

RATING REPORT

Pak-Qatar Family Takaful Limited

REPORT DATE:

June 30, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A	A
Rating Outlook	Positive	Stable
Rating Date	Jun 23, '17	Dec 4, '15

COMPANY INFORMATION

Incorporated in 2007	External auditors: M/s. Deloitte Yousuf Adil, Chartered Accountants
Public Unlisted Company	Chairman of the Board: H.E. Sheikh Ali Bin Abdullah Al-Thani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Nasir Ali Syed
Pak-Qatar Investment (Pvt.) Limited – 37.66%	
FWU Global Takaful Solutions – 15.3%	
Masraf Al-Rayan – 14.1%	
Qatar Islamic Insurance Company – 11.0%	
Qatar International Islamic Bank – 10.0%	
Sheikh Ali Bin Abdullah – 6.1%	
General Public – 4.37% (Foreign: 2.31%)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

Pak-Qatar Family Takaful Limited

OVERVIEW OF THE INSTITUTION

Established in 2006 as an unlisted public limited company, Pak Qatar Family Takaful Limited (PQFTL) was the first family takaful operator in Pakistan. The company offers individual and group life covers, with individual policies being the company's major business line in terms of premium income.

RATING RATIONALE

Pak Qatar Family Takaful Limited (PQFTL) was the first family takaful operator in Pakistan. Since then family takaful has begun to take root as an alternative to conventional insurance in Pakistan. However, the number of family operators in the country has remained limited to only 2 companies. At end-December 2016, total takaful contributions represented approximately 5% of total life insurance & family takaful business in Pakistan. PQFTL continues to enjoy strong sponsor support from Pak Qatar Investment (Private) Limited (PQIC) and prominent Qatar based institutions.

Key Rating Drivers:

- 1. Capitalization and Liquidity:** Reported shareholders' equity increased to Rs. 781.6m by end-December 2016 (2015: Rs. 596.9m; 2014: Rs. 440.1m). The company is in compliance with regulatory requirement which requires PQFTL to maintain 100% solvency cushion. During 2017, as per the approval of Board, the company injected fresh capital amounting to Rs. 248.7m. Risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims. Liquidity profile of the company is also considered to be strong with exposure to highly liquid assets representing around three fourth of the total investment portfolio.
- 2. Profitability:** In line with growth in business volumes, net profit of the company has showcased healthy growth. During 2016, the company was able to earn an overall surplus in PTF of Rs. 219.6m on the back of a surplus generated in all its business segments. As a result, PTF was also able to repay its Qard-e-Hasna balance which was due to SHF.
- 3. Business Mix:** Individual life policies are the primary source of revenues, comprising almost 90% of total gross contributions underwritten. During FY16, first year contribution was lower than prior year levels. This was a deliberate strategy of management to ensure that profitable clients are underwritten.
- 4. Risk of Claims:** With growth in cash values, contribution of family takaful in payable claims decreases over time and becomes zero once cash values equals sum assured. Depending on portfolio allocation and sum assured of the policy, it usually takes a period of 6-7 years from issuance for the policy's cash value to exceed sum assured. As a growing company, there is, however, sizeable number of policies with cash value less than sum assured. Risk is, however, considered manageable keeping in view the low crude death rate experienced in the past and reinsurance coverage.
- 5. Share of Bancassurance:** Sales mix of the company has continued to evolve with the introduction of Bancatakaful network through which almost 48% of the business is routed. New regular premium business generated through Bancatakaful represented 28.5% (FY15: 22.6%) of business mix during 2016.
- 6. Direct Sales Force:** Unlike some of the other family takaful operators which have dedicated banking arms, the company has lesser degree of control over its Bancatakaful partners. This in turn, may lead to greater variance in the business generated from the Bancatakaful channel as some larger partner banks focus more on their core banking operations. The management is cognizant of the fact, and is working towards further enhancing the business generated from its own sales force, thereby reducing the company's reliance on commercial banks. As a result, share of business emanated from DSF channel increased from 35% in 2015 to 42% in 2016.
- 7. Investment Management:** PQFTL has six funds under management including Aggressive, Balanced, Conservative, Banca Growth and Banca Conservative Funds. Overall investment profile has remained conservative with exposure to government securities and highly rated instruments representing around three fourth of the total investment portfolio. Resultantly, credit risk emanating from investments is considered manageable.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Pak-Qatar Family Takaful Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	DEC 31, 2014	DEC 31, 2015	DEC 31, 2016
Cash and Bank Deposits	3,226.5	7,956.1	6,814.5
Investments	4,583.8	3,215.2	8,435.1
Total Assets	8,592.7	12,098.9	16,400.2
Net Worth	440.1	596.9	781.6
Total Liabilities	8,152.7	11,502.0	15,618.6
<u>INCOME STATEMENT</u>	DEC 31, 2014	DEC 31, 2015	DEC 31, 2016
Gross Contributions	5,076.7	6,721.2	7,494.0
Net Contributions	4,785.2	917.4	1,315.4
Surplus - Overall	83	238.2	219.6
- Individual	93.1	140.5	112.9
- Group Family	8.7	30.7	27.2
- Group Health	(18.8)	67	79.6
Profit Before Tax	56.1	133.9	165.8
Profit After Tax	29.5	84.0	122.6
<u>RATIO ANALYSIS</u>	DEC 31, 2014	DEC 31, 2015	DEC 31, 2016
Market Share (Gross Premium) (%)	9.4%	9.4%	5.8%
Liquid Asset to total Liabilities %	95.8%	98.3%	92.3%
Cession Ratio (%)	5.7%	5.4%	5.2%

**INSURER FINANCIAL STRENGTH RATING SCALE
& DEFINITIONS**

Appendix II

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Pak-Qatar Family Takaful Limited				
Sector	Insurance				
Type of Relationship	Solicited				
Purpose of Rating	IFS Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: IFS				
	6/23/2017	A		Positive	Maintained
	12/4/2015	A		Stable	Maintained
	5/13/2014	A		Positive	Maintained
	12/7/2012	A		Stable	Upgrade
	12/30/2011	A-		Positive	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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