

## RATING REPORT

### Pak-Qatar General Takaful Limited

**REPORT DATE:**

September 26, 2018

**RATING ANALYSTS:**

Muniba Khan

[muniba.khan@jcrvis.com.pk](mailto:muniba.khan@jcrvis.com.pk)
**RATING DETAILS**

	Latest Rating	Previous Rating
<b>Rating Category</b>	<b>Long-term</b>	<b>Long-term</b>
<b>Insurer Financial Strength</b>	A-	A-
<b>Rating Date</b>	August 27, '18	Mar 20, '17
<b>Rating Outlook</b>	Stable	Stable
<b>Outlook Date</b>	August 27, '18	Mar 20, '17

**COMPANY INFORMATION**

<b>Incorporated in 2006</b>	<b>External auditors:</b> M/s EY Ford Rhodes, Chartered Accountants
<b>Public unlisted Company</b>	<b>Chairman of the Board:</b> H.E. Shaikh Ali Bin Abdullallah
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Zahid H. Awan
Pak Qatar Investment (Private) Limited - 36.5%	
Sheikh Ali Bin Abdullah - 14.7%	
Qatar International Islamic Bank - 14.1%	
Masraf Al-Rayan - 12.7%	
Qatar Islamic Insurance Company - 11.3%	
Fawad Yusuf Securities - 6.5%	

**APPLICABLE METHODOLOGY(IES)**
**JCR-VIS Entity Rating Criteria: Takaful Companies, December 2016**
<http://jcrvis.com.pk/docs/MethodTakaful201612.pdf>

Pak-Qatar General Takaful Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

PQGTL was incorporated in March 2006 as an unquoted public limited company. The company is engaged in general takaful business and operates with 13 branches. Its shareholding is largely held by Qatar based financial institutions. The financial statements for 2017 are audited by EY Ford Rhodes, Chartered Accountants.

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, 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. Zabid Hussain Aman is a Bachelor of Commerce from Punjab University of Lahore and associated with Qatar International Islamic Bank (QIIB) at the Senior Managerial level and also with Pak-Qatar Family Takaful Limited (PQFTL) & Pak-Qatar General Takaful Limited (PQGTL) as Executive Director & active member of Management & various statutory Committees.

Mr. Zabid has more than 20 years of diversified experience at the Qatar International Islamic Bank with strong background in financial & business management, insurance & banking products and services development, strategic planning, budget administration, contract negotiation & procedural development, risk management,

The assigned rating continues to be underpinned by the ownership structure of Pak Qatar General Takaful Limited (PQGTL). Shareholding of the company includes prominent Qatar based financial institutions along with interest of a newly incorporated investment company, Pak Qatar Investment (Private) Limited (PQIC). PQIC was incorporated in 2017 and is expected to begin operations in the near future.

Rating Drivers

- Business Volumes:** Since the past two years, PQGTL has adopted a consolidation strategy to underwrite businesses that are profitable at the bottom line. Given the prevailing competition in the insurance market, the company also faces significant pressure on premium rates. This has resulted in reducing business volumes on a timeline basis. Nonetheless, the company continues to diversify its business mix from motor oriented to other non-motor segments. In order to do so, PQGTL has launched other products including travel insurance. Proportion of motor business reduced from 73.8% of the portfolio in 2015 to 55.5% in 2017. Management plans to continue keeping motor business on the higher side.

Rs. in millions	2017	2016	2015	2014
<b>Gross Contribution</b>	<b>615.0</b>	<b>652.7</b>	<b>701.7</b>	<b>1,002.4</b>
Fire	139.0	171.0	86.1	97.1
Marine	39.9	38.3	31.6	38.8
Motor	341.4	366.5	518.0	484.3
Health	-	-	4.4	289.7
Miscellaneous	94.7	77.0	61.6	92.6

- Claims Experience:** With a conservative stance of the company to underwrite profitable businesses, claims ratio of the company has improved on a timeline basis. Given the industry trend, the highest loss ratios emanated from the fire segment followed by marine. Loss ratios will continue to be a function of the quality of underwriting undertaken by management.

