RATING REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:
January 02, 2023

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Insurer Financial Strength	A (IFS)	A (IFS)
Rating Date	*January 02, 2023*	*March 31, 2022*
Rating Outlook	Stable	Stable
Rating Action	*Reaffirmed*	*Harmonised*

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** M/s Yousuf Adil, Chartered Accountants
Public unlisted Company	**Chairman of the Board:** Sheikh Ali Bin Abdullah Thani J. Al-Thani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Zahid Hussein 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, March 2022
https://docs.vis.com.pk/docs/MethTakaful202203-final.pdf

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 2021 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. Zahid Hussain Awan has been associated with Pak-Qatar General Takaful as director since its inception. Mr. Zahid possesses rich professional experience of over 36 years in Banking Industry. He initially gained experience of Banking mainly from GCC countries and worked for almost 10 years in international banking. Later in 1990, he joined Qatar International Islamic Bank (QIIB) where he looked after the Treasury, Corresponding Banking, BancaTakaful and Products & Services development.

Mr. Zahid is a graduate of Punjab University.

RATING RATIONALE

Pak Qatar General Takaful Limited ('PQGTL' or 'the Company') is one of two companies in the domestic industry, offering exclusively takaful products. In addition to these two companies, takaful products are also offered by insurance companies, through Window Takaful Operations. PQGTL is a small-sized player in terms of the overall insurance market, as reflected by its market share of 0.9% for 2021 (2020: 0.6%) in the private sector non-life insurance industry. Market share in the takaful segment stood at 6.4% for 2021 (2020: 4.8%).

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. Lately, a separate asset management company by the name of Pak Qatar Asset Management Company Limited has been established, which will offer asset management services and also act as the investment advisor for group companies.

<u>Insurance Sector Update</u>

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

(Rs. in Billions)	CY20	CY21	H1'CY22
Insurance Premium (Gross)	89.6	97.4	55.8
Takaful Contributions (Gross)	12.6	16.2	10.4
Industry Total (Gross)	102.3	113.6	66.2
Combined Ratio	95.3%	84.4%	89.8%
- Net Claims Ratio	54.8%	49.4%	53.2%
- Underwriting Expense Ratio	40.5%	35.0%	36.7%
Net Operating Ratio	78.6%	67.5%	74.6%
RoAA	4.4%	5.4%	3.8%*
RoAE	10.1%	12.8%	9.6%*
Operating Leverage	52.5%	58.3%	67.3%*

*Annualized

- The gross premiums/ takaful contributions underwritten by the industry grew by 11% in 2021, picking up from 8% in 2020. In H1'2022, given the increase in inflation, we have noted a change in trend wherein industry underwriting posted a growth of 26% vis-s-vis SPLY. Overall growth for 2022 is expected to be notably higher in the range of 25-30%.
- Insurance penetration in Pakistan has remained below that of neighboring counterparts, given non-life insurance penetration of ~0.355% vis-à-vis India at 4.2% and Sri-Lanka 1.39%.
- The industry's combined ratio posted a dip in 2021, which was driven by a drop in both net claims and expense ratios. The impact of investment returns on industry profitability remained similar, investment returns stood at 17% of the net premium. In the ongoing year, we have noted an increase in combined ratio, being driven by higher net claims ratio that was a result of sizable losses in Fire segment incurred by the industry. Going forward, reinsurance commissions are likely to be higher, which should keep the treaty acquisition ratio elevated.
- Even though operating leverage of Pakistan's insurance industry remains adequately high, which is partly explained by lagged growth, in June'22, we have noted a trend of an uptick in operating leverage to 67.3% (annualized). Apart from the overall growth in underwriting, this is also partly attributable to dividend payouts in Q1 and mark to market losses on fixed income portfolios in Q2.
- Investment returns in H1'2022, have not depicted much deviation, unlike the one noted in life insurance portfolios. This is partly attributable to a different asset management strategy, albeit also implies that the industry was well placed in terms of portfolio duration leading up to 400 bpts steep drop in benchmark rates noted in Q2'2022. Given higher benchmark rates, investment yield is expected to improve in 2023.

