# RATING REPORT

# Pak-Qatar General Takaful Limited

**REPORT DATE:**
March 13, 2024

**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*** | *March 13, 2024* | *January 02, 2023* |
| **Rating Outlook** | Stable | Stable |
| ***Rating Action*** | *Reaffirmed* | *Reaffirmed* |

| 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 – 42.48% | |
| Sheikh Ali Bin Abdullah – 15.65% | |
| Qatar International Islamic Bank – 14.47% | |
| Qatar Islamic Insurance Company – 11.63% | |
| Fawad Yusuf Securities – 6.04% | |
| Said Gul – 5.89% | |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria Methodology – Takaful Companies, October 2023**
*https://docs.vis.com.pk/docs/TakafulCompanies-Oct-2023.pdf*

## APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:**
*https://docs.vis.com.pk/docs/VISRatingScales.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 0.6% during 9MCY23 (CY22: 0.8%, CY21: 0.9%) in the private sector non-life insurance industry. Market share in the takaful segment stood at 5.2% during 9MC23 (CY22: 5.8%, CY21: 6.4%).

The Company operates through a network of 8 branches, spread over 8 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.

**Insurance Sector Update**

*Global Perspective*

Despite building macroeconomic challenges, the insurance industry continued to grow in FY22, both globally and in Pakistan. Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes with economic losses from natural disasters recorded higher in FY22; however insured losses covered 45% of these damages amounting to USD 125 billion. In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

*Local Perspective*

Pakistan's insurance industry posted growth despite weak macroeconomic situation in CY22 with continued dominance of Life Insurance & Family Takaful segments in terms of assets and gross premiums. Gross premiums increased from Rs. 402.1 billion in CY21 to Rs. 513.2 billion in CY22 with Life & Family Takaful segment, and Non-Life & General Takaful segments posting increases of Rs. 81.9 billion and Rs. 29.3 billion respectively. Moreover, the industry's asset base grew by 14.3% in CY22 to Rs. 2,392.4 billion particularly on the back of significant growth in the Life Insurance segment. In addition, despite building macroeconomic pressures higher inflation led to revaluation of assets with commensurate higher premium values. In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the outgoing year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the increase in claims. Accordingly, financial performance indicators for the non-life sector slightly weakened on a timeline. Further, the industry's combined ratio increased in CY22, which was driven by a spike in both net claims and expense ratios. With the increase in combined ratio, insurers are expected to reprice their products in the ongoing year. Going forward, due to the prevailing slowdown in economic activity and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain. Moreover, the SECP has issued instructions of phase wise implementation of IFRS 17. 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. No final timeline for the same is announced yet.

*Future Outlook*

Globally, it is expected that there will be premium rate hardening in CY23 in response to the continuation of high inflation, geopolitical tensions, natural catastrophes and financial market losses of CY22.

**Business Update**

The Company is mainly engaged in the provision of insurance covers pertaining to the motor, accident & health, fire & property, marine and miscellaneous segments. The overall business mix remains dominated by the motor segment; however, timeline decline in the same was exhibited on the back of drop in demand for motor vehicles given soaring prices and reduction in car leasing in line with policy rate hikes. On the other hand, contribution by the health segment depicted a notable increase over the rating review period as the management focused on diversifying its business mix. On a combined basis, both the motor and health segments contribute over two-thirds to the topline. The gross written premium (GWP) rose to Rs. 997.4m during 9MCY23 (CY22: Rs. 1.2b, CY21: Rs. 1b), representing a 29.4% increase vis-à-vis SPLY. This growth was driven largely by upward revisions in premium prices in conjunction with higher sum insured value on account of inflation levels rather than appreciable expansion of the client-base. Moreover, as per management, the Company introduced online portals across all segments (barring marine) for the onboarding of new clients which has helped streamline and enhance efficiency in the generation of new business. However, the Company's market share depicted a downtrend over the rating review period, decreasing to 0.6% during 9MCY23 (CY22: 0.8%, CY21: 0.9%) as topline growth trailed industry levels. Going forward, given the high-base effect combined with positive developments in the IMF program, inflation levels are anticipated to moderate as macroeconomic conditions stabilize which would dampen price-based acceleration in premiums over the medium to long-term; hence, expansion of client base will be important in order to maintain upward trajectory in topline. As per management, the Company plans to continue its cautious underwriting strategy while focusing largely on increasing quantum of small-medium sized clients in order to ensure stable revenue generation. For CY24, the management is projecting the topline to reach about Rs. 1.4-1.5b. Breakdown of business mix can be seen below:

