

RATING REPORT

Pak-Qatar Family Takaful Limited

REPORT DATE:

April 16, 2021

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	A+	A+
Rating Outlook	Stable	Stable
Rating Date	Apr 16, '21	Oct 15, '19

COMPANY INFORMATION

Incorporated in 2006	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. Azeem Iqbal Pirani
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, Sbeikh Ali is a prominent businessman in Qatar. By qualification, he is Bachelor of Science in Political Science from Portland State University, USA. 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

Mr. Azeem Pirani brings along over 18 years of vast experience of Banking & Islamic Finance industry. He holds a Postgraduate Diploma in Islamic Banking and Finance from the Center of Islamic Economics in Pakistan, an MBA in International Business from the University of New Brunswick in Canada, and a BBA in Finance from the University of Houston in the United States.

Before joining Pak-Qatar Takaful, he was the Regional Head for Pakistan at FWU AG. As the main representative for the Munich headquartered company in Pakistan he was responsible for setting up the branch as well as putting in place the required agreements to enable it to carry out its business of facilitating BancaTakaful.

RATING RATIONALE

Pak Qatar Family Takaful Limited (PQFTL) is a medium-sized family takaful company, principally involved in individual family, group family and group health takaful business. In the domestic private life insurance segment, PQFTL market share stood at 7.6% for 2019 (2018: 7.2%).

Key Rating Drivers

Rating incorporates strong sponsor profile

- 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 (PQIL).
- Sponsor support has been demonstrated by the financial assistance provided to PQFTL over the years including equity injection of Rs. 275m in 2018.

Rating is supported by PQFTL's market outreach; also factors in reliance on bancatakaful sales

- In the past 2 years, branch network has undergone significant expansion, with the number of branches increasing from 72, as of Dec'18, to 110 as of Dec'20.
- The management is working on an online sales platform. Lately, in the online domain, the company signed a contract with 'smartchoice' for online sale of policies.
- PQFTL has sales arrangements in place with 10 commercial banks, for distribution of bancatakaful policies.
- Given this significant reliance, the management is working towards enhancing the business generated from its own sales force, thereby reducing the company's reliance on commercial banks. Management efforts have materialized in a noted shift in sales distribution in the ongoing year, as reflected in the table below.
 - o The most notable shift was witnessed in first year direct individual family business, which grew by 39% in 2020 (2020: Rs. 1.2b; 2019: Rs. 0.8b).

Total (Ind. Life)	FY17	FY18	FY19	FY20
Direct	49%	51%	51%	57%
Banca	51%	49%	49%	43%

Year 1 (Ind. Life)	FY19	FY20
Direct	57%	70%
Banca	43%	30%

- The aforementioned change in business generation sources, partly mitigates the risk imposed by over reliance on bancatakaful partners. The trend has been noted positively, and continuation of the aforementioned trend would translate in lowering the business risk profile of PQFTL.

Contraction in gross underwriting noted in 2018 had been reversed, with gross underwriting in 2019 being close to 2017 level. Albeit, on account of the pandemic-induced slowdown, gross contribution contracted in 2020

- PQFTL's gross contributions grew by 6% in 2019, following a 5% contraction in the preceding year. During the same period, the industry underwriting remained stagnant. Accordingly, the company was able to improve its market positioning, as reflected by higher market share of 7.6% in 2019 vis-à-vis 7.2% in the preceding year.
- The company's business mix remains individual family takaful centered, with the same contributing 75% of the gross underwriting for 2019. The share of Group takaful business has depicted proportional growth over the years, with its share in business mix increasing from 10% in 2015 to 25% in 2019.

Business Mix (in billions)	2014	2015	2016	2017	2018	2019	2020
Individual Family	4.35	5.76	6.17	6.83	6.04	6.21	6.34
Group Family	0.19	0.26	0.29	0.34	0.41	0.51	0.46
Group Health	0.54	0.70	1.03	1.09	1.37	1.57	1.16
Total	5.08	6.72	7.49	8.26	7.82	8.29	7.96

- Growth in 2019 was mainly driven by 1st year contribution and Group contributions, which increased by Rs. 299m and Rs. 295m respectively. Renewal contributions (including top up & single premium), cumulatively declined by Rs. 124m.