	2017	2016	2015	2014
<b>Net Claims Ratio</b>	<b>50.9%</b>	<b>54.0%</b>	<b>62.4%</b>	<b>63.7%</b>
Fire	72.6%	10.4%	10.1%	26.4%
Marine	56.8%	17.6%	75.4%	20.9%
Motor	52.1%	52.2%	55.9%	51.1%
Health	-	437.7%	109.8%	94.3%
Miscellaneous	31.3%	57.2%	25.5%	23.1%

- Underwriting Performance & Profitability:** Claims performance of the company has improved on a timeline basis. Moreover, the company was able to adopt a cost cutting strategy by merging existing branches as well as centralizing its operations. As a result, the company was able to curtail its operating expenses. Expense ratio improved to

report preparation and public relations. He also possesses 09 years of experience with Masbreq Bank (previously known as Bank of Oman Limited), including 06 year at Senior position with Masbreq Bank.

Mr. Zabid, played the vital role in the incorporation of Pak-Qatar Family Takaful Limited & Pak-Qatar General Takaful Limited and during earlier stage of business expansion. Along with the vast banking experience he also procured prodigious insurance industry experience, specially working as Head of Insurance & Banking Products and Services Development at the QIIB and actively engaged in affairs of PQFTL & PQGTL as Chairman of Claim and Risk Management & Compliance Committees and as valuable member of Executive and Audit Committee. Mr. Zabid was instrumental in business development initiatives and took the lead in providing advisory services relating to various business avenues.

48.4% (FY16: 51.2%) resulting in a combined ratio below 100% mark. Motor continues to post an underwriting profit while miscellaneous was also profitable resulting in an underwriting profit of Rs. 3.0m on a consolidated basis. With improvement in underwriting performance, the company earned a higher profit at the bottom line. Ability to maintain these performance metrics will be a key rating driver.

Rs. in millions	2017	2016	2015	2014
<b>Underwriting Profit</b>	<b>3.0</b>	<b>(10.0)</b>	<b>(8.8)</b>	<b>(2.4)</b>
Fire	(22.4)	(28.8)	(6.5)	(4.7)
Marine	(5.9)	(0.9)	(6.3)	2.9
Motor	22.8	54.0	2.1	78.1
Health	-	(21.2)	(15.6)	(79.7)
Miscellaneous	8.5	(13.1)	17.4	1.0

- Capitalization:** With improvement in the bottom line, equity base of PQGTL improved. Nevertheless, leverage indicators of the company continue to remain on the higher side as compared to peers on account of current capitalization levels. Moreover, financial leverage of the company has increased significantly on account of a higher balance of outstanding claims.
- Liquidity:** Given concerted efforts of management to reduce outstanding receivables, insurance debt of the company declined, in absolute value, from Rs. 299.9m in 2016 to Rs. 258.4m in 2017. Despite lower contribution base, insurance debt as a proportion of gross business stood lower at 42.0% (FY16: 45.9%) at end-FY17. In order to keep liquidity indicators at adequate levels, the company has aimed to reschedule its settlement of receivables against its motor business; majority of receivables emanate from this segment. Levels of insurance debt are expected to arrest given the new regulatory requirement as well.
- Investments:** PQGTL maintains a balanced investment portfolio with exposure in both equity and debt securities. The company increased its exposure in mutual funds during 2017. Given the prevailing market conditions, PQGTL was able to maintain its investment income at previous year’s level.