- The implementation of IFRS 17 is likely to be delayed past the initially identified date of January 1' 2023. The implementation is expected to translate in sizable provisioning burden for the industry, however the actual impact of the same on industry capitalization is yet to be ascertained.

Business Review: PQGTL

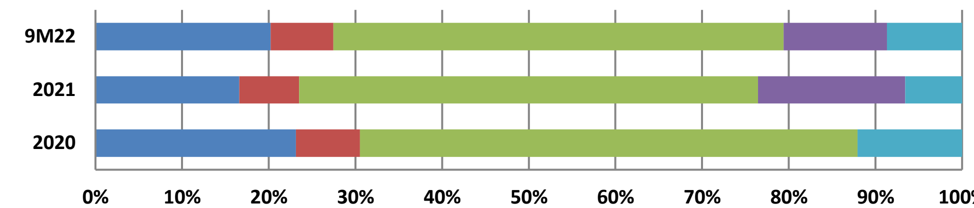
<u>Business Mix</u>

Table 2: PQGTL Market Share (Source: IAP)

(Rs. in Billions)	2020	2021
Market Share (Private Sector)	0.6%	0.9%
Market Share (Takaful)	4.8%	6.4%

- Subsequent to posting contraction in underwriting in 2020, the Company posted strong growth of 72% in gross contributions; as a result, it has been able to recoup its market share during the period. The strong growth momentum continued in 9M'2022 and the management envisages to achieve full year growth of 16% in 2022. Going forward, the management envisages growth in the range of 12-16% through the rating horizon, with growth focus being on sustainability and profitability.
- The business mix of PQGTL has depicted change, given that the Company restarted underwriting business in the Health segment, which had been discontinued previously.

Figure 1: Gross Contribution (Figures in PKR' Millions)



	2020	2021	9M22
Fire	139.2	171.4	155.7
Marine	44.4	71.2	55.9
Motor	345.6	546.7	400.4
Health	-	175.4	92.0
Misc	72.7	67.8	66.7

Table 3: Gross Claims Ratio (Segment-wise)

	2020	2021	9M'2022
Gross Claims Ratio	**46.0%**	**40.6%**	**86.2%**
- Fire	35.1%	27.2%	201.6%
- Marine	34.4%	39.5%	77.3%
- Motor	59.0%	47.0%	40.8%
- Health	-	30.3%	145.5%
- Miscellaneous	12.6%	50.7%	15.3%

- The Company restarted underwriting Health business in Q4'2021, which has affected the loss ratios of the Company. The loss ratios for Fire and Health segments were particularly elevated during 9M'2022, albeit the same is in line with the industry. As per management, given a major chunk of underwriting will be done in Q4, the gross claims ratio for full year will normalize to a lower level.

Profitability

Table 4: Income Statement (Consolidates PTF and SHF)

In PKR' Millions	2019	2020	2021	9M'2021	9M'2022
Net Contribution (incl. Wakala Fee)	477.3	426.5	654.3	431.8	622.9
Net Claims	(251.6)	(197.1)	(321.3)	(204.1)	(327.5)
Net Claims Ratio	*52.7%*	*46.2%*	*49.1%*	*47.3%*	*52.6%*
Net Commission Income / (Expense)	(11.5)	(26.1)	(50.5)	(22.2)	(52.9)
Acquisition Income / (Cost)	*-2.4%*	*-6.1%*	*7.7%*	*-5.2%*	*-8.5%*
Underwriting Expense	217.8	205.4	260.0	161.1	220.7
Underwriting Expense Ratio	*45.6%*	*48.1%*	*39.7%*	*37.3%*	*35.4%*
Underwriting Profit/ (Loss)	(3.61)	(1.99)	22.4	44.3	21.8
Combined Ratio	*100.8%*	*100.5%*	*96.6%*	*89.7%*	*96.5%*
Recurring Investment Income	14.8	33.2	44.2	38.6	63.7
Net Operating Ratio	*97.6%*	*92.7%*	*89.8%*	*80.8%*	*86.3%*
Other Expenses	(5.6)	(6.6)	(8.7)	(2.6)	(5.7)
Other Income	6.8	4.4	8.0	-	0.2
Profit Before Tax	31.5	43.4	68.1	74.4	80.1
Profit After Tax	23.8	45.5	54.4	67.3	56.0