Business Mix	2014	2015	2016	2017	2018	2019	2020
First Year Contribution	27.2%	23.5%	18.9%	17.3%	14.9%	17.7%	20.9%
Renewal Contribution	47.2%	46.1%	51.1%	53.6%	56.0%	52.5%	54.5%
Top-up & Single Premium	11.3%	16.2%	12.4%	11.8%	6.3%	4.8%	4.3%
Group Contribution	14.3%	14.3%	17.6%	17.4%	22.8%	25.0%	20.3%

- Gross contributions for 2020 contracted by 4%, amidst a challenging economic year. However, the management did achieve strong growth in individual life 1st year direct contributions, which posted a growth of 40%. Going forward, in lieu of the expected economic recovery, and expected growth in contribution from new branches, the management expects growth momentum in gross contributions to accelerate.
- An uptick has been noted in the net claims ratio, under individual life and group life business segment, owing to the increase in death rate caused by the pandemic. The death claims on individual life notably rose to a historical high of 3.0% during 2020.
- As per management, the increased claims ratio in individual family category was expected, given the prevailing economic turmoil and the resultant liquidity needs which contributed to increasing policy surrenders. Furthermore, given that PQFTL does not charge a surrender-fee, unlike other industry participants, which can also be considered as additional reasoning for the uptick in net claims ratio.
- Furthermore, with the management opting to off-load some 2-3 large-sized Group clients in 2019, the claims ratio is expected to post improvement going forward.

Claims Ratio	2014	2015	2016	2017	2018	2019	2020
Individual	22.9%	20.6%	25.1%	36.6%	42.7%	48.2%	51.8%
Group	65.6%	69.4%	74.1%	77.1%	70.5%	83.5%	84.5%
Individual - without surrenders	1.1%	2.2%	1.9%	1.5%	2.2%	2.7%	3.0%

- Subsequent to experiencing a dip in persistency in 2018, improvement in persistency has been noted in both second year and subsequent year categories. Overall persistency, leaves room for improvement, vis-à-vis peers.

Persistency	2014	2015	2016	2017	2018	2019	2020
Second year	67.5%	71.7%	67.0%	74.2%	61.5%	64.9%	60.5%
Subsequent years	84.9%	87.8%	89.4%	89.0%	78.9%	82.0%	79.4%
Overall	77.3%	82.0%	81.9%	85.0%	74.7%	78.4%	74.7%

Consolidated Profitability (PTF & SHF) has improved in 2020, on the back of strong investment performance

2019

- The increased claims ratio has translated in notable contraction of the surplus. The most notable impact was observed in the Group Health segment, which went from a surplus of Rs. 24m to a loss of Rs. 113m in 2019.
- The acquisition cost (Acquisition expenses/ Individual Life Gross Contribution) was higher on a timeline, increasing from 7.8% in 2018 to 10.2% in 2019. Alternatively, the expense ratio (Expenses/Gross Contribution) remained stagnant at ~7%.

2020

- In 2020, despite the adverse movement in claims ratio under stated business segments, the company's profitability posted significant improvement in both policyholder's and shareholder's fund, where the policyholder's fund generated an overall surplus against a deficit last year.

Profitability	2014	2015	2016	2017	2018	2019	2020
Overall Surplus	83.0	238.2	219.6	108.2	183.6	31.5	81.5
Surplus from Individual	93.1	140.5	112.9	103.9	148.2	130.0	104.4
Surplus from Group Family	8.7	30.7	27.2	(3.6)	10.9	14.9	(31.9)
Surplus from Group Health	(18.8)	67	79.6	8.0	24.4	(113.3)	9.0
Profit Before Tax	56.1	133.9	165.8	173.4	154.8	84.1	227.6
Profit After Tax	29.5	84.0	122.6	126.1	107.5	55.2	170.1

Capitalization buffer provides health capital coverage of claims and compares favorably to peers

- As reflected in the table, capital base had slightly receded in 2019, which was partly on account of IFRS-16 related provisioning (Rs. 89m) and a sizable dividend payment (Rs. 65m). However, on the back of improved profitability, the capitalization has improved in 2020.
- Our view on capitalization profile draws impetus from consistent support from sponsor and dividend policy, which favors participants, rather than shareholders. In 2019, the Qard-e-Hasna extended to Participants Takaful Fund was increased from Rs. 25m to Rs. 135m, which has remained at similar level as of Dec'20.
- Overall risk absorption capacity of the company is considered sound, in view of healthy capital coverage of claims. Also, the company's capital base compares favorably to peers.

In PKR' Millions	Dec'18	Dec'19	Dec'20
Net Equity	2,116	1,932	2,110
- Paid-up Capital	1,307	1,307	1,307
- Accumulated Profit / (Loss)	161	1	157
- Other	648	624	646

Investment performance rebounded as stock market performance improved

- 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. 24.3b, as of December 31, 2020 with highest exposures parked in equity and mutual funds.
- In the outgoing year, improvement in fund performance was noted across all categories, with the same beating the benchmark.
- As reflected in the table below, some asset mix changes have been noted, which were in line with the fund's investment strategy that focuses on mitigating liquidity risk by managing the fund in line with maturity profile of policyholders.
- The investment operations of the company are managed by a investment team of 7 individuals. This includes a designated Head of investments, other investment team members, the actuary and members of the finance team.
 - o In 2019, the management started investing in the real estate asset class, which constitutes 4% of Balanced Fund or Rs. 259m in absolute terms as of Sep'20.
 - o Asset class changes have been noted in the Conservative and Secure Wealth fund, with majority of the asset base being placed mutual funds featuring exposure to Shariah compliant money market instruments.

