



The Pakistan Credit Rating Agency Limited

Rating Report

Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Feb-2023	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
01-Feb-2022	A+	-	Stable	Upgrade	-
01-Feb-2021	A	-	Stable	Upgrade	-
28-Aug-2020	A-	-	Stable	Maintain	-
29-Aug-2019	A-	-	Stable	Maintain	-
27-Feb-2019	A-	-	Stable	Maintain	-
27-Dec-2018	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Salaam Takaful Limited (“Salaam Takaful” or the “Company”), a dedicated Takaful company, has demonstrated unprecedented growth since the takeover by new shareholders and the CEO in 2018. Initially a motor-centric company, it has expanded its footprints into the other segment such as health and miscellaneous. The Company has increased focus on its customer service experience through interplay of technology and digital customer interactions which has provided an edge to the company amidst high competition. It has diligently worked on innovative ideas by employing latest technologies and expects that such strategy will create value by improving customer service. The business has picked up sizably and consistent rapid growth being quite visible. Salaam Takaful earned a Gross Contribution Revenue of PKR 2.2bln in CY21 (CY20: PKR 1.6bln), depicting a growth of 38% YoY. The same growth trend can be seen in 9MCY22, surged a growth of 30% YoY to PKR 1.9bln (9MCY21: PKR 1.4bln). However due to volatility in the capital markets, the Company experienced a contraction in investment income. Given the deprived performance of the capital market, the Company intends to expand its investment canvas to ensure strong supplementary income. Segmental concentration soars in the motor and health segment, with further diversification in untapped segment being expected, going forward. A Major growth in the miscellaneous segment was reported during 9MCY22. The underwriting profitability of the Company inched up on account of considerable contribution from the health segment. Additionally, the Company has plans of further equity injection by end of CY22, which will likely boost liquidity and create room for further expansion. The leverage of the Company needs to be managed. The shareholders are aligned on the business philosophy and share vision for future in a documented way. Going forward, business expansion combined with business diversification is projected in order to strengthen STL’s footprint in the general insurance industry.

The rating is dependent on the management’s ability to capitalize on the group’s well-built platform for business expansion. Upholding of liquidity and enhancement in equity levels along-with diversity in revenue stream and improved contribution from investments remain essential factors.

Disclosure

Name of Rated Entity	Salaam Takaful Limited (Formerly: Takaful Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Mar-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study General Insurance(May-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504

Profile

Legal Structure Salaam Takaful Limited (STL) is an unlisted public limited company, incorporated in June 2006.

Background STL has consistently redefined the boundaries of innovation and discovery, by continuously investing time and resources into the research-driven expansion of its products and services. In January 2018, the board approved the new investors; namely, Mr. Salim Godil, Mr. Shehzad Salim Godil, Mr. Rizwan Hussain and Mr. Salman Hussain.

Operations The Company is managed and supervised by a Shariah Adviser, with the capacity to underwrite risks in all avenues of General Insurance namely, Property (Fire & Engineering), Marine, Motor, Health and Misc. It operates through eight branches. The head office, based in Karachi and regional office in Lahore, is also expanding as the company envisages growth in the upcoming years.

Ownership

Ownership Structure The Company retains shareholding from four key investors, namely; i) Salim Habib Godil ii) Shahzad Salim Godil iii) Rizwan Hussain iv) Salman Hussain, along-with various prominent organizations such as House Building Finance Company Limited which is owned by SBP. Other prominent groups include; Al Baraka Bank Limited, Mal Al Khaleej Investment LLC and Sitara Chemical Industries.

Stability The new shareholders along with experienced leadership and a team of qualified professionals have envisaged long-term goals for the Company aiding the stability of, Company.

Business Acumen STL retains shareholding from various prominent financial institutions, well-renowned insurance industry professionals and executives from business conglomerates of Pakistan.

Financial Strength The new shareholders of the Company provide a solid financial footing to Salaam Takaful Limited. The history of regular equity injections assures the sponsor's commitment to supporting the Company.

Governance

Board Structure Salaam Takaful has a seven-member board including the Managing Director & CEO Mr. Rizwan Hussain. The Board comprises all non-executive directors including one independent and MD & CEO as an executive director.