| | 2020 | 2021 | 2022 | 9M23 |
|---|---|---|---|---|
| **Fire** | 23.1% | 16.6% | 16.9% | 17.9% |
| **Marine** | 7.4% | 6.9% | 6.1% | 8.3% |
| **Motor** | 57.4% | 53.0% | 46.0% | 40.8% |
| **Health** | 0.0% | 17.0% | 24.2% | 28.4% |
| **Misc.** | 12.1% | 6.6% | 6.7% | 4.6% |

Moreover, the cession ratio depicted a decrease over the rating review period to 21.7% at end-Sept'23 (CY22: 21.3%, CY21: 24%) largely on account of increase in retention levels across most of the Company's proportional reinsurance arrangements following adverse performance of loss ratios during CY22, particularly manifested in the fire & property segment.

**Claims Experience**

The Company's claims performance depicted weakening over the rating review period, particularly during CY22 as gross and net claims increased to Rs. 909.4m and Rs. 536.2m (CY21: Rs. 419.9m, Rs. 321.3m), respectively. This was largely on the account of a one-off sizeable claim incurred in the fire & property segment related to a sports accessories manufacturer. Additionally, health related claims also witnessed a notable increase owing to the inherently high loss ratios in the industry, expansion of the segment in the business mix and rise in hospitalization expenses on the back of inflationary pressure. Similar trend was witnessed during 9MCY23 with gross claims standing at Rs. 644.4m whereas net claims rose notably to Rs. 559.3m, driven largely by health-related payouts.

Moreover, VIS notes that the Company's net claims ratio has generally been reported higher than gross claims ratio on a timeline basis; the same is largely on account of the Excess of Loss (EOL) reinsurance treaties in place for the motor segment, the primary revenue driver in the business mix. However, during CY22, given that sizeable gross claim expense was incurred in the F&P segment which is protected by proportional treaties, the gross claims ratio stood higher than the net claims ratio. Furthermore, the net claims ratio has exhibited a notable increase over the rating review period, driven particularly by the health segment, owing to absence of reinsurance coverage due to lack of available retakaful operators for the industry. Breakdown of net claims ratio by segment can be seen below:

| | 2020 | 2021 | 2022 | 9MCY23 |
|---|---|---|---|---|
| **Net Claims Ratio** | **46.2%** | **49.1%** | **60.4%** | **68.7%** |
| **Fire** | 9.5% | 37.6% | 68.2% | 25.7% |
| **Marine** | 42.7% | 51.0% | 70.4% | 22.7% |
| **Motor** | 56.7% | 48.4% | 49.6% | 47.5% |
| **Health** | 0.0% | 63.6% | 84.6% | 109.0% |
| **Misc.** | -4.1% | 38.5% | 34.1% | 33.8% |

**Underwriting Performance**

PQGTL's underwriting performance was adversely impacted over the rating review period, declining to Rs. (45.6m) during 9MCY23 (CY22: Rs. (18.2m), CY21: Rs. 227.7m) largely due to the rise in net claims expense. On the other hand, the Company's underwriting expense ratio exhibited a timeline decline to 36.9% (CY22: 41.6%, CY21: Rs. 48.8%) primarily on the back of higher net premium revenue booked on an annualized basis due to higher retention on net account as well as cost rationalization efforts. Nonetheless, the combined ratio rose to 105.6% during 9MCY23 (CY22: 102.1%, CY21: 97.9%) indicating losses in underwriting operations. Moreover, investment income rose to Rs. 95.2m (CY22: Rs. 72.3m, CY21: Rs. 52.2m) largely owing to uptick recurring income generated from bank placements and debt securities in line with repeated policy rate hikes, resulting in the net operating ratio staying relatively stable at 94.2% (CY22: 96.2%, CY21: 93.9%). Consequently, the Company posted a profit after tax amounting to Rs. 33.5m during 9MCY23 (CY22: Rs. 61.8m, CY21: Rs. 54.4m).