AUMs (Rs. in millions)	2014	2015	2016	2017	2018	2019	11M20
Aggressive	436.5	660.6	1,117.5	1,502.0	1,820.3	2,286.9	2,434.8

Balanced	2,419.8	3,145.2	4,258.0	4,498.3	5,221.1	6,059.8	6,487.3
Conservative	440.0	626.1	816.3	1,360.5	1,576.9	2,205.9	3,156.9
Secure Wealth	74.6	141.1	130.7	118.7	100.7	93.8	81.8
Banca– Growth	-	-	-	-	-	-	6,123.7
Banca - Conservative	-	-	-	-	-	-	5,921.8
Total AUMs	3,370.9	4,573.0	6,322.5	7,479.5	8,719.0	10,646.4	24,206.3

Returns of Funds	2014	2015	2016	2017	2018	2019	9M20
Aggressive	9.8%	7.2%	14.3%	-9.7%	-3.2%	12.5%	6.6%
Balanced	9.2%	7.5%	10.9%	-6.3%	1.0%	9.5%	7.2%
Conservative	7.7%	7.4%	5.2%	4.4%	5.9%	11.3%	10.0%
Secure Wealth	8.4%	7.3%	5.6%	4.5%	5.7%	11.0%	9.0%
Banca– Growth	-	-	-	-	-	-	7.9%
Banca - Conservative	-	-	-	-	-	-	9.8%

Asset Allocation of Funds	Aggressive			Balanced		
	Dec'18	Dec'19	Sep'20	Dec'18	Dec'19	Sep'20
Equities / Mutual Funds	70.6%	69.3%	79.0%	41.0%	33.9%	36.0%
Placements	27.9%	30.0%	21.0%	20.0%	39.4%	59.0%
Sukuk	-	-	-	33.0%	19.4%	1.0%
Real Estate	-	-	-	-	4.9%	4.0%
Miscellaneous	1.5%	0.7%	0.0%	6.0%	2.4%	0.0%
	Conservative			Secure Wealth		
	Dec'18	Dec'19	Sep'20	Dec'18	Dec'19	Sep'20
Mutual Funds			93.0%			85.0%
Placements	26.3%	22.3%	6.0%	4.1%	6.5%	4.0%
Sukuk	70.6%	74.7%	1.0%	91.5%	86.0%	6.0%
Real Estate	-	-	-	-	-	-
Miscellaneous	3.1%	3.0%	-	4.4%	7.5%	5.0%
	Banca - Growth			Banca - Conservative		
	Dec'18	Dec'19	Sep'20	Dec'18	Dec'19	Sep'20
Equities / Mutual Funds	-	-	78.4%	-	-	94.2%
Placements	-	-	21.6%	-	-	3.7%
Sukuk	-	-	-	-	-	0.9%
Real Estate	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	1.2%

Pak-Qatar Family Takaful Limited
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	DEC 31, 2018	DEC 31, 2019	Dec 31, 2020
Cash and Bank Deposits	2,794.8	4,085.6	2,933.1
Investments	17,016.1	18,894.9	24,286.9
Total Assets	21,895.9	25,840.7	30,112.6
Net Worth	2,116.0	1,932.1	2,110.0
Total Liabilities	19,754.9	23,773.6	27,867.6
<u>INCOME STATEMENT</u>			
	2018	2019	2020
Gross Contributions	7,816.6	8,287.1	7,961.5
Net Contributions – PTF	7,443.1	7,861.4	7,557.8
Surplus – Overall	183.6	31.5	81.5
- Individual	148.2	130.0	104.4
- Group Family	10.9	14.9	(31.9)
- Group Health	24.4	(113.3)	9.0
Profit Before Tax	154.8	84.1	227.6
Profit After Tax	107.5	55.2	170.1
<u>RATIO ANALYSIS</u>			
	DEC 31, 2018	DEC 31, 2019	Dec 31, 2020
Market Share (Gross Premium-Private)	7.2%	7.6%	NA
Liquid Assets to Total Liabilities	100.3%	96.7%	97.7%
Cession Ratio	4.8%	5.1%	5.1%
Persistency	74.7%	78.4%	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

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

'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

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				
	4/16/2021	A+		Stable	Reaffirmed
	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
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Muhammad Kamran Saleem	Director Finance & Company Secretary	December 31, 2020		