envisages enhancing business and profitability of the company, as demonstrated in the latest financial statements. DFTL, as a measure of improved performance, registered a PAT of PKR 30mln (CY18: 10mln) mainly due to increase in Takaful operator fee and Net Investment income.

Financial Risk

Claim Efficiency The claims ratio decreased to 9.8% in CY19 (CY18: 10.2%) mainly on the account of increased in Net Contribution Revenue of Individual Family Takaful Fund.

Re-Insurance DFTL has in place reinsurance treaty arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P).

Liquidity The liquidity base of the company – in Shareholders' Fund, Takaful fund and the Investment fund provides the comfort. The liquid assets, at CY19, adequately cover the company's liabilities toward participants by 1.1x.

Capital Adequacy DFTL has paid-up capital of PKR 750mln. At CY19, the net shareholder's equity of the company is PKR 414mln (CY18: PKR 380mln).



Dawood Family Takaful Limited

	PKR mln 31-Dec-19	PKR mln 31-Dec-18	PKR mln 31-Dec-17
BALANCE SHEET			
Investments			
Liquid Investments	4,876	3,883	3,295
Others (Sukuk - non-liquid)	71	70	-
	4,947	3,953	3,295
Insurance Related Assets	139	74	56
Other Assets	429	263	239
TOTAL ASSETS (SHF + PTF)	5,514	4,290	3,590
Equity	414	380	370
Balance of Takaful Statutory Funds	4,732	3,729	3,050
Insurance Related Liabilities	69	81	71
Other Liabilities	298	100	99
TOTAL EQUITY & LIABILITIES (SHF + PTF)	5,514	4,290	3,590
INCOME STATEMENT - Extracts			
REVENUE ACCOUNT			
Gross Contribution Written (GC)	1,636	1,471	1,313
Participants Investment Fund (PIF)	(928)	(864)	(778)
Retakaful Expense	(63)	(52)	(46)
Wakala Fee	(475)	(374)	(335)
Net Claims	(63)	(57)	(33)
Operating Income/(Expenses)	124	112	80
Investment Income	89	31	21
Technical reserves incurred during the year	(125)	(182)	(137)
Surplus Before Distribution	194	86	84
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)			
Profit/(Loss) before Tax	51	21	7
RATIO ANALYSIS			
Underwriting Results			
Loss Ratio	10%	10%	6.8%
Combined Ratio	84%	90%	87%
Performance			
Operating Ratio	70%	85%	83%
Investment Yield (SHF + PTF)	10%	-1%	-2%
Persistency - First Year	62%	67%	63%
Persistency - Second Year	83%	88%	83%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.1	1.2

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

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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