RATING REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:
January 22, 2021

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Insurer Financial Strength	A-	A-
Rating Date	*January 22, 2021*	*November 1, 2019*
Rating Outlook	Stable	Stable
Outlook Date	*January 22, 2021*	*November 1, 2019*

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 Abduallah
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Nasir Ali Syed
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. Muhammad Nasir Ali Syed is a seasoned insurance/Takaful professional with over 27 years of rich experience in Life Insurance & Takaful industry of Pakistan. Prior to joining Pak-Qatar General Takaful, he was associated with American Life Insurance Company (ALICO -Pakistan), Commercial Union (Pakistan), NJI Life (Pakistan) and Pak-Qatar Family Takaful Limited for 13 years, where he worked as Chief Executive Officer for over period of 7.5 years. Mr. Nasir holds a Master's Degree in Biochemistry from Karachi University, an ALMI qualification from LOMA, USA and a Post-Graduate Diploma

RATING RATIONALE

Pak Qatar General Takaful Limited ('PQGTL' or 'the company') is one of the few companies in the market, offering exclusively takaful services. In the domestic industry, takaful services are also being offered by several insurance companies, through Window Takaful Operations. PQGTL remains a small-sized player in terms of the overall insurance market, as reflected by its market share of 0.8% for 2019. Market share in the takaful segment has dropped in 2019 from 6.6% to 5.8%.

The company operates through a network of 9 branches, spread over 9 different cities in Pakistan. In addition, the company also utilizes the distribution network of its family takaful associate company to enhance outreach to cities, wherein the company does not have any presence. PQGTL also has a web platform in place for online takaful applications.

In Mar'20, a new CEO has been appointed, subsequent to resignation of the previous CEO. The new CEO, Mr. Muhammad Nasir Ali Syed, is a seasoned insurance/takaful professional with more than 27 years of experience. He has been associated with the group for 13 years, and prior to joining PQGTL as CEO, he was serving as the CEO at Pak Qatar Family Takaful Limited (PQFTL), an associate concern. Going forward, there are plans in place to initiate business under 'Accident & Health'. The appointment of the new CEO is in line with these plans, Mr. Nasir has significant experience of managing this business at PQFTL

Insurance Sector Update

- The gross premiums/ takaful contributions underwritten by the industry grew by 10% in 2019. The non-life insurance penetration, at ~0.2%, continues to lag the regional counterparts.
- Amidst double digit inflation (CYTD Dec'19: 12.6%), the industry' underwriting expense ratio increased, while a slight uptick was also noted in net claims ratio.
- Nevertheless, the industry's investment income grew by almost a fifth, which supported the net operating ratio.

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2018	2019
Insurance Premium (Gross)	77.0	83.7
Takaful Contributions (Gross)	8.6	11.0
Industry Total (Gross)	85.7	94.6
Combined Ratio	86.3%	89.1%
- Net Claims Ratio	50.5%	51.7%
- Underwriting Expense Ratio	35.8%	37.4%
Net Operating Ratio	71.6%	72.5%
RoAA	4.3%	4.7%
RoAE	9.8%	10.5%
Operating Leverage	50.7%	49.6%

- The sector's operating leverage remains around ~50%, which is considered to be on the lower side.
- The impact of the outbreak of novel coronavirus on the insurance has been relatively measured so far. Nevertheless, given the overall pandemic-induced macroeconomic changes, the following pointers summarize the impact.
    - The premium from all lines of business is expected to be impacted for 2020.
        - The pandemic-related project delays are expected to impact premiums under fire & engineering segment, albeit this largely depends on the actual project delays.
        - The reduced international trade will affect premiums in the marine line of business.
        - As a result of the coronavirus public lock down in Q2'2020, the automobile sales have been notably impacted. These have started picking up in

in Islamic Banking & Takaful from Center of Islamic Economic (CIE, a division of Jamia Darul Uloom Karachi)..

Q3'2020, albeit the reduced automobile sales will have an impact on motor premiums, as new car insurance policies would drop.

- In view of the above factors, we expect full-year premium for 2020 to be affected. The impact will largely depend on how long the pandemic stretches.

