



The Pakistan Credit Rating Agency Limited

## Rating Report

### Takaful Pakistan Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

Takaful Pakistan Limited, 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 business has picked up sizably and consistent rapid growth is quite visible. The company has closed year 2020 at a significantly higher Gross Contribution Revenue at PKR 1.6bln and demonstrated a YOY growth of ~60%. The enlarged volumes have yielded profitability, resulting in improvement in combined ratio. Segmental concentration remains high, improvement is expected going forward. The equity position is being enhanced; as the shareholders have injected PKR 300mln as subscription money for the issuance of further shares other than right shares, subject to regulatory approval from SECP. This will boost liquidity and create room for further expansion. The shareholders are aligned on the business philosophy and share vision for future in a documented way. 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. In the foreseeable future, momentum is expected to continue as a result of sustained effort to propel business growth.

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 interest rate regime would impact the fixed income stream, but the equity market is improving though requiring a prudent approach.

The rating is dependent on the management's ability to capitalize on the group's well-built platform for business expansion. Liquidity needs to be upheld, diversity in revenue stream and improved contribution from investments are essential factors.

#### Disclosure

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



## Profile

**Legal Structure** Takaful Pakistan Limited (TP) is an unlisted public limited company incorporated in June 2006, with its registered head-office in Karachi.

**Background** The company since early 2017 had been seeking prospective investors to inject PKR 200mln in order to revive the company, as it had been non-compliant with respect to the Minimum Capital Requirement (MCR) regulated by the SECP. In January 2018, the board approved the new investors; headed by Mr. Rizwan Hussain as the CEO and shareholder of the company.

**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, Liabilities, etc. It currently operates branches in Lahore, Peshawar and Islamabad, Faisalabad besides its Head Office in Karachi.

## Ownership

**Ownership Structure** Mr. Rizwan Hussain (and family) along with Mr. Salim Godil (and family) own majority shareholding of the company i.e. 68% . Other prominent shareholders include, Al Baraka Bank Pakistan Limited, Mal al Khaleej Investments LLC, House Building Finance Company and Sitara Chemical Industries Limited.

**Stability** The new shareholders along with experienced leadership and team of qualified professionals have envisaged long term goals for the company aiding the stability of the company.

**Business Acumen** 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. Mr. Salim Godil, on the other hand, brings along sound business acumen to benefit from as he has a diverse portfolio of businesses. He owns Toyota Central Motors, one of the largest Toyota auto dealerships in Pakistan. Mr. Godil also owns Central Builders & Developers, Metro Radio Cab, Bukhari Travels and Streit Pakistan.

**Financial Strength** The group companies and the prominent corporate shareholders provide a solid financial footing to Takaful Pakistan Limited.

## Governance

**Board Structure** The company has a seven-members board including the Managing Director & CEO– Mr. Rizwan Hussain. Mr. Rizwan has been inducted into the company after the change of ownership. Mr. Salim Godil was selected as Chairman BoD in 2018.

**Members' Profile** Five of the seven directors in the board possess two years of experience on the board of Takaful Pakistan. The longest serving board member is Mr. Ahmed Shuja Kidwai, CEO of Al-Baraka Bank, associated with the board since 2012 bringing along vast experience. Dr. Irum Saba, new inductee in the board was appointed in Jan-20 as an independent director.

**Board Effectiveness** The company has at present three committee's namely Audit, Investment and HR. The company has emphasized greater focus on the compliance function. Takaful Pakistan has taken on board Ernst & Young Chartered Accountants for Internal Audit Services, Deloitte Yousuf Adil Chartered Accountants for Business Processes Consultant Services and KPMG Taseer Hadi Chartered Accountants as its External Auditors.

**Transparency** The company's financial statements are audited by KPMG Taseer Hadi & Co. The auditors expressed an unqualified opinion on the latest financial statements.

## Management

**Organizational Structure** The organizational structure of Takaful Pakistan is well laid down, with clearly delineated reporting lines.

**Management Team** Takaful Pakistan has witnessed a change in the management since the takeover of the new owners. The company has reformed its operating structure in two divisions namely Motor and Non Motor, headed by qualified and experienced professionals. It plans to further recruit experienced professionals in lieu of increased business activity.

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

**MIS** The company is operating core takaful application named as 'Takaful Management System' (TMS). It was developed in 2007 by the In-housed IT department. 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** The claim processing process is centralized and are paid centrally by the finance department in HO, having dedicated staff for claims settlement, only after due verification of compliance with claims procedures and approval.

**Investment Management Function** Takaful Pakistan has a formal investment policy document approved by BoD and Shariah Board, reviewed annually.

**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 company is in process of developing a comprehensive SOP's for Risk framework.

## Business Risk

**Industry Dynamics** Prior to COVID-19, the general insurance industry witnessed a growth of 11% YoY. The current pandemic has affected the volumes which will lead to contraction in the growth. With decrease in bank financing and slowdown in auto sector, the insurance sector is bound to face intense competition amongst peer companies. The dip in business volumes and reduced margins are likely to decrease the underwriting profits i.e. from core business. Investment income is likely to plummet amid reduced interest rates, though volumes in PSX have picked up. Companies may need to cut management expenses while the launch of innovative products would be the need of the hour, in order to engage new customer base.

