



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Qatar General Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Feb-2021	A	-	Stable	Maintain	-
25-Feb-2020	A	-	Stable	Maintain	-
28-Aug-2019	A	-	Stable	Maintain	-
27-Feb-2019	A	-	Stable	Maintain	-
06-Dec-2018	A	-	Stable	Maintain	-
27-Apr-2018	A	-	Stable	Maintain	-
29-Sep-2017	A	-	Stable	Maintain	-
28-Feb-2017	A	-	Stable	Maintain	-
29-Feb-2016	A	-	Stable	Maintain	-
19-Mar-2015	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pak-Qatar General, one of earliest dedicated takaful companies in Pakistan, possesses strong business acumen through its association with the Qatar based financial institutions while also being allied to its sister concern; Pak-Qatar Family Takaful. These interconnections along with the appointment of Mr. Nasir Ali Syed as the Chief Executive Officer (formerly Chief Executive Officer of Pak-Qatar Family Takaful) provides positive omen for the future growth of the company.

Currently, the company has stagnant market position in the wake of intense competition amongst dedicated takaful peers and window takaful operations of much established players in the industry. This has resulted in pressure on the profitability. The management has devised a strategy under the new leadership to cater the growth moving forward. Efforts have been initiated to seek synergic benefits using cross selling through sister concern. The reduced interest rates would further provide impetus in the motor segment; traditionally the forte of the company. Enhancement of bank business and induction of new sale force is also underway. Increase in business volumes and takaful presence needs improvement hence therein.

Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The new interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

The rating is dependent on the management's ability to cohesively execute the business plan. Furthermore, improvement in market share and underwriting profitability are considered vital. Meanwhile, prudent management of premium receivables from corporate customers is essential. Also, implementation of real-time IT infrastructure along with an upgraded MIS should, among others, strengthen the claims management system.

Disclosure

Name of Rated Entity	Pak Qatar General Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology GI(Jun-20)
Related Research	Sector Study General Insurance(May-20)
Rating Analysts	Maryam Ijaz maryam.ijaz@pacra.com +92-42-35869504



Profile

Legal Structure Pak Qatar was one of earliest dedicated Takaful Company to be incorporated and is an unquoted public limited company.

Background The company started its operations in August 2007, providing risk coverages to all segments of general takaful. PQTL, with its head office in Karachi, operates through three business Hubs – South, Central and North – with a total of 18 branches in 9 cities.

Operations The North Zone comprises of branches in Islamabad, Rawalpindi, Abbottabad and Peshawar, Central zone comprising branches in Lahore, Gujranwala, Faisalabad, Multan, & Sialkot while South zone consists of branches in Karachi, Hyderabad & Quetta.

Ownership

Ownership Structure The majority shareholder, Mr. Said Gul (48 %), is amongst promoters of the company. He is an entrepreneur in Qatar. Mr. Gul possesses more than two decades of extensive experience of the construction industry. H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali) effectively controls 42% shareholding in the company directly and indirectly through Qatar International Islamic Bank, and Qatar Islamic Insurance Co. (HE) Sheikh Ali Bin Abdullah Thani J. Al Thani is a member of the Royal Family of Qatar, by qualification, he is a science graduate from the Portland State University, USA.

Stability There is a change in shareholding structure of the company.

Business Acumen H.E Ali indirectly controls the stake in Pak Qatar through three institutions owned by family and friends; i) Qatar International Islamic Bank (rated A2 by Moody's) is majorly owned by Ezdan Holding group (23%) and Qatar Investment Authority (17%), ii) Masraf Al –Rayan incorporated in 2006 (rated Aa3 / P-1 by Moody's), enjoys 25% market share in Shariah Compliant banking assets and 5% share in domestic banking assets.

Financial Strength Pak-Qatar Family Takaful is another venture of sponsors in Pakistan's Life Insurance sector. Incorporated in 2006, the company has fast grown to become 4th largest life insurer in the private sector.

Governance

Board Structure Pak-Qatar has an eight-member board. The eight-member board comprises of skilled professionals. It is chaired by (HE) Sheikh Ali Bin Abdullah Thani J. Al Thani. The rest of the board members includes Mr. Zahid Hussain Awan, Mr. Said Gul, Mr. Abdul Basit Ahmad Al-Shaibei, Mr. Ali Ibrahim Al Abdul Ghani, Mr. Owais Ahmed Yusuf, Mr. Farrukh V Junaidy and Mrs. Sameera Usman.

Members' Profile The chairperson, H.E. Sheikh Ali Bin Abdullah Al-Thani (H.E. Ali), royal family member, is associated with Pak Qatar since 2007 and possess over 26 years of experience. Previously, Mr. Said Gul was the MD of the company who has been associated with the company since inception. . He was appointed as CEO in 2010, replacing Mr. Zahid Hussain, who is presently one of the board members.

Board Effectiveness BoD's participation is good in annual meetings which are held in Qatar. Online MIS is provided to directors that enable them to keep updated with the progress of the company.

Transparency EY Ford Rhodes Chartered Accountants are the auditors of the company. They provided an unqualified opinion in the latest financial statements.

Management

Organizational Structure The management team of the company comprises of qualified and experienced professionals. The organizational structure is well laid down, with clearly delineated reporting lines.

Management Team Mr. Muhammad Nasir Ali Syed is the newly appointed CEO of the company. He has been associated with Pak-Qatar since February 2007 and is a seasoned insurance/Takaful professional with over two decades of rich experience in Life Insurance & Takaful industry of Pakistan. He is supported by professionals.