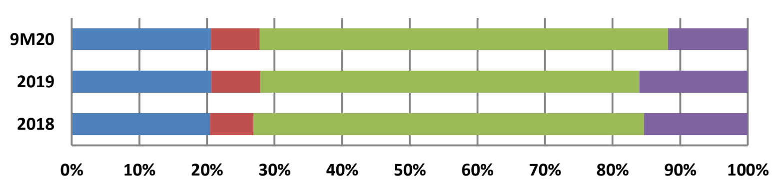
- Despite lower premiums, the profitability of the insurance industry is likely to improve
  - The reduced economic activity, due to Covid-19, is likely to have a positive impact on claims ratio. The recent rains would adversely impact motor claims ratios generally in Property and Motor portfolio.
  - However, the expenses base likely to remain sticky, which should resultantly increase underwriting expense ratio.
  - Given the sizable reduction in interest rates, the investment income, specifically for companies holding fixed rate PIBs, are expected to increase on account of capital gains on PIBs. This should have a positive impact on the net operating ratio.
- Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
- Going forward, there are plans to implement IFRS 17 across the industry, which will require additional provisioning. However, the industry IFRS 17 implementation is scheduled for January 1' 2022 and so far we have not received an estimation of the related provisioning charge.

Key Rating Drivers

Rating incorporates the company's sponsor profile

- Rating of the company derives strength from the shareholding pattern of the company, which includes 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). These institutions collectively hold 68.6% of the company's shareholding.

Business volumes continue to lag peers



	2018	2019	9M20
Fire	138.8	144.9	89.0
Marine	43.6	50.8	30.9
Motor	391.3	393.0	260.6
Health	104.0	112.4	50.8

- The company's business volumes continue to lag the industry, as a result of which the trend of market share attrition continues. Within the takaful segment, the company's market share dropped from 6.6% to 5.8%. In 9M'20, quantum of underwriting continued to lag, resulting in a further drop in market share to 4.4%.
- The business slowdown is a result of a combination of factors, which mainly includes the company's underwriting strategy to focus on profitable business, as a result of which loss-

making business has been shed off. In addition, fierce competition in the non-life insurance market and slowdown in automobile sales, which is the most prominent line of business for PQGTL, were also major reasons.

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

- As per policy, credit quality of the company's reinsurance panel cannot fall below investment grade (BBB), wherein maximum allotment cannot exceed 20%. The remaining 80% allotment can only be against reinsurers rated 'A' or above. Presently, the reinsurance panel of the company is aligned with the policy.
- Maximum loss retained on the company's books, at any given time, is viewed as manageable.
- Cession continues to average ~34%.

Profitability indicators have depicted improvement in 9M20, on the back of improvement investment performance

	2018	2019	9M20
Gross Contribution (incl. Wakala Fee)	450.7	477.3	307.6
Net Claims	**(231.6)**	**(251.6)**	**(149.0)**
Net Claims Ratio	*51.4%*	*52.7%*	*48.4%*
Net Commission Income / (Expense)	**2.2**	**(11.5)**	**(18.4)**
Acquisition Income / (Cost)	*0.5%*	*-2.4%*	*-6.0%*
Underwriting Expense	**205.6**	**217.8**	**152.2**
Underwriting Expense Ratio	*45.6%*	*45.6%*	*49.5%*
Underwriting Profit/ (Loss)	**15.8**	**(3.61)**	**(12.0)**
Combined Ratio	*96.5%*	*100.8%*	*103.9%*
Recurring Investment Income	**11.4**	**14.8**	**43.7**
Net Operating Ratio	*94.0%*	*97.6%*	*89.7%*
Other Expenses	**(8.7)**	**(5.6)**	**(4.0)**
Other Income	**4.8**	**6.8**	**0.4**
Profit Before Tax	**30.7**	**31.5**	**28.2**
Profit After Tax	**24.3**	**23.8**	**NA**

- In 2019, the company's underwriting profitability came under pressure, mainly on account of a slight uptick in net claims ratio. The claims ratio is the highest for the Motor segment with the same averaging 56.5%, during the past 2-year period (2018/19), notably higher than Fire (30.1%), Marine (36.8%) and Miscellaneous (42.5%).
- In addition, the company's net acquisition income has changed into net acquisition expense, as commission expenses were in excess of retakaful rebate. This has affected the combined ratio for 2019 & 9M20.
- Given the uptick in claims ratio and the additional net acquisition cost, PQGTL's underwriting profit turned into a loss for 2019. And a higher underwriting loss was noted in 9M20. The company's combined ratio has increased, albeit it is aligned with the peers.
- The company's investment performance depicted improvement in 2019, in tandem with equity market.
    - Changes have been noted in the investment portfolio composition. In 2019, debt securities and bank placements remained in the mainstay of the investment operation. However, given the drop in benchmark rates witnessed in 9M20, the management proactively added to the equity portfolio.
    - Yield on the portfolio (aggregate & calculated on two-point average) was reported higher at 6.6% for 2019 (2018: 3.9%). In 9M20, the annualized yield on the investment portfolio was much higher at 9.4%.
    - Incorporating the same, the company's net operating ratio fell well below the 2-year

average. Nevertheless, in comparison to peers, there is still room for improvement.

