



The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Qatar Family Takaful 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
30-Jun-2022	A++ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A++ (ifs)	-	Stable	Harmonize	-
30-Jun-2021	A+	-	Stable	Maintain	-
30-Jun-2020	A+	-	Stable	Maintain	-
20-Dec-2019	A+	-	Stable	Maintain	-
21-Jun-2019	A+	-	Stable	Maintain	-
27-Dec-2018	A+	-	Stable	Maintain	-
12-Jun-2018	A+	-	Stable	Upgrade	-
06-Dec-2017	A	-	Positive	Maintain	-
23-Jun-2017	A	-	Positive	Maintain	-
09-Aug-2016	A	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the maintained market position of the Company, garnering a strong foothold in the takaful industry. Pak-Qatar has been able to sustain its system share gradually while controlling cost post-Pandemic, while simultaneously benefiting from the large investment book. The rating affirmations reflect the stability in PQFTL's risk-adjusted capitalization levels, neutral business profile, and strong operating performance trends that compare favorably with the industry, essentially driven by the demonstrated strength of embedded underwriting fundamentals. The strong balance sheet strength is eminent through the Company's relatively liquid investment portfolio mainly composed of equity investments and Government securities. The Company's operating results are bolstered by its comprehensive reinsurance program and prudent underwriting guidelines, which translated into a significant increase of 25% in the gross premium written earned by PQFTL in CY21. The Company has benefited from its association with FWU, a Germany based firm, in the form of technical partnership, as the sponsors provide impetus in the form of synergic benefits. Going forward, the management aims to penetrate into untapped segments.

The rating takes comfort from the ability of the Company to capitalize on the market share whilst sustaining the performance. Maintaining the surplus in takaful fund and liquidity position is essential. while continuing to focus on improving profitability.

Disclosure

Name of Rated Entity	Pak-Qatar Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Criteria Rating Modifiers(Jun-21),Methodology Life Insurance Rating(Mar-22)
Related Research	Sector Study Life Insurance(Jun-21)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Pak-Qatar Family Takaful Limited (PQFTL) is an unquoted public company with head office located in Karachi.

Background Pak-Qatar Family Takaful Limited (PQFTL) is the first and largest dedicated Family Takaful Company in Pakistan. PQFTL is a progressive and a technology-driven Shari'ah Compliant company providing innovative Takaful solutions since 2007. Incorporated in 2006, and beginning operations in 2007, the company is registered with and supervised by, the Securities and Exchange Commission of Pakistan (SECP).

Operations The Company's business is categorized under the umbrella of three statutory funds i.e. (i) Individual Family – plans sold through Direct Sales Force and Banka-Takaful as unit linked plans and Decreasing Term Assurance (DTA) as non-linked plans, (ii) Group Family, and (iii) Group Health.

Ownership

Ownership Structure The ownership of PQFTL is divided amongst four shareholders with Mr. Said Gul and Associates holding 38.8% stake in the Company, followed by H.E. Sheikh Ali Bub Abdullah Al-Thani and Associates (32%), The technical partner, FWU AG Firm holds 15.2% stake while the remaining 13.7% rests with individuals.

Stability There has been no recent change in the shareholding pattern of the Company; therefore, ensuring a high level of stability in the ownership structure.

Business Acumen Two Qatar based financial institutions have shareholding in PQFTL, these are; i) Qatar International Islamic Bank holding 10% (rated A by Fitch and Capital Intelligence) & ii) Qatar Islamic Insurance Company holding 11% (rated BBB+ by A.M. Best).

Financial Strength PQFTL's synergistic relationship with FWU AG is guided by and properly documented in "Cooperation Agreement". This bodes well for the overall profile of the company. The agreement allows PQFTL to use (i) customized Banca product (mutually developed by PQFTL and FWU AG), (ii) FWU's Sales & Administration System (SIS), and (iii) FWU's services of acquiring the distribution partner. FWU maintains permanent establishment in Pakistan employing 26 individuals (including a sales team of ~15), to facilitate and train bank officials selling FWU products.

Governance

Board Structure Presently, PQFTL has a nine-member board, with Mr. H. E. Sheikh Ali Bin Abdullah Al-Thani, a member of the royal family, assuming the role of Chairman. All the directors are non-executive. Mr. Said Gul and FWU have one representative each.

Members' Profile His Excellency Sheikh Ali Bin Abdullah Thani J. Al Thani has been the Chairman of Pak-Qatar Family Takaful since its inception in year 2007. Sheikh Ali is a prominent businessman in Qatar and currently, is the Chairman of Umm-Haish International, and Al-Jazeera Trading & Contracting. Earlier, he was the Chairman of Qatar International Islamic Bank. By qualification, he is a science graduate from Portland State University, USA.

Board Effectiveness The participation of board members remained strong. This is mainly because Mr. Said Gul & Mr. Zahid endeavour to ensure remaining board members also participate in the board meetings. PQFTL's board meetings are held inside Pakistan as well as outside Pakistan depending upon director's availability.

Financial Transparency The External Auditors of the Company, M/s EY Ford Rhodes, Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for CY21.

Management

Organizational Structure The management team of the Company comprises qualified and experienced professionals. The organizational structure is well laid down. The management has four committees i) Underwriting Committee, ii) Re-Takaful Committee, iii) Claims Committee, and iv) Risk Management and Compliance Committee.