Members' Profile The members of the board possess a diversified professional profile, with inclusion of executives from business conglomerates and insurance industry veterans providing a unique mix of leadership to the Company.

Board Effectiveness STL at present comprises of three board committees namely Audit, Investment and HR. The Company has emphasized greater focus on the compliance function lately and all these committees are governed according to the corporate governance requirement.

Transparency The external auditors of the Company, M/s KPMG Taseer Hadi & Co, provided an unqualified opinion on the financial statements of CY21. Company has EY Ford Rhodes as the Internal Auditor.

Management

Organizational Structure A lean organizational structure has been maintained by the Company, with reporting lines delineated towards the CEO of the Company.

Management Team Mr. Rizwan Hussain as CEO of the Company brings a unique mix of experience along with shareholding/ownership in the company at the same time. He presides over Salaam Takaful Ltd as Managing Director & CEO with a vision to turnaround the Company.

Effectiveness The organization has three management committees; Underwriting and Retakaful & Co-takaful Committee, Benefit (Claim) Settlement Committee and Risk Management & Compliance Committee.

MIS An in-house MIS was created by Salaam Takaful, namely 'Takaful Management System'. All modules of the application are integrated with each other. The system is capable of generating complete MIS reporting at all times with integrated underwriting, claims, and agency and finance modules.

Claim Management System A centralized claims processing system is implemented by Salaam Takaful, where only data entry rights are available to branches. When a claim is incurred, loss is reported, reserves are recorded with estimated loss amount, and surveyor is appointed.

Investment Management Function A formal IPS has been drafted by Salaam Takaful, which is yearly reviewed and approved by the Shariah Advisory.

Risk Management Framework Underwriting and policy issuance is centralized at the head office level. Branches have the authority to issue policies; however, policy posting and new customer database rights are only available to Head office. The policy issuance is subject to the pre-inspection analysis on the basis of information collected by branches and captured on customized forms.

Business Risk

Industry Dynamics In terms of Gross Written Premium (GWP), the general insurance industry has a total size of PKR 113bln in 9MCY22 compared to PKR 88bln in 9MCY21, exhibiting a growth of 28.8%. The industry reported a significant decrease of 38.8% in underwriting results to PKR 2.7bln in 9MCY22 (9MCY21: PKR 4.4bln). The net income of the industry experienced a drop of 26% to PKR 7.4bln in 9MCY22 (9MCY21: PKR 10bln). The recent floods have caused significant losses to the economy. This will affect the insurance industry's performance during the ongoing quarters.

Relative Position STL holds a market share of 1.7% for the period ended Sep 22, deeming it a small player in the general insurance industry.

Revenue During CY21, the Company enormously performed to escalate its topline by 38% to PKR 2,220 as compared to PKR 1,606mln during CY20. During 9MCY22, the Company reported a GCW of PKR 1,922mln. The segment mix of Salaam Takaful is dominated by Motor contributing 45% to PKR 865mln, followed by Health contributing 41% to PKR 800mln, Fire & Property damage contributing 6% to PKR 118mln, Marine contributing 2% to PKR 39mln and Miscellaneous contributing 5% to PKR 98mln. The top two segments depict a high concentration risk.

Profitability During CY21, the Company witnessed a significant increase of 93.3% in PAT owing to trickledown effect of growth in topline (particularly in the motor and health segments) as Company reported PAT of PKR 177mln against PKR 61mln in the previous year. During 9MCY22 Company reported a PAT of PKR 161mln.

Investment Performance STL's investment book stood at PKR 577mln for 9MCY22, Investment book comprises investments in debt securities, TDRs and Equity. Debt Securities have the highest concentration depicting a secure portfolio. Company reported a total investment income of PKR 3mln.

Sustainability Company has placed a strong emphasis on the use of technology to improve operating efficiency. This is bound to bring further improvement in the bottom-line. With strong sponsor support and increased synergies with associated companies, the company expects to increase its presence within the insurance industry of Pakistan.

Financial Risk

Claim Efficiency Net claims for CY21 increased by 28.9% as compared to CY20, due to an increase in business mainly attributable to Health and Motor. The claims outstanding days stood at 108 days as of 9MCY22 (CY21: 98 days, CY20: 76 days) on account of limiting IBNR in relation to the claims expense.