**Reinsurance**

The Company's risk profile is supported by the sound reinsurance coverage provided by a diversified panel of international reinsurers. However, the overall risk profile of the panel exhibited a downward movement during CY23 following the exit of Cobalt Re (rated "A" by S&P) in the terrorism segment. The Company has negotiated quota share arrangements which are reinforced by non-proportional treaties across most segments; however, following adverse loss ratios during CY22, overall decrease in treaty sizes and surplus treaty lines was witnessed coupled with higher retention levels. Subsequently, with increase in retention limits, size of maximum per risk claim increased during the period under review; nonetheless, the same is considered manageable in relation to the Company's equity base. Additionally, given that commission rates are determined on a sliding-scale, increase in loss ratios during CY22 resulted in reduction in commission rates in the outgoing year across the fire, miscellaneous, engineering and terrorism segments. Moreover, the motor segment, which comprises the major proportion of the business mix, was reinsured with Excess of Loss (XOL) treaties, providing sufficient protection against large claims. On the other hand, no reinsurance treaties were in place for the health segment on account of lack of availability of retakaful operators for the industry in the market, as per management. Going forward, the management does not expect any major changes in reinsurance panel, treaty terms and commission rate for CY24.

**Investments**

The Company's net investment income augmented on a timeline basis to Rs. 95.2m (CY22: Rs. 72.3m, CY21: Rs. 52.2m) driven largely by higher returns generated from term deposits and debt securities on the back of policy rate hikes. The overall investment mix is dominated by equities, amounting to about Rs. 346.8m at end-Sept'23 (CY22: Rs. 224.4m, CY21: Rs. 325.3m), which constitute exclusively of Islamic mutual funds; the same pertain primarily to stock funds resulting in notable exposure to price risk given the volatility in stock market performance. Investment in debt securities also increased to Rs. 274.2m (CY22: Rs. 252.8m, CY21: Rs. 259m) out of which Rs. 75m are vested in a GoP Ijarah Sukuk maturing in CY25 with a profit rate of 6M KIBOR + 1.25% while the remainder comprises of corporate sukuks. However, given that the debt securities are recorded as available-for-sale, the same are exposed to mark-to-market losses emanating from interest rate movements. Moreover, the investment in term deposits also increased to Rs. 180m at end-Sept'23 (CY22: Rs. 215m, CY21: Rs. 65m) in order to capitalize on the high interest rate environment. However, given that the overall investment portfolio is vested largely in equity mutual funds, the associated credit risk is considered on the higher side. Going forward, the management aims to continue monitoring developments in stock market performance and changes in policy rates to adjust its investment portfolio accordingly. Further diversification of the investment mix in light of the uncertain macroeconomic conditions and volatile returns of the stock market will be important from a rating's perspective. Breakdown of investment mix is shown below:

| Investments | 2021 | % | 2022 | % | 9M23 | % |
|---|---|---|---|---|---|---|
| **Equity Securities** | 325.3 | 50.1% | 224.4 | 32.4% | 346.8 | 43.3% |
| **Debt Securities** | 259.0 | 39.9% | 252.8 | 36.5% | 274.2 | 34.2% |
| **Term Deposits** | 65.0 | 10.0% | 215.0 | 31.1% | 180.0 | 22.5% |
| **Total** | **649.4** | **100.0%** | **692.1** | **100.0%** | **801.0** | **100.0%** |

**Liquidity**

PQGTL's liquidity position in terms of liquid assets to net technical reserves witnessed a slight improvement over the rating review period to 2.02x at end-Sept'23 (CY22: 1.99x, CY21: 1.99x) owing largely to augmentation in the investment portfolio. However, as unearned contribution reserves are gradually realized, the aforementioned liquidity indicator is expected to enhance further by end-CY23. Additionally, insurance debt to gross premium decreased to 27.7% (annualized) at end-9MCY23 (CY22: 25.1%, CY21: 29.3%) due to swift payments received by policyholders; the same is commensurate with the assigned ratings.