Effectiveness Six key individuals report directly to CEO; (i) Head of Operations, (ii) Head of Admin & Procurement, (iii) Head of Internal Audit (Only Administratively), (iv) Head of IT, (v) Head of Marketing and (vi) Head of HR. Mr. Muhammad Saleem has replaced Mr. Muhammad Kamran Saleem as the CFO during the year 2019.

MIS PakQatar has developed its own software TIMS (Takaful Information and Management System). The new software is entirely web-based running live since January 2014. The system ensures strong control environment, supporting centralised operation by allowing policy locking and posting at head office level.

Claim Management System The claim processing process is centralized, where only data entry rights are available to branches. For engineering segment, branches have no data entry authority. Claim reporting is done by branch who is attending the claim.

Investment Management Function Pak Qatar has a formal investment policy document approved by BoD and Shariah Board, reviewed annually. As per the IPS, the structure of investment decision making is three-tiered – (i) Board Investment Committee (IC), (ii) Management Investment Committee (MIC), and supervised by (iii) Shariah Board.

Risk Management Framework The treaty capacities are optimal with surplus arrangements, which are adequate in the initial years of operation. The company has diversified its panel of reinsurers, boding well for its financial risk.

Business Risk

Industry Dynamics Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic affected the volumes, which led to a contraction in the growth. However, volumes have picked up post-June 2020 amidst increase in economic activities throughout the country. The volumes need to sustain, indeed, improve in tandem with the longer historical trend. The new interest rate regime has added momentum to auto-financing, which is a good sign for the insurance industry.

Relative Position The company is classified as a small company (general insurance industry) with a market share of less than 1%.

Revenue During 9MFY20, the company registered the gross contribution of PKR 431mln registering a decrease of 11% YoY. Motor segment was the forte of the company, comprising 60% of the total revenue, followed by Fire (21%), Others (12%) and Marine (7%).

Profitability PTF's underwriting income was recorded at PKR 17mln in 9MFY20 (9MFY19: PKR 6mln) due to 21% decrease in claims expense. This in turn improved the loss ratio which stood at 48% at 9MFY20 (9MFY19: 57%). The company was able to turnaround the PAT for SHF (9MFY20: PKR 4mln, 9MFY19: Loss PKR 4mln) to profitability through improvement in investment income amidst inflated management expenses. The increase in management expenses led the combined ratio to increase at 123% at 9MFY20 (9MFY19: 91%).

Investment Performance The investment income (SHF) stood at PKR 37mln at 9MFY20 (9MFY19: PKR 5mln) whereas PTF investment income was recorded at PKR 6.9mln (9MFY19: PKR 7.4mln) due to low return from government securities.

Sustainability Going forward, the company envisages a prudent growth strategy and expects a reasonable growth. The company sees growth in primarily Motor business, Banker's blanket and Marine business.

Financial Risk

Claim Efficiency The claims efficiency ratio stood at 387 days at 9MFY20 (9MFY19: 296 days).

Re-Insurance PQTL is strengthened by its Re-Takaful arrangements with Kuwait Re ('A-' by A.M Best), Saudi Re ('A3' by Moody's), Arab Re ('B+' by A.M Best), GIC - Dubai ('A-' by A.M Best) and PRCL ('AA' by VIS).

Liquidity PQTL has a sound liquidity coverage at 9MFY20 ~ 1.5x. The company recorded an investment book of PKR 835mln (9MFY19 PKR 758mln) which is entirely liquid.

Capital Adequacy The company has an equity of PKR 753mln at end Sep'20. The paid-up capital is above is well above the minimum capital requirement.



--- PKR (mln) ---

BALANCE SHEET*	Sep-20	Dec-19	Dec-18	Dec-17
Investments				
Liquid Investments	835	788	713	464
Other Investments	-	-	-	-
	<u>835</u>	<u>788</u>		
Insurance Related Assets	366	373	409	620
Other Assets	267	242	214	201
TOTAL ASSETS	<u>1,468</u>	<u>1,403</u>	<u>1,337</u>	<u>1,284</u>
Equity (SHF)	753	746	760	562
Waqf / Participants' Takaful Fund (PTF)	(72)	(97)	(118)	(114)
Underwriting Provisions	178	208	218	219
Insurance Related Liabilities	472	407	381	530
Other Liabilities	138	139	97	88
TOTAL EQUITY & LIABILITIES	<u>1,468</u>	<u>1,403</u>	<u>1,337</u>	<u>1,284</u>

Profit and Loss Account (Participants' Takaful Fund / PTF) - Extracts	Sep-20	Dec-19	Dec-18	Dec-17
Gross Contribution Written (GPW)	431	701	678	615
Net Contribution Revenue	140	211	192	168
Net Claims	(149)	(252)	(232)	(211)
Investment Income	7	10	7	1
Surplus / (Deficit) before Investment Income	17	0	5	12

Profit and Loss Account (Shareholders' Fund / SHF) - Extracts	Sep-20	Dec-19	Dec-18	Dec-17
Wakala Income	168	266	258	233
Investment Income	37	30	16	25
Underwriting Profit/ (Loss)	(33)	(12)	2	(16)
Profit Before Tax	4	21	19	11

RATIO ANALYSIS*	Sep-20	Dec-19	Dec-18	Dec-17
Underwriting Results				
Loss Ratio	48%	53%	51%	53%
Expense Ratio	75%	70%	71%	63%
Combined Ratio	123%	122%	123%	116%
Performance				
Operating Ratio	109%	113%	117%	109%
Liquidity & Solvency				
Liquidity Ratio – times	1.5	2.1	2.2	1.0

* based on consolidated figures (SHF + PTF)

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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