- PQGTL's profitability metrics remain under stress, as illustrated by the Company's bottom line, which has not depicted any significant change over time and return on equity of 9.8% (average for 2020 & 2021) slightly lags the industry.
- In 2021 and 9M'2022, we have noted an increase in quantum of underwriting and market positioning of the Company, because of which the Company's underwriting expense ratio has depicted a declining trend. However, given that both acquisition and net claims ratios have increased, the Company's combined ratio remained elevated. Nevertheless, given the uptick in topline, in absolute terms, the underwriting profit has certainly depicted an increase, as illustrated in the table above.
- The claims ratio has been affected by the newly undertaken Health segment underwriting, while increase in acquisition ratio is an industry-wide trend. Given adverse gross claims performance during 9M'22, the higher acquisition ratio is likely to persist.
- The Company's investment performance fared adversely in 2021 vis-à-vis preceding year, with yield on portfolio declining from 8.5% to 5.6%. However, in 9M'2022, given shift in assets towards debt securities, annualized investment yield for the period was reported higher at 9.5%. Incorporating the same, the Company's net operating ratio depicted notable improvement, being reported at 86.3%.

Table 5: Investment Portfolio

In PKR' Millions	Dec'20	Dec'21	Sep'22	Dec'20	Dec'21	Sep'22
Equity Securities (Mutual Funds)	248.6	325.3	198.9	35.3%	36.7%	22.3%
Debt Securities	282.6	259.0	248.3	40.1%	29.2%	27.9%
Cash & Bank	173.7	236.6	227.9	24.6%	34.0%	49.8%
	704.8	886.0	890.0			

Liquidity & Capitalization

Table 6: Liquidity and Capitalization ratios

	Dec'20	Dec'21	Sep'22
Liquid Assets (In PKR' Millions)	704.8	886.0	890.0
Liquid Assets to Net Technical Reserves	2.9x	2.0x	2.4x
OCF to Gross Contribution	18.5%	18.3%	NA
Insurance Debt to Gross Premium	27.2%	29.3%	30.7*
Equity (In PKR' Millions)	505.2	557.3	601.9
Operating Leverage	84.4%	117.4%	137.6%*
Financial Leverage	48.1%	79.9%	61.1%

*Annualized

- The Company's liquidity profile remains strong, as investment portfolio is entirely composed of liquid assets, which provide comfortable coverage and cushion over net technical reserves.
- The insurance debt to gross contribution has increased since our last review. As per management, the uptick in the same is attributable to a few large-sized policies, wherein contribution receipts are installment based.
- The Company's equity base posted growth, mainly on account of internal cash generation. So far, barring a small dividend payout in 2018, the Company has opted to retain all profitability since inception.
- The operating leverage has posted an increase since our last review, mainly being driven by growth in underwriting. Given the limited internal capital generation capacity, the growth in equity base is likely to lag the growth in underwriting, as a result of which the upward trend in operating leverage is likely to continue through the rating horizon. Furthermore, financial leverage has also increased, given worsening in claims ratios and resultant increase in technical reserves.

Key Rating Drivers - PQGTL

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, such as 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.

Together with Pak Qatar Family Takaful Limited, the Pak Qatar Group offers takaful services in both life and non-life domains. The establishment of a separate asset management company and outsourcing investment function of group companies to this newly established company should allow the group to realize synergies.

