

RATING REPORT

Pak-Qatar Family Takaful Limited

REPORT DATE:

August 1, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A+	A
Rating Outlook	Stable	Positive
Rating Date	Jul 18, '18	Jun 23, '17

COMPANY INFORMATION

Incorporated in 2007	External auditors: M/s. E&Y Ford Rhodes, 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 – 34.58%	
FWU Global Takaful Solutions – 15.20%	
Qatar Islamic Insurance Company – 10.97%	
Qatar International Islamic Bank – 9.95%	
Sheikh Ali Bin Abdullah Al Thani – 10.18%	

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.

Profile of Chairman

A member of the Royal Family, Sheikh Ali is a prominent businessman in Qatar. By qualification, he is Bachelor of Science in Political Science from Portland State University, U.S.A. Currently, he is the Chairman of Umm-Haish International, and Al-Jazeera Trading & Contracting. Earlier, he was the Chairman of Qatar International Islamic Bank.

Profile of CEO

Muhammad Nasir Ali Syed is a seasoned professional with over twenty three years of rich experience and commendable achievements in the diversified areas of operations and sales in the Life Insurance & Takaful industry of Pakistan. He is a founding member and Chief Executive Officer of Pak-Qatar Family Takaful Limited, serving this pioneering venture since February 2007. Mr. Nasir holds a Master's Degree in Biochemistry from Karachi University, an ALMI qualification from LOMA, USA and a Post-graduate Diploma in Islamic Banking & Takaful from a division of Jamia Darul Uloom Karachi. He started his career with Universal Express and later joined State Express. In 1995, he began his insurance-carrier at the American Life Insurance (ALICO), as a founding member of the Underwriting Department and later moved to Commercial Union Life Assurance Company.

RATING RATIONALE

Historically, life insurance penetration in Pakistan remained at significantly lower levels. Given the prevailing market challenges, total takaful contributions represented approximately 5% of total life insurance & family takaful business in Pakistan. Functioning as one of the two existing takaful operators in the country, Pak Qatar Family Takaful is backed by a sound sponsor profile primarily comprising Qatar based financial institutions. Sponsor support has been demonstrated by the financial assistance provided to PQFTL over the years including the recent equity injection of Rs. 248.7m. This injection has provided strength to the assessment of overall risk profile of the institution. The rating assigned to PQFTL incorporates its high capacity to meet policyholder obligations reflected by its adequate capitalization and liquidity profile.

Key Rating Drivers:

- 1. Capitalization:** With the financial support provided, shareholders' equity was reported higher at Rs. 1.2b (2016: Rs. 781.6m; 2015: Rs. 596.9m; 2014: Rs. 440.1m) by end-December 2017. As a result, risk absorption capacity of the company has improved. Nonetheless, prudence in underwriting activities will need to be maintained as business grows. At present, risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.
- 2. Profitability:** Despite growth in business volumes, surplus earned by the Participant's Takaful Fund was lower in comparison to the previous year on account of higher claims. However, the fund still showcased a healthy surplus of Rs. 141.6m in absolute terms. As a result, only its group health business required Qard-e-Hasna balance from its Shareholder's Fund. Despite lower investment income, the company was able to earn a higher bottom line of Rs. 127.1m vis-à-vis Rs. 122.6m in the corresponding year.
- 3. Business Mix:** Change in rating also reflects PQFTL's increasing presence in the life insurance/family takaful market. PQFTL has witnessed significant growth in contributions through sale of unit linked individual family products in which risk associated with investments in Participants Takaful Fund is mostly borne by the takaful participants. Business generated through the bancatakaful channel has been the primary driver of growth in contributions. Maintaining high persistency levels and surrender rate within manageable limits will be important for sustainable growth.
- 4. Risk of Claims:** Given the nature of Family Takaful policies, contribution of these policies in payable claims decreases over time and becomes zero once cash values equals sum assured. It usually takes a period of 6-7 years from issuance for the policy's cash value to exceed sum assured. However, this is dependent on portfolio allocation and sum assured of the policy. Risk is, however, considered manageable keeping in view the low crude death rate experienced in the past and reinsurance coverage.
- 5. Direct Sales Force:** Given its aggressive stance towards improving the key performance metrics of its sales force, the management is working towards further enhancing the business generated from its own sales force, thereby reducing the company's reliance on commercial banks. 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.
- 6. Investment Management:** The company continues to manage six funds having different approaches towards investment avenues including Aggressive, Balanced, Conservative, Secure Wealth, Banca Growth and Banca Conservative Funds. PQFTL continues to maintain a significant exposure in fixed income instruments as government securities, highly rated instruments and mutual funds. Resultantly, credit risk emanating from investments is considered manageable.

Pak-Qatar Family Takaful Limited

Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
BALANCE SHEET	DEC 31, 2017	DEC 31, 2016	DEC 31, 2015	DEC 31, 2014
Cash and Bank Deposits	5,792.2	6,814.5	7,956.1	3,226.5
Investments	11,726.7	8,435.1	3,215.2	4,583.8
Total Assets	19,064.6	16,400.2	12,098.9	8,592.7
Net Worth	1,156.6	781.6	596.9	440.1
Total Liabilities	17,908.5	15,618.6	11,502.0	8,152.7
INCOME STATEMENT				
Gross Contributions	8,263.1	7,494.0	6,721.2	5,076.7
Net Contributions - PTF	1,478.1	1,315.4	917.4	706.2
Surplus – Overall	141.6	219.6	238.2	83
- Individual	104.1	112.9	140.5	93.1
- Group Family	25.5	27.2	30.7	8.7
- Group Health	12.0	79.6	67	(18.8)
Profit Before Tax	174.4	165.8	133.9	56.1
Profit After Tax	127.1	122.6	84.0	29.5
RATIO ANALYSIS				
Market Share (Gross Premium)	7.0%	8.4%	8.3%	9.5%
Liquid Assets to Total Liabilities	98.0%	92.3%	98.3%	95.8%
Cession Ratio	4.3%	5.2%	5.4%	5.7%
Persistency	85.0%	82.0%	82.0%	77.3%

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				
	7/18/2018	A+		Stable	Upgrade
	6/23/2017	A		Positive	Maintained
	12/4/2015	A		Stable	Maintained
	5/13/2014	A		Positive	Maintained
	12/7/2012	A		Stable	Upgrade
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 insurer financial strength quality only and is not a recommendation to buy or sell any securities.				
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