	Dec'18	Dec'19	Sep'20	Dec'18	Dec'19	Sep'20
Equity Securities (Mutual Funds)	104.7	154.5	243.6	20%	26%	38%
Debt Securities	130.5	195.8	284.1	25%	33%	44%
Term Deposits	75.0	-	-	15%	-	-
Cash & Bank	203.3	247.2	117.7	40%	41%	18%
	513.5	297.5	645.4			

Capitalization levels of the company remain at adequate levels while leverage has improved, given limited growth in business

Rs. in millions, unless stated otherwise	Dec'18	Dec'19	Sep'20
Liquid Assets	513.5	597.5	645.4
Liquid Assets to Net Technical Reserves	2.1x	2.3x	2.7x
OCF to Gross Contribution	12.7%	12.3%	NA
Insurance Debt to Gross Premium	41.0%	30.2%	32.4%*
Equity	441.5	458.7	441.5
Operating Leverage	102.1%	104.1%	83.4%
Financial Leverage	55.5%	56.2%	48.5%

- With increased investment in liquid instruments, in combination to shrinkage in net technical reserves, liquidity indicators have improved on a timeline.
- The decreasing trend in insurance debt to gross premium has been noted, which translates in lower credit risk for the company.
- The company's equity base has improved, mainly on account of reversal of unrealized losses as the equity markets rebounded. Dividend payout was on the higher side for 2018, at 206%. This was the first dividend payout in 11 years. As per management, future dividend policy will remain tied to the company's profitability and ability to pay out.
- Given limited growth in underwriting, particularly in 9M'20, operating leverage of the company has dropped. Furthermore, financial leverage has also been reduced on a timeline and is aligned with peers.

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

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2018**	**Dec 31, 2019**	**Sep 30, 2020**
Cash and Bank Deposits	203.3	247.2	117.7
Investments	310.2	350.3	527.7
Investment Properties	-	-	-
Insurance Debt	277.8	211.5	185.7
Total Assets	1,336.9	1,402.6	1,468.4
Paid Up Capital	509.2	509.2	509.2
Net Worth	441.5	458.7	490.2
Total Liabilities	895.4	943.9	978.2
INCOME STATEMENT	**2018**	**2019**	**9M'20**
Net Contribution Revenue	450.7	477.3	307.6
Net Claims	231.6	251.6	149.0
Underwriting Profit	7.1	(9.2)	(16.0)
Net Investment Income	15.1	25.7	43.7
Profit Before Tax (SHF+PTF)	30.7	31.5	28.2
Profit After Tax (SHF & PTF)	24.3	23.8	NA
RATIO ANALYSIS	**Dec 31, 2018**	**Dec 31, 2019**	**Sep 30, 2020**
Cession Ratio (%)	33.6%	33.0%	35.0%
Gross Claims Ratio (%)	57.3%	51.5%	51.4%
Net Claims Ratio (%)	51.4%	52.7%	48.4%
Underwriting Expense Ratio (%)	45.1%	48.0%	55.5%
Combined Ratio (%)	96.5%	100.8%	103.9%
Net Operating Ratio (%)	94.0%	97.6%	89.7%
Insurance Debt to Gross Contribution (%)	41.0%	30.2%	32.4%*
Operating Leverage (%)	102.1%	104.1%	83.4%*
Financial Leverage (%)	55.5%	56.2%	48.5%
Liquid Assets to Net Technical Reserves (x)	2.1x	2.3x	2.7x
*Annualized			

ISSUE/ISSUER RATING SCALE & DEFINITIONS **Appendix II**

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
		RATING TYPE: IFS		
22-Jan-21	A-	Stable		Reaffirmed
1-Nov-19	A-	Stable		Reaffirmed
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.
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 Saleeem	CFO	January 6, 2021
Mr. Muhammad Raza	Acting Head of Operations	