

Pak-Qatar Family Takaful Limited

REPORT DATE:

December 07, 2015

RATING ANALYSTS:

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	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	A	A
Rating Outlook	Stable	Positive
Rating Date	Dec 04, '15	May 13, '14

COMPANY INFORMATION

Incorporated in 2007	External auditors: M/s. Deloitte Yusuf Adil Chartered Accountants
Public 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
FWU Global Takaful Solutions – 15.3%	
Masraf Al-Rayan – 14.1%	
Qatar Islamic Insurance Company – 11.0%	
Qatar International Islamic Bank – 10.0%	
General Public – Foreign – 34.3%	
Sheikh Ali Bin Abdullah – 6.1%	

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

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 42 branches at end-June, 15 (Dec, 14: 45 branches). Financial Statements for 2014 were audited by M/s. M. Yousuf Adil Saleem & Co. Chartered Accountants

RATING RATIONALE

The rating assigned to Pak Qatar Family Takaful Limited (PQFTL) incorporates its high capacity to meet policyholder obligations reflected by its adequate capitalization and liquidity profile. The ratings also take into account PQFTL's association with prominent Qatar based financial institutions.

The private sector life insurance industry has posted a CAGR of 31.7% over the last 5 years (FY09-FY14). Bancassurance business has been the key driver of growth while business generated through direct sales force has witnessed moderate to steady growth. Given low penetration of life takaful, healthy growth in business is expected to continue. Moreover, initiation of window takaful operation by some of the leading insurance companies may intensify the competition.

With business volume of PQFTL growing slower than industry, market share of the company declined moderately to 9.4% at end-FY14 (2013: 9.7%; 2012: 9.5%). Overall gross contribution increased by 14% and amounted to Rs. 5.1b during FY14 (2013: Rs. 4.5b), lower than the targeted contribution of Rs. 7b. During 1H FY15, gross contribution amounted to Rs. 3b against the full year target of Rs. 6.5b. Reliance on Banca channel continues to be high while pace of growth in DSF remained slow; increasing the size and productivity of the sales force is considered important for diversification of business mix. Concentration in group life and group family segments has remained high. Persistency rates declined with overall persistency reported at 77% during FY14 (2013: 82%) on account of increased surrenders and partial withdrawals; persistency rates are low in comparison to some of the more established players operating in the life insurance segment.

In line with growth in contribution, investment portfolio¹ of the statutory funds increased to Rs. 6.2b at end-2014 (2013: Rs. 4.3b) and further to Rs. 6.7b by end-1H FY15. Additional contribution has been mainly channelized towards corporate sukuks and money market mutual funds. While increasing on a timeline basis, exposure in equities (direct & indirect) continues to remain low. On account of the declining benchmark rates, all funds under management depicted lower returns. There is room for enhancing the scope of risk and research related activities to strengthen the investment management function.

Net claim ratio has deteriorated across all business segments. Quantum of surrenders/partial withdrawals has increased as policy holders are enticed to surrender/withdraw policies owing to depressed returns; maintaining surrenders/withdrawals within manageable limits is considered critical for future business sustainability. 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.

Group health segment reported losses during FY14 and 1H FY15. Overall surplus in PTF after declining during FY14 improved during the ongoing year as individual family reported higher surplus. Management expenses in relation to gross contribution, albeit having declined, continues to be high in comparison to some of the more established players.

Net equity of the company stood lower at Rs. 440.1m (2013: Rs. 445.1m), on account of a lower profit reported during FY14 and Qard-e-Hasna contribution. At end-1H FY15, net equity amounted to Rs. 451.6m while accumulated losses stood lower. Policy holder contributions are invested in marketable securities which may be readily liquidated; liquid asset represents over 100% of total cash value of surrenderable policies at end-1H FY15.

Barring few changes, senior management team has depicted stability and comprises experienced resources. Changes were also witnessed in the shareholding structure of the company; sponsors of PQFTL comprise prominent Qatar based financial institutions. IT infrastructure is planned to be further strengthened with the induction of a dedicated IT resource.

¹ Including bank deposits

Pak-Qatar Family Takaful Limited
Appendix I

FINANCIAL SUMMARY		(amounts in PKR billions)		
BALANCE SHEET	DEC 31, 2012	DEC 31, 2013	DEC 31, 2014	
Cash and Bank Deposits	1,496.7	1,827.1	3,226.5	
Investments	2,055.3	3,765.5	4,583.8	
Total Assets	3,929.1	6,188.9	8,592.7	
Net Worth	444.3	445.1	440.1	
Total Liabilities	3,484.8	5,743.8	8,152.7	
INCOME STATEMENT	DEC 31, 2012	DEC 31, 2013	DEC 31, 2014	
Gross Contributions	3,324.3	4,461.1	5,076.7	
Net Contributions	3,144.5	4,239.0	4,785.2	
Surplus - Overall	45.2	101.8	83	
- Individual	65.4	66.6	93.1	
- Group Family	10.1	13.5	8.7	
- Group Health	(30.3)	21.7	(18.8)	
Profit Before Tax	48.2	60.1	56.1	
Profit After Tax	26.7	50.3	29.5	
RATIO ANALYSIS	DEC 31, 2012	DEC 31, 2013	DEC 31, 2014	
Market Share (Gross Premium) (%)	9.5%	9.7%	9.4%	
Liquid Asset to total Liabilities %	101.9%	97.4%	95.8%	
Cession Ratio (%)	5.4%	5.0%	5.7%	

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				
	12/04/2015	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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