

RATING REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:

November 4, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Insurer Financial Strength	A-	A-
<i>Rating Date</i>	<i>November 1, 2019</i>	<i>August 27, 2018</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>November 1, 2019</i>	<i>August 27, 2018</i>

COMPANY INFORMATION

Incorporated in 2006	External auditors: M/s Ernst & Young Ford Rhodes Chartered Accountants
Public unlisted Company	Chairman of the Board: H.E. Shaikh Ali Bin Abdulllah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Zahid H. Awan
Pak Qatar Investment (Private) Limited – 42.5%	
Sheikh Ali Bin Abdullah – 15.7%	
Qatar International Islamic Bank – 14.5%	
Qatar Islamic Insurance Company – 11.6%	
Fawad Yusuf Securities – 6.0%	

APPLICABLE METHODOLOGY(IES)

VIS IFS Rating Criteria: Takaful Companies, December 2016

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

Pak-Qatar General Takaful Limited
**OVERVIEW
OF THE
INSTITUTION**

PQGTL was incorporated in March 2006 as an unquoted public limited company. The company is engaged in general takaful business. The financial statements for 2018 are audited by M/s Ernst & Young 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 Avan is 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

RATING RATIONALE

Current rating of Pak Qatar General Takaful Limited (PQGTL) continues to derive strength from the shareholding including 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).

Key Rating Drivers
Business volumes have remained lower than peers on account of stringent competition in the industry

Given the prevailing competition in the insurance market, the company continues to face significant pressure on contribution rates. Gross contribution of the company grew at the same rate as the industry of 10%. Growth in business volumes is expected to remain at similar levels on account of general economic slowdown in the country. PQGTL maintains a balanced business mix with exposure in both motor and non-motor segments. In order to improve this mix, PQGTL launched various other insurance covers which may be used as a means of cross selling. Motor segment represents the largest share of 57.7% in its business mix followed by fire (20.5%) and miscellaneous (15.4%). In order to support cash flows, management plans to continue keeping motor business on the higher side. Contribution base of the company amounted to Rs. 313.2m by end-June 2019 vis-à-vis a targeted contribution of Rs. 745.5m for 2019.

Rs. in millions	2014	2015	2016	2017	2018	HY19
Gross Contribution	1,002.4	701.7	652.7	615.0	677.7	313.2
Fire	97.1	86.1	171.0	139.0	138.8	56.0
Marine	38.8	31.6	38.3	39.9	43.6	26.2
Motor	484.3	518.0	366.5	341.4	391.3	190.0
Health	289.7	4.4	-	-	-	-
Miscellaneous	92.6	61.6	77.0	94.7	104.0	41.1

Profitability from underwriting operations depicted an improvement with loss ratios of the company remained within manageable limits as a result of restructuring its underwriting operations and strategy

The company was able to maintain its loss ratios at adequate levels of 51.4% vis-à-vis 50.9% in 2017. Loss ratios will continue to be a function of the quality of underwriting undertaken by management. Net claims ratio was reported higher at 57.7% for HY19.

	2014	2015	2016	2017	2018	HY19
Net Claims Ratio	63.7%	62.4%	54.0%	50.9%	51.4%	57.7%
Fire	26.4%	10.1%	10.4%	72.6%	32.2%	10.4%
Marine	20.9%	75.4%	17.6%	56.8%	21.0%	38.1%
Motor	51.1%	55.9%	52.2%	52.1%	56.4%	62.2%
Health	94.3%	109.8%	437.7%	-	-	-
Miscellaneous	23.1%	25.5%	57.2%	31.3%	40.2%	52.7%

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

Along with stable loss ratios, the company was able to curtail its operating expenses. Expense ratio was reported lower from 48.4% in 2017 to 47.0% in 2018. As a result, combined ratio was reported further below 100% mark at 98.4%. Barring fire segment, all segments posted an underwriting profit resulting in an underwriting profit of Rs. 18.2m on a consolidated basis. In tandem with its strategy to keep its bottom line positive, profitability levels of the company improved to Rs. 24.3m (FY17: Rs. 10.8m) during 2018. Management anticipates bottom line to more than double to Rs. 59.0m by end-2019. Ability to maintain these performance metrics under stressed economic conditions will be a key rating driver.