**Relative Position** The company has 2% market share in the general insurance industry and 15% market share in the General Takaful Industry as of 9MFY20.

**Revenue** During 9MFY20, the GWC increased impressively by 63% to PKR 1,044mln (9MFY19: PKR 640mln) reflecting the positive impact of segmental diversification. The loss ratio remained stable (9MFY20: 54%, 9MFY19: 55%) mainly due to better claims management despite heightened Net Contribution Revenue due to high business volumes.

**Profitability** The expense ratio reduced dramatically (9MFY20: 35%, 9MFY19: 59%) on account of better expense management along with high Net Contribution Revenue. The Combined ratio was also impacted by the dip in expense ratio and clocked in at 89% (9MFY19: 114%). Over the year, the PTF's profit before tax has improved to PKR 34mln in 9MFY20 (9MFY19: Loss PKR 15mln) and the loss in SHF has also turned into profit ~ PKR 35mln in 9MFY20 (9MFY19 Loss PKR 11mln).

**Investment Performance** Investment income increased to PKR 23mln in 9MFY20 (9MFY19: PKR 8mln) in PTF and increased to PKR 35mln in 9MFY20 in SHF (9MFY19: PKR 24mln). The company follows an investment policy with funds mostly from bank deposits and fixed income Sukuk Certificates.

**Sustainability** The company alongside motor has penetrated into the health segment providing diversified revenue stream to the top-line. Takaful Pakistan has placed 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** The claims outstanding days stands at 108 in 9MFY20 (9MFY19: 159 days).

**Re-Insurance** Takaful Pakistan Limited has its Re-Takaful arrangements with Africa Re ('A-' by S&P), Labuan Re ('A-' by AM Best), Saudi Re ('A3' by Moody's), GIC Re ('A-' by AM Best), Singapore Re ('A-' by AM Best) and Pak Re (AA- by JCR-VIS). Treaty arrangement predominantly comprises quota share & surplus treaties, while the company has XoL protection on motor segment.

**Liquidity** The company has very sound liquidity at 2.5x as at 9MFY20 on account of an increase in the liquid assets in the company.

**Capital Adequacy** The company as at end-Sep19, has a paid-up capital of PKR 500mln, in line with SECP's requirement. Takaful Pakistan has a stable equity of PKR 445mln as at Sep-20(9MFY19: PKR 365mln). Subject to regulatory approval from SECP, the equity position will be enhanced as the shareholders have injected PKR 300mln as subscription money for the issuance of further shares other than right shares. This will bring the equity in line with peers.



BALANCE SHEET	Sep-20 PKR mln	Dec-19 PKR mln	Sep-19 PKR mln	Dec-18 PKR mln
<b>Investments</b>				
Liquid Investments	746	638	585	591
Other Investments	-	91	119	109
Insurance Related Assets	388	300	177	62
Other Assets	636	401	419	190
<b>TOTAL ASSETS</b>	<b>1,770</b>	<b>1,431</b>	<b>1,301</b>	<b>953</b>

Equity (SHF)	383	446	381	421
Equity Waqf / Participants' Takaful Fund (PTF)	62	28	(16)	(1)
Underwriting Provisions	788	655	562	309
Insurance Related Liabilities	304	213	265	170
Other Liabilities	233	89	108	54
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,770</b>	<b>1,431</b>	<b>1,301</b>	<b>953</b>

Profit and Loss Account (Participants' Takaful Fund / PTF)	Sep-20	Dec-19	Sep-19	Dec-18
Gross Contribution Written (GPW)	1,044	1,032	640	376
Net Contribution Revenue	532	623	189	145
Net Claims	(487)	(317)	(224)	(78)
Net (Expenses) / Income	(37)	(4)	(2)	5
Net Investment Income	23	15	8	(0)
<b>Profit/Loss before tax (deficit transferred to participant's equity)</b>	<b>34</b>	<b>28</b>	<b>(15)</b>	<b>4</b>

Profit and Loss Account (Shareholders' Fund / SHF)	Sep-20	Dec-19	Sep-19	Dec-18
Wakala Income	368	310	217	70
Commission & Operational Expenses	(368)	(327)	(252)	(159)
Investment Income	35	40	24	12
<b>Profit Before Tax</b>	<b>35</b>	<b>23</b>	<b>(11)</b>	<b>(76)</b>

RATIO ANALYSIS*	Sep-20	Dec-19	Sep-19	Dec-18
<b>Underwriting Results</b>				
Loss Ratio	54%	34%	55%	36%
Expense Ratio	35%	36%	59%	80%
Combined Ratio	89%	70%	114%	116%
<b>Performance</b>				
Operating Ratio	78%	64%	90%	106%
Investment Yield (SHF + PTF)	10%	5%	4%	4%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	2.5	3.6	1.4	3.6

\* 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	<b>Exceptionally Strong.</b> 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-	<b>Very Strong.</b> 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-	<b>Strong.</b> 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-	<b>Good.</b> 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-	<b>Weak.</b> 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-	<b>Very Weak.</b> 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	<b>Very high credit risk.</b> 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	<b>Distressed.</b> 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><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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)

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- 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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- (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)
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(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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