



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Family Takaful Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2022	A+ (ifs)	-	Stable	Maintain	-
31-Mar-2022	A+ (ifs)	-	Stable	Harmonize	-
29-Jun-2021	A	-	Stable	Maintain	-
29-Jun-2020	A	-	Stable	Maintain	-
20-Dec-2019	A	-	Stable	Maintain	-
21-Jun-2019	A	-	Stable	Upgrade	-
27-Dec-2018	A-	-	Positive	Maintain	-
12-Jun-2018	A-	-	Stable	Maintain	-
11-Dec-2017	A-	-	Stable	Maintain	-
30-Mar-2017	A-	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned rating incorporates Dawood Family Takaful Limited’s (Dawood Family Takaful) strong capacity to meet policyholder and contractual obligations while reflecting its ability to continue enhancing takaful volumes. The