Re-Insurance Takaful has its Re-Takaful arrangements with Labuan Re ('A-' by AM Best), Saudi Re ('A3' by Moody) Kuwait Re ('A-' by AM Best), Malaysian Re ('A-' by A.M Best), PRCL ('AA' by VIS) and Singapore Re ('A' by AM Best).

Cashflows & Coverages STL's equity has witnessed an improvement after the injection of equity by the new owners. This has resulted in a stable financial risk position as compared to the previous years as liquidity position against outstanding claims stood at 2.1 times in CY21 against 3.9 times in CY20. During 9MCY22 Company reported Liquid Assets against Claims at 0.7x.

Capital Adequacy STL reported total equity of PKR 889mln as of end-Dec21, an increase from PKR 441mln as of end-Dec20, with such a major increase attributed to capital injection. Total Equity stands at PKR 1,100mln during 9MCY22 owing to a 57% increase in accumulated profit/reserves.



PKR mln

Salaam Takaful Limited
UnListed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

A BALANCE SHEET

1 Investments	577	899	958	626
2 Insurance Related Assets	1,868	1,213	657	347
3 Other Assets	1,238	1,466	449	413
4 Fixed Assets	122	144	95	44
5 Window Takaful Operations	-	-	-	-
Total Assets	3,805	3,722	2,159	1,431
1 Underwriting Provisions	1,289	1,226	788	508
2 Insurance Related Liabilities	711	376	308	210
3 Other Liabilities	706	1,231	648	239
4 Borrowings	-	-	-	-
5 Window Takaful Operations	-	-	-	-
Total Liabilities	2,706	2,833	1,744	957
Equity/Fund	1,100	889	441	474

B INCOME STATEMENTS

CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	1,922	2,220	1,606	1,032
2 Net Insurance Premium/Net Takaful Contribution	1,705	1,626	1,211	623
3 Underwriting Expenses	(1,518)	(1,496)	(1,201)	(646)
Underwriting Results	186	130	10	(23)
4 Investment Income	3	63	83	48
5 Other Income / (Expense)	(11)	(12)	(19)	26
Profit Before Tax	179	181	74	51
6 Taxes	(19)	(4)	(13)	(5)
Profit After Tax	161	177	61	45

PARTICIPANTS' TAKAFUL FUND - PTF

1 Gross Contribution Written	1,922	2,220	1,606	1,032
2 Net Takaful Contribution	880	942	746	313
3 Net Takaful Claims	(826)	(876)	(690)	(316)
4 Direct Expenses Including Re-Takaful Rebate Earned	(11)	(15)	(32)	(5)
Surplus Before Investment & Other Income/(Expense)	43	51	24	(8)
5 Investment Income	(4)	26	41	13
6 Other Income/(Expense)	(1)	(8)	(9)	22
Surplus for the Period	39	69	56	28

OPERATOR'S TAKAFUL FUND - OTF

1 Wakala Fee Income	825	684	465	310
2 Management, Commission & Other Acquisition Costs	(682)	(605)	(479)	(326)
Underwriting Income/(Loss)	143	79	(13)	(15)
3 Investment Income	7	37	43	34
4 Other Income/(Expense)	(10)	(4)	(11)	4
Profit Before tax	140	112	18	22
5 Taxes	(19)	(4)	(13)	(5)
Profit After tax	122	108	5	17

C RATIO ANALYSIS

1 Profitability				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Combined Ratio (Loss Ratio + Expense Ratio)	48.4%	53.9%	57.0%	50.8%
2 Investment Performance				
Investment Yield	0.6%	6.8%	10.5%	7.6%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	0.7	2.4	3.9	3.7
4 Capital Adequacy				
Liquid Investments / Equity (Funds)	44.4%	91.2%	208.5%	120.0%

Insurer Financial Strength (IFS) Rating

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

Scale	Definition
AAA (ifs)	Exceptionally Strong. Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	Very Strong. Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	Strong. Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	Good. Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	Modest. Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	Weak. Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	Very Weak. Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	Distressed. Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or 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 | Clause 11-(A)(p).

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(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)

Monitoring and review

(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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