<i>Rs. in millions</i>	2014	2015	2016	2017	2018	HY19
Underwriting Profit	(2.4)	(8.8)	(10.0)	3.0	18.2	(18.3)
Fire	(4.7)	(6.5)	(28.8)	(22.4)	(19.4)	0.5
Marine	2.9	(6.3)	(0.9)	(5.9)	1.5	(0.7)
Motor	78.1	2.1	54.0	22.8	22.8	(19.4)
Health	(79.7)	(15.6)	(21.2)	-	-	-
Miscellaneous	1.0	17.4	(13.1)	8.5	13.3	1.3
Expense Ratio	36.6%	40.3%	51.2%	48.4%	47.0%	50.3%
Combined Ratio	100.3%	102.7%	105.2%	99.3%	98.4%	108.0%

Capitalization levels of the company remain at adequate levels while leverage indicators compare less favorably to peers; liquidity indicators may also need to be monitored over time

Equity base of the company has depicted an increasing trend with increase in bottom line profit over the years. Nonetheless, leverage indicators of the company compare less favorably to peers and capitalization levels may need to be further strengthened. Growth in equity levels may be dampened with slowdown in business volumes along with fewer alternative sources of revenue generation. The company maintains an investment portfolio to the tune of Rs. 310.2m including exposure in both equity and debt markets.

<i>Rs. in millions</i>	2014	2015	2016	2017	2018	HY19
Equity	325.6	405.1	411.9	435.4	441.5	417.8
Operating Leverage	261.5%	163.3%	114.8%	95.3%	102.1%	109.3%
Financial Leverage	155.3%	70.8%	82.0%	142.7%	84.5%	88.0%

Despite management efforts to arrest the growing trend in takaful receivables, insurance debt as a proportion of gross contribution remained at the higher side of 41.0% (2017: 42.0%; 2016: 45.9%) at end-2018. Majority of the receivables emanate from the motor segment being the largest business segment for PQGTL.

Quality of reinsurance panel of the company is considered adequate for supporting business; management team remains largely stable

Reinsurance panel of PQGTL constitutes reinsurers with a rating of BBB+ and above. For the year 2019, 80% of re-takaful share were placed with companies rated in the 'A' band or higher in line with the regulations. Maximum loss retained on its books at any given time amounts to Rs. 40m. During 2019, Mr. Saqib Zeeshan resigned from the position of Deputy CEO for PQGTL; he was responsible for building the corporate portfolio for both takaful entities of the group.

Pak-Qatar General Takaful Limited

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
BALANCE SHEET	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Cash and Bank Deposits	179.1	259.7	58.9	84.5	203.3
Investments	264.1	224.6	346.6	368.4	310.2
Investment Properties	-	-	-	-	-
Insurance Debt	378.3	231	299.9	258.4	277.8
Total Assets	1,057.90	905.1	1,194.80	1,509.20	1,336.90
Paid Up Capital	432.7	471.3	471.3	509.2	509.2
Net Worth	323.4	404.6	411.9	435.4	441.5
Total Liabilities	734.5	497	771.2	1,076.70	895.4
INCOME STATEMENT					
	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Net Contribution Revenue	851.6	661.5	473.0	414.9	450.7
Net Claims	542.3	412.8	255.2	211.2	231.6
Underwriting Profit	-2.4	-8.8	-10.0	3.0	18.2
Net Investment Income	39.7	35.2	24	20.6	15.1
Profit Before Tax (SHF)	32.1	7.8	3.8	6.2	18.7
Surplus transferred to Participants' equity	13.1	-15.1	4.8	7.7	12
Profit After Tax (SHF & PTF)	5.4	17.9	6.8	10.8	24.3
RATIO ANALYSIS					
	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Cession Ratio (%)	15.4%	20.9%	33.9%	34.3%	33.1%
Gross Claims Ratio (%)	62.6%	52.1%	60.6%	90.7%	57.2%
Net Claims Ratio (%)	63.7%	62.4%	54.0%	50.9%	51.4%
Underwriting Expense Ratio (%)	36.6%	40.3%	51.2%	48.4%	47.0%
Combined Ratio (%)	100.3%	102.7%	105.2%	99.3%	98.4%
Net Operating Ratio (%)	95.3%	98.0%	102.1%	95.9%	93.5%
Insurance Debt to Gross Contribution (%)	37.7%	32.9%	45.9%	42.0%	41.0%
Operating Leverage (%)	262.0%	163.3%	114.8%	95.3%	102.1%
Financial Leverage (%)	155.0%	70.8%	82.0%	142.7%	84.5%
Adjusted Liquid Assets to Technical Reserves (%)	89.0%	170.0%	120.1%	73.6%	137.7%

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 General Takaful Limited				
Sector	Insurance/Takaful				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength Rating				
Rating History	Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
	<u>RATING TYPE: IFS</u>				
	1-Nov-19	A-	Stable		Reaffirmed
	27-Aug-18	A-	Stable		Reaffirmed
	20-Mar-17	A-	Stable		Reaffirmed
	2-Mar-16	A-	Stable		Maintained
	31-Dec-14	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 only and is not a recommendation to buy or sell any securities.				
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