Management Team Mr. Said Gul being founding Member & Director, plays the role of bridge on behalf of the board, as liaison through four key individuals – CEO, Director Finance, CFO, and Chief Internal Auditor (CIA). Mr. Azeem Pirani has taken over the charge of the Company from Mr. Nasir Ali Syed, who has been appointed as the new CEO of Pak-Qatar General Takaful as part of strategic move.

Effectiveness An online MIS is provided to Mr. Said Gul that keeps him updated with the progress of the Company. Furthermore, the Company's information is available in real time to the CEO.

Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation/notification by the customer. Three claim Forms (in standard format); (i) Claimant's Statement, (ii) Physician's Statement, and (iii) Employer's Statement (only in case of Group Takaful), is required to be filled and signed respectively. The claim on Waqf can be broadly categorized into Death Claims, Critical Illness, and Disability.

Investment Management Function PQFTL has a formal investment policy document approved by BoD and Shariah Board, which is reviewed annually. The Company maintains IPS for three funds separately – PTF, PIF, and SHF. The IPS incorporates separate investment strategies for each of the unit-linked funds within PIF – BT Growth, BT Conservative, Aggressive, Balanced, Conservative and Secure Wealth Fund.

Risk Management Framework The Company has developed a detailed underwriting manual and guidelines are issued to the branches and updated from time to time. An underwriter's authority limit is assigned by CEO/COO on the basis of experience and qualification of each individual separately.

Business Risk

Industry Dynamics Pakistan's Insurance Industry followed an upward trajectory during 2021, after recovering from the devastating after-effects of the Pandemic. Market size of the Life Insurance industry with respect to the Gross Premiums Written(GPW) is PKR~291bln in CY21; up by ~25% YoY as compared to last year's GPW of PKR~233bln in CY20. Net claims, however, declined by 0.4%. The investment by the industry went up by ~12%. With the revival of Industrial Activity, the private sector credit by banks and FIs is expected to rise going forward and would therefore simultaneously boost demand for the life insurance industry. The Takaful industry indeed represents an important component in the overall Islamic financial system. Given its role in providing risk protection, the Takaful industry offers a suite of financial products and services that complement the existing range available for consumers. In the country.

Relative Position PQFTL is the largest Life Takaful Company operating in Pakistan, having ~4% market share in Life Insurance Sector. In terms of dedicated Takaful Operators, PQFTL is the largest life insurer.

Persistency The Company's first year persistency stood at 63% in CY21, while the renewal persistency clocked in at 86.4%.

Revenue During CY21, the total contribution amounted to PKR 10bln against PKR 8bln in CY20, registering a YoY growth of 25.4%. Group policies without cash values were the forte of the Company, generating a total revenue of PKR 2,172mln in CY21 against PKR 1618mln earned in CY20.

Profitability An augmentation in the net profit was witnessed during CY21, as the profit after tax soared from PKR 163mln in CY20 to PKR 175mln in CY21. Although the contribution revenue increased in CY21, the net income exhibited a minimal increase of 70% owing to a simultaneous increase in acquisition expenses.

Investment Performance The investment income generated by the Company increased by 33.3% to PKR 60mln during CY21.

Sustainability Going forward, the Company envisages continued business growth targets while focusing on gradual upward profits. To improve persistency, the company has formulated various marketing techniques, thereby increasing client retention.

Financial Risk

Claim Efficiency The claims ratio was sustained at 61% during CY21. The ratio has been stagnant since CY20.

Re-Insurance PQFTL is strengthened by its Re-Takaful arrangements with Munich Re (AA- by S&P), Hannover Re (AA- by S&P) & Hannover Re-Takaful Catastrophic arrangements providing the company with cushion against unforeseen risks.

Cashflows & Coverages The Company maintains investments in equity securities (38%), government securities - sukuk certificates (5%) and mutual funds (55%). The quantum for the investment book stood at PKR 1055mln.

Capital Adequacy The Company has a paid-up share capital of PKR 1.3bln, well above the Minimum Capital Requirement whereas the total shareholder's equity rose from PKR 786mln in CY20 to 788mln in CY21.

Financials [Summary]



Pak Qatar Family Takaful Limited

	PKR mln 31-Dec-21	PKR mln 31-Dec-20	PKR mln 31-Dec-19
BALANCE SHEET			
Investments			
Liquid Investments	28,531	27,223	22,980
Insurance Related Assets	1,199	1,039	879
Other Assets	2,112	1,868	1,981
TOTAL ASSETS (SHF + PTF)	31,842	30,130	25,841
Total Equity	1,469	1,458	1,308
Deferred Tax Liability	3	2	-
Total Policyholders Equity	788	786	759
Total Liabilities	29,582	27,884	23,774
TOTAL EQUITY & LIABILITIES (SHF + PTF)	31,842	30,130	25,841
INCOME STATEMENT			
REVENUE ACCOUNT			
Gross Contribution Written (GC)	9,986	7,961	8,287
Participants Investment Fund (PIF)	(5,754)	(4,478)	(4,453)
Retakaful Expense	(431)	(404)	(426)
Wakala Fee	(2,134)	(1,799)	(1,722)
Net Claims	(1,537)	(1,329)	(1,646)
Operating Income/(Expenses)	26	67	66
Investment Income	60	45	52
Technical reserves incurred during the year	(183)	22	(127)
Surplus Before Distribution	33	87	31
RATIO ANALYSIS			
Underwriting Results			
Claims Ratio	61%	61%	57%
Liquidity & Solvency			
Liquidity Ratio – times	1.0	1.0	1.0

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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Rating Team Statements

(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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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).

(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)

Independence & Conflict of interest

(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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