

Pak Qatar Family Takaful Limited

Chairman: H.E. Sheikh Ali Bin Abdullah Al-Thani; Chief Executive Officer: Mr. Muhammad Nasir Ali Syed

Date: May 13, 2014

Analysts: Maimoon Rasheed
Waqas Munir, FRM

Rating Rationale

Category	Latest	Previous
IFS	A May 13, '14	A Dec 7, '12
Outlook	Positive May 13, '14	Stable Dec 7, '12

Given low penetration of life coverage in the country, companies offering life insurance/family takaful have posted sizeable growth in business volumes in recent years. Market size was estimated at Rs. 90b for 2012. Pak Qatar Family Takaful Limited (PQFTL) has continued to enhance market outreach, with a market share of 9.5% achieved in 2012 (2011: 7.5%).

Individual family business remains the key market segment in which the company operates, with around 87% share in overall contribution while proportion of group health (9%) and group family (4%) business remains modest. Overall gross contribution increased to Rs. 4.5b during 2013 (2012: Rs. 3.3b) primarily on account of higher sales generated through bancatakaful channel. First year contribution also posted decent growth. Persistency rates remained largely unchanged in 2013; these are lower than more established peers in the life insurance sector. Crude death rate for family takaful policies was estimated at 0.20% for 2013 (2012: 0.16). Given the nature of unit-linked policies, asset risk stands transferred to policyholders once cash value exceeds sum risk assured. As a growing company, there are a sizeable number of policies with cash value less than sum risk assured, however crude death rate has remained low which mitigates the associated risk. Moreover, investments comprise marketable securities which may be readily liquidated to meet policyholders' claims. Maintaining strong persistency while keeping surrenders within manageable limits will be critical for future business sustainability.

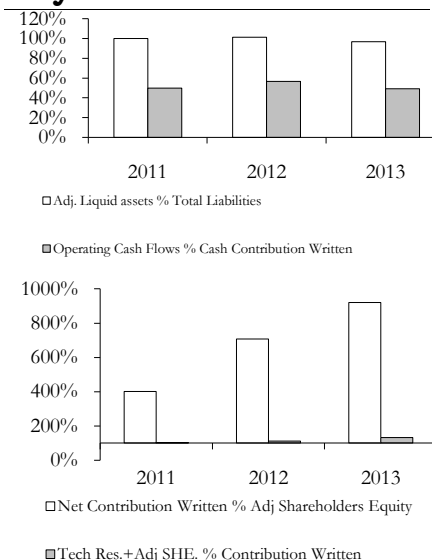
As part of the underwriting strategy which envisages higher penetration across the country, the company plans to offer new products and utilize alternate distribution channels. The company has reliance on banca distribution; more than 50% of the overall contribution is generated through the Banca channel. Over the years, the company has formed alliances with major financial institutions to further strengthen bancatakaful business while technology platform in use is provided by FWU AG, a sponsor company. Moreover, management plans to further strengthen its sales force while operations are planned to be decentralized to allow underwriting from regional offices in order to reduce turnaround time.

With growth in contributions, investment portfolio of the statutory fund increased to Rs.4.3b at end-2013 (2012: Rs. 2.4b). A significant portion of the portfolio is deployed in Government Sukuk, a low risk investment. All funds under management have posted lower return in the outgoing year in comparison to the preceding year on account of decline in benchmark rates. In comparison with similar funds of other life insurance companies, returns have remained largely competitive. Exposure to listed equities remains moderate even in the aggressive fund, albeit having increased in 2013.

While management expenses in relation to gross premium have largely remained unchanged, they are higher in comparison to more established peers. Individual and group family takaful segments continue to record surplus. Moreover, group health segment posted surplus for the first time since inception. Overall surplus in Participants Takaful Fund augmented to Rs. 101.8m during 2013 (2012: Rs. 45.2m). Profit attributable to shareholders was higher at Rs. 50.3m (2012: Rs. 26.7m). For 2012, the company distributed 27.5% surplus generated for individual family members and 51.3% for bancatakaful participants.

With profit retention, net equity of the company after accounting for Qadr-e-Hasna contribution of Rs. 49.2m stood at Rs. 445.1m (2012: Rs. 444.3m). Re-takaful coverage continues to remain adequate with re-takaful arranged through well reputed companies. All of the group health business continues to fall on company's own account.

Key Financial Trends



(In Rs.m)	2011	2012	2013
Gross Contributions	1,865.4	3,324.3	4,461.1
Market Share	7.5%	9.5%	-
Net Contributions	1,740.9	3,144.5	4,239
Net Claims ratio	11.3%	13.8%	20.0%
Expense to Gross Contributions	45%	36%	36%
Net Profit / (Loss)	(9.4)	26.7	50.3
Equity	434.2	444.3	445.1
Liquid Asset to total Liabilities	104.7%	101.9%	96.1%

Overview of the Institution

PQFTL commenced operations in August 2007 as an unlisted company in the family takaful sector of Pakistan. The company offers unit linked individual family, group family and group health policies. The company has a network of 44 branches at end-Dec, 13 (Dec, 12: 36 branches). Financial Statements for 2013 were audited by M/s. M. Yousuf Adil Saleem & Co. Chartered Accountants [\[JCR-VIS\]](#)

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
13-May-14	A	Positive		Maintained
07-Dec-12	A	Stable		Upgrade
30-Dec-11	A-	Positive		Reaffirmed
20-Sep-10	A-	Positive		Maintained