Rs. in millions	FY17	%	FY16	%	FY15	%	FY14	%
Sukuk	140.7	37.8	143.4	43.4	131.5	37.7	246.1	75.3
TDRs	75.0	20.1	110.0	33.3	124.5	35.7	62.5	19.1
Mutual Funds	157.0	42.1	76.7	23.2	93.1	26.7	18.1	5.5
<b>Total</b>	<b>372.7</b>		<b>330.1</b>		<b>349.1</b>		<b>326.7</b>	

- Reinsurance:** Reinsurance panel of PQGTL constitutes reinsurers with a rating of BBB+ and above. For the year 2018, there were notable changes to the panel with addition of new re-takaful operators. According to SECP’s regulations, 80% of re-takaful share must be placed with companies rated in the ‘A’ band or higher. In 2018, the management was able to meet this requirement for the first time since its inception.
- Management Team:** During 2018, there was a change in the helm of the company with the induction of a Board member as CEO. Moreover, there was an addition to the management team with Mr. Saqib Zeeshan appointed as Deputy CEO for PQGTL. Mr. Zeeshan has a dual responsibility for building the corporate portfolio for both insurance entities of the group.

## JCR-VIS Credit Rating Company Limited

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

Pak-Qatar General Takaful Limited

Appendix I

<b>FINANCIAL SUMMARY</b>				
<i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Cash and Bank Deposits	159.5	169.0	259.7	179.1
Investments	297.7	220.1	224.6	264.1
Investment Properties	-	-	-	-
Insurance Debt	258.4	299.9	231.0	378.3
<b>Total Assets</b>	<b>1,273.4</b>	<b>1,050.4</b>	<b>905.1</b>	<b>1,057.9</b>
<b>Net Worth</b>	<b>435.4</b>	<b>411.9</b>	<b>404.6</b>	<b>323.4</b>
<b>Total Liabilities</b>	<b>837.9</b>	<b>638.5</b>	<b>497.0</b>	<b>734.5</b>
<b><u>INCOME STATEMENT</u></b>				
	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Net Contribution Revenue	168.5	217.8	373.5	506.2
Net Claims	211.2	249.2	412.7	542.2
Underwriting Profit	3.0	(10.0)	(8.8)	(2.4)
Net Investment Income	22.5	24.0	35.2	39.7
Profit Before Tax (SHF)	6.2	3.8	7.8	32.1
Surplus transferred to Participants' equity	7.7	4.8	(15.1)	13.1
Profit After Tax (SHF & PTF)	10.8	6.8	17.9	5.4
<b><u>RATIO ANALYSIS</u></b>				
	<b>DEC 31, 2017</b>	<b>DEC 31, 2016</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>
Cession Ratio (%)	34.3%	33.9%	20.9%	15.4%
Gross Claims Ratio (%)	90.7%	60.6%	52.1%	62.6%
Net Claims Ratio (%)	50.9%	54.0%	62.4%	63.7%
Underwriting Expense Ratio (%)	48.4%	51.2%	40.3%	36.6%
Combined Ratio (%)	99.3%	105.2%	102.7%	100.3%
Net Operating Ratio (%)	95.9%	102.1%	98.0%	95.3%
Insurance Debt to Gross Contribution (%)	42.0%	45.9%	32.9%	37.7%
Operating Leverage (%)	96.2%	96.9%	162.1%	262.0%
Financial Leverage (%)	144.2%	78.8%	70.3%	155.0%
Adjusted Liquid Assets to Technical Reserves (%)	73.6%	120.1%	170.0%	89.0%

## JCR-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:** 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](http://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](http://www.jcrvis.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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

## JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES					Appendix III
<b>Name of Rated Entity</b>	Pak-Qatar General Takaful Limited				
<b>Sector</b>	Insurance/Takaful				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Insurer Financial Strength Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Outlook</b>	<b>Short Term</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: IFS</u></b>				
	27-Aug-18	A-	Stable		Reaffirmed
	20-Mar-17	A-	Stable		Reaffirmed
	2-Mar-16	A-	Stable		Maintained
	31-Dec-14	A-	Positive		Maintained
	19-Jun-13	A-	Stable		Upgrade
	29-Nov-12	BBB+	Positive		Maintained
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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 only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	JCR-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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