**Capitalization**

The Company's equity base has increased on a timeline basis to Rs. 657m at end-Sept'23 (CY22: Rs. 608.3m, CY21: Rs. 557.3m) despite underwriting losses owing to increase in investment income coupled with full retention of net profit as no dividend payouts were made over the rating review period. However, uptick in equity levels lagged growth in the topline resulting in increase in operating leverage to 165.3% (annualized) at end-9MCY23 (CY22: 145.8%, CY21: 117.4%), elevating the overall risk profile. Nevertheless, the Company is considered sound from a solvency risk perspective as there is adequate cushion in terms of total admissible assets over liabilities. Additionally, financial leverage exhibited an increase over the rating review period to 83.9% (CY22: 82.9%, CY21: 79.9%) largely on the back of higher net technical reserves due to increase in outstanding claims. However, given that the unearned premium reserves have an element of cyclicality attached, the financial leverage level is expected to moderate by end-Dec'23 as they are gradually realized. Aging of claims payables is considered satisfactory with no claims outstanding for more than a year at end-CY22. However, the overall capitalization levels are in line with the assigned ratings. Going forward, enhancement of underwriting performance will be important to ensure maintenance of rangebound capitalization levels.

## Pak-Qatar General Takaful Limited

**Appendix I**

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | | |
|---|---|---|---|---|
| **BALANCE SHEET** | **31-Dec-20** | **31-Dec-21** | **31-Dec-22** | **30-Sep-23** |
| **Cash and Bank Deposits** | 174 | 237 | 313 | 314 |
| **Investments** | 531 | 649 | 692 | 801 |
| **Investment Properties** | - | - | - | - |
| **Insurance Debt** | 164 | 303 | 303 | 369 |
| **Total Assets** | 1,429 | 1,937 | 2,478 | 2,741 |
| **Paid Up Capital** | 509 | 509 | 509 | 509 |
| **Net Worth** | 505 | 557 | 608 | 657 |
| **Total Liabilities** | 924 | 1,379 | 1,870 | 2,084 |
| | | | | |
| **INCOME STATEMENT** | **31-Dec-20** | **31-Dec-21** | **31-Dec-22** | **30-Sep-23** |
| **Net Contribution Revenue** | 427 | 654 | 887 | 814 |
| **Net Claims** | 197 | 321 | 536 | 559 |
| **Underwriting Profit** | (9) | 228 | (18) | (46) |
| **Net Investment Income** | 44 | 52 | 72 | 95 |
| **Profit Before Tax (SHF & PTF)** | 43 | 68 | 84 | 50 |
| **Profit After Tax (SHF & PTF)** | 46 | 54 | 62 | 34 |
| | | | | |
| **RATIO ANALYSIS** | **31-Dec-20** | **31-Dec-21** | **31-Dec-22** | **30-Sep-23** |
| **Cession Ratio (%)** | 33.5% | 24.0% | 21.3% | 21.7% |
| **Gross Claims Ratio (%)** | 44.0% | 46.7% | 79.5% | 62.5% |
| **Net Claims Ratio (%)** | 46.2% | 49.1% | 60.4% | 68.7% |
| **Underwriting Expense Ratio (%) (incl. acquisition cost)** | 55.8% | 48.8% | 41.6% | 36.9% |
| **Combined Ratio (%)** | 102.0% | 97.9% | 102.1% | 105.6% |
| **Net Operating Ratio (%)** | 96.3% | 93.9% | 96.2% | 94.2% |
| **Insurance Debt to Gross Contribution (%)*** | 27.2% | 29.3% | 25.1% | 27.7% |
| **Operating Leverage (%)*** | 84.4% | 117.4% | 145.8% | 165.3% |
| **Financial Leverage (%)** | 48.1% | 79.9% | 82.9% | 83.9% |
| **Liquid Assets to Net Technical Reserves (x)** | 2.90 | 1.99 | 1.99 | 2.02 |

**Annualized*

| **REGULATORY DISCLOSURES** | | | | **Appendix II** |
|---|---|---|---|---|
| **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** | | | |
| | **13-March-24** | **A (IFS)** | **Stable** | **Reaffirmed** |
| | **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 Saleem** | CFO | Jan 23rd, 2024 | |
| | **Mr. Shoaib Akhtar** | COO | | |