

## RATING REPORT

## Pak-Qatar Family Takaful Limited

**REPORT DATE:**

October 22, 2019

**RATING ANALYSTS:**

Muniba Khan

[muniba.khan@vis.com.pk](mailto:muniba.khan@vis.com.pk)

## RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	A+	A+
Rating Outlook	Stable	Stable
Rating Date	Oct 15, '19	Jul 18, '18

## COMPANY INFORMATION

<b>Incorporated in 2007</b>	<b>External auditors:</b> M/s. E&Y Ford Rhodes, Chartered Accountants
<b>Public Unlisted Company</b>	<b>Chairman of the Board:</b> H.E. Sheikh Ali Bin Abdullah Al Thani
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Nasir Ali Syed
Pak-Qatar Investment (Pvt.) Limited – 34.58%	
FWU Global Takaful Solutions – 15.20%	
Qatar Islamic Insurance Company – 10.97%	
Sheikh Ali Bin Abdullah Al Thani – 10.18%	
Qatar International Islamic Bank – 9.95%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Life Takaful (February, 2018)

<http://www.vis.com.pk/kc-meth.aspx>

**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**

Assigned rating of Pak Qatar Family Takaful Limited (PQFTL) is underpinned by the sponsor profile comprising prominent Qatar based financial institutions. Shareholders of the company include Qatar International Islamic Bank and Qatar Islamic Insurance Company along with interest of a newly incorporated joint venture company, Pak Qatar Investment (Private) Limited (PQIC). Consistent sponsor support has been demonstrated by the financial assistance provided to PQFTL over the years including the recent equity injection of Rs. 275m. This injection has provided strength to the assessment of overall risk profile of the institution. The rating also incorporates its high capacity to meet policyholder obligations reflected by its adequate capitalization and liquidity profile.

**Key Rating Drivers**

**With a downturn in economic activity, life insurance industry faced difficulties in building business volumes; the market also witnessed pressure on contribution rates**

Over the years, growth in life insurance industry has largely been a function of economic activity in the country. Moreover, the number of market participants in Pakistan's Family Takaful industry is growing on account of opening of new Family Takaful windows by conventional players. Functioning as one of the two existing Family Takaful operators in the country, Pak Qatar Family Takaful Limited faced significant pressure on contribution rates and reported a moderately lower premium base of Rs. 7.8b at end-December 2018 vis-à-vis Rs. 8.3b at the end of the preceding year. Given the positive relationship between development of life insurance and economic growth per capita and recent general economic slowdown in the country, growth in business volumes for life insurance is expected to remain subdued in the coming years.

Business Mix (in billions)	2014	2015	2016	2017	2018	HY19
Individual Family	4.35	5.76	6.17	6.83	6.04	3.01
Group Family	0.19	0.26	0.29	0.34	0.41	0.20
Group Health	0.54	0.70	1.03	1.09	1.37	0.74
<b>Total</b>	<b>5.08</b>	<b>6.72</b>	<b>7.49</b>	<b>8.26</b>	<b>7.82</b>	<b>3.95</b>

**Ability to maintain its customer base will be a key rating driver in the near horizon given challenges to grow business volumes; support from investment avenues are expected to remain dampened**

Business Mix	2014	2015	2016	2017	2018	HY19
First Year Contribution	27.2%	23.5%	18.9%	17.3%	14.9%	16.6%
Renewal Contribution	47.2%	46.1%	51.1%	53.6%	56.0%	53.8%
Top-up & Single Premium	11.3%	16.2%	12.4%	11.8%	6.3%	5.6%
Group Contribution	14.3%	14.3%	17.6%	17.4%	22.8%	24.0%

Business mix of the company has remained unchanged with more than half of the contributions emanating from ongoing policies followed by group life. The company also focused building its single premium product in the last few years as an investment vehicle. However, given the downward trajectory in the stock market, contributions from the single (one-time) premium product have declined across the industry; the same are not expected to depict any growth in the near future. Business generated through the bancatakaful channel has been the primary driver of growth in contributions.