Ratings are supported by sound reinsurance panel

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 ratio has declined to ~25% from 34% previously, given the addition of Health segment, which is not ceded.

Rating incorporates market positioning of the Company

The rating is underpinned by the Company's market positioning as a small-sized player in terms of the overall insurance market, as reflected by its market share of 0.9% for 2021 in the private sector non-life insurance industry. Market share in the takaful segment stood at 6.4% for 2021.

Rating incorporates PQGTL's profitability metrics

PQGTL's profitability metrics remain under stress, as the Company's bottom line has not depicted any significant change over time and return on equity of 9.8% (average for 2020 & 2021) slightly lags the industry. In 2021 and 9M'2022, we have noted an increase in quantum of underwriting and market positioning of the Company, because of which the Company's underwriting expense ratio has depicted a declining trend. However, given that both acquisition and net claims ratios have increased, the Company's combined ratio remained elevated.

Rating incorporates financial risk profile of the Company

The Company's liquidity profile remains strong, wherein liquid assets provide comfortable coverage and cushion over net technical reserves. Given growth in underwriting and technical reserves in the ongoing year, both operating and financial leverage have increased. Despite adequate profit retention over the years, size of equity and internal profit generation capacity is inadequate to support strong growth in underwriting. The rising trend in operating leverage is a concern and VIS will continue to monitor the same on an ongoing basis.

Pak-Qatar General Takaful Limited

Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2019**	**Dec 31, 2020**	**Dec 31, 2021**	**Sept 30, 2022**
Cash and Bank Deposits	247.2	173.7	236.6	442.9
Investments	350.3	531.1	649.4	447.1
Investment Properties	-	-	-	-
Insurance Debt	211.5	164.0	302.7	312.8
Total Assets	1,516.8	1,429.4	1936.6	2,251.1
Paid Up Capital	509.2	509.2	509.2	509.2
Net Worth	458.7	505.2	557.3	601.9
Total Liabilities	1,057.3	924.2	1,379.3	1649.2
INCOME STATEMENT	**2019**	**2020**	**2021**	**9M'2022**
Net Contribution Revenue	477.3	426.5	654.3	622.9
Net Claims	251.6	197.1	321.3	327.5
Underwriting Profit	(11.8)	(8.6)	227.7	192.0
Net Investment Income	25.7	44.4	52.2	63.7
Profit Before Tax (SHF+PTF)	31.5	43.4	68.1	80.1
Profit After Tax (SHF & PTF)	23.8	45.5	54.4	56.0
RATIO ANALYSIS	**Dec 31,2019**	**Dec 31, 2020**	**Dec 31, 2021**	**Sept 30, 2022**
Cession Ratio (%)	33.4%	33.5%	24.0%	25.0%
Gross Claims Ratio (%)	51.5%	46.0%	40.6%	86.2%
Net Claims Ratio (%)	52.7%	46.2%	49.1%	52.6%
Underwriting Expense Ratio (%) (incl. acquisition cost)	50.4%	60.4%	55.2%	52.4%
Combined Ratio (%)	100.8%	100.5%	96.6%	96.5%
Net Operating Ratio (%)	97.6%	92.7%%	89.8%	86.3%
Insurance Debt to Gross Contribution (%)	30.2%	27.2%	29.3%	30.5%
Operating Leverage (%)	104.1%	84.4%	117.4%	137.6%
Financial Leverage (%)	56.2%	48.1%	79.9%	61.1%
Liquid Assets to Net Technical Reserves (x)	2.32x	2.90x	1.99x	2.42x
***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**	**Rating Action**
		RATING TYPE: IFS		
	02-Jan-23	A(IFS)	Stable	Reaffirmed
	31-Mar-22	A(IFS)	Stable	Harmonized
	01-Mar-22	A-	Stable	Reaffirmed
	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	December 7, 2022	
	Mr. Muhammad Rizwan	Head of Financial Reporting		
	Mr. Shoaib Akhtar	COO		