Claims Ratio	2014	2015	2016	2017	2018	HY19
Individual	22.9%	20.6%	25.1%	36.6%	42.7%	51.2%
Group	65.6%	69.4%	74.1%	77.1%	70.5%	82.6%
Individual - without surrenders	1.1%	2.2%	1.9%	1.5%	2.2%	2.9%

Overall persistency of policies depicted a significant decline on account of higher number of surrenders and withdrawals, during the outgoing year. With lower anticipated growth of the industry, persistency will remain a key profitability driver for the life insurance market players in the coming years.

Persistency	2014	2015	2016	2017	2018	HY19
Second year	67.5%	71.7%	67.0%	74.2%	61.5%	31.1%
Subsequent years	84.9%	87.8%	89.4%	89.0%	78.9%	40.3%
Overall	77.3%	82.0%	81.9%	85.0%	74.7%	38.3%

**Reliance on bancatakaful will remain on the higher side; management plans to improve productivity of its sales force team**

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. As per management, reliance on bancatakaful may not be completely tapered off given improved awareness of takaful products and higher business expected from Islamic banks in the coming years.

**Profitability was a function of lower business volumes along with lower persistency levels; risk adjusted capitalization levels of the institution are considered sound in view of healthy capital coverage of claims.**

With higher retention on net account vis-à-vis growth in expense base, surplus earned by the Participant's Takaful Fund was higher in the outgoing year. As a result, overall surplus improved to Rs. 183.6m in 2018 in comparison to Rs. 108.2m in 2017. All segments including individual & group life along with group health have reported a positive bottom line. Despite a higher surplus, profit after tax of the company declined largely on account of higher employee related expenses. With the financial support provided, shareholders' equity was reported higher at Rs. 1.5b (2017: Rs. 1.1b) by end-December 2018; equity amounted to Rs. 1.4b at end-June 2019. 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.

Profitability	2014	2015	2016	2017	2018	HY19
Overall Surplus	83.0	238.2	219.6	108.2	183.6	(15.8)
Surplus from Individual	93.1	140.5	112.9	103.9	148.2	41.0
Surplus from Group Family	8.7	30.7	27.2	(3.6)	10.9	(23.2)
Surplus from Group Health	(18.8)	67	79.6	8.0	24.4	(33.6)
Profit Before Tax	56.1	133.9	165.8	173.4	154.8	(19.0)
Profit After Tax	29.5	84.0	122.6	126.1	107.5	(19.0)

**In view of maturing policies in the near future, the company maintains a significant amount of investments; ability to generate sufficient investment income to support operations will be a key rating driver**

PQFTL manages a total of six funds; two of which are managed separately for a commercial bank's customer base. The company manages a total fund size of Rs. 8.8b, as of June 30, 2019 with highest exposures parked in equity and bank placements. Given current scenario of the stock market, funds with equity exposure reported negative returns similar to other market players. Ability to maintain positive returns for its investors may be challenging. Policies having a total cash value of Rs. 997.8m are expected to mature in the coming years; liquidity indicators for meeting these maturities are considered adequate.

<b>AUMs (Rs. in millions)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>HY19</b>
Aggressive	436.5	660.6	1,117.5	1,502.0	1,820.3	1,760.2
Balanced	2,419.8	3,145.2	4,258.0	4,498.3	5,221.1	5,225.5
Conservative	440.0	626.1	816.3	1,360.5	1,576.9	1,736.0
Secure Wealth	74.6	141.1	130.7	118.7	100.7	97.3
<b>Total AUMs</b>	<b>3,370.9</b>	<b>4,573.0</b>	<b>6,322.5</b>	<b>7,479.5</b>	<b>8,719.0</b>	<b>8,819.0</b>

<b>Returns of Funds</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>HY19</b>
Aggressive	9.8%	7.2%	14.3%	-9.7%	-3.2%	-8.4%
Balanced	9.2%	7.5%	10.9%	-6.3%	1.0%	-3.2%
Conservative	7.7%	7.4%	5.2%	4.4%	5.9%	9.3%
Secure Wealth	8.4%	7.3%	5.6%	4.5%	5.7%	9.0%

<b>Asset Allocation of Funds</b>	<b>Aggressive</b>			<b>Balanced</b>		
	<b>2017</b>	<b>2018</b>	<b>HY19</b>	<b>2017</b>	<b>2018</b>	<b>HY19</b>
Equities / Mutual Funds	61.0%	70.6%	64.3%	48.0%	41.0%	36.8%
Placements	25.0%	27.9%	33.4%	20.0%	20.0%	23.5%
Sukuk	14.0%			32.0%	33.0%	30.5%
Real Estate						5.7%
Miscellaneous		1.5%	2.3%		6.0%	3.5%
	<b>Conservative</b>			<b>Secure Wealth</b>		
	<b>2017</b>	<b>2018</b>	<b>HY19</b>	<b>2017</b>	<b>2018</b>	<b>HY19</b>
Equities / Mutual Funds	5.0%					
Placements	45.0%	26.3%	25.4%	46.0%	4.1%	8.7%
Sukuk	50.0%	70.6%	71.5%	54.0%	91.5%	86.4%
Real Estate						
Miscellaneous		3.1%	3.1%		4.4%	4.9%

**Pak-Qatar Family Takaful Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>					
	<i>(amounts in PKR millions)</i>				
	<b>DEC 31, 2014</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2018</b>
<b><u>BALANCE SHEET</u></b>					
Cash and Bank Deposits	3,226.5	7,956.1	2,264.5	2,642.2	2,794.8
Investments	4,583.8	3,215.2	12,412.0	14,850.0	17,016.1
<b>Total Assets</b>	<b>8,592.7</b>	<b>12,098.9</b>	<b>16,406.9</b>	<b>19,047.8</b>	<b>21,895.9</b>
Net Worth	440.1	596.9	1,235.9	1,653.8	2,116.0
<b>Total Liabilities</b>	<b>8,152.7</b>	<b>11,502.0</b>	<b>15,171.0</b>	<b>17,369.0</b>	<b>19,754.9</b>
<b><u>INCOME STATEMENT</u></b>					
Gross Contributions	5,076.7	6,721.2	7,494.0	8,263.1	7,816.6
Net Contributions – PTF	4,785.2	6,355.2	7,102.0	7,907.3	7,443.1
Surplus – Overall	83	238.2	219.6	108.2	183.6
- Individual	93.1	140.5	112.9	103.9	148.2
- Group Family	8.7	30.7	27.2	(3.6)	10.9
- Group Health	(18.8)	67	79.6	8.0	24.4
Profit Before Tax	56.1	133.9	165.8	173.4	154.8
Profit After Tax	29.5	84.0	122.6	126.1	107.5
<b><u>RATIO ANALYSIS</u></b>					
Market Share (Gross Premium-Private)	9.5%	8.3%	8.4%	7.0%	8.1%
Liquid Assets to Total Liabilities	95.8%	97.1%	96.7%	100.7%	100.3%
Cession Ratio	5.7%	5.4%	5.2%	4.3%	4.8%
Persistency	77.3%	82.0%	81.9%	85.0%	74.7%

**VIS Credit Rating Company Limited**

**RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH**

**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.

**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.

**Rating Watch:** 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.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.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.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**'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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Pak-Qatar Family Takaful Limited				
<b>Sector</b>	Insurance				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	IFS Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: IFS</b>				
	10/15/2019	A+		Stable	Reaffirmed
	7/18/2018	A+		Stable	Upgrade
	6/23/2017	A		Positive	Maintained
	12/4/2015	A		Stable	Maintained
	5/13/2014	A		Positive	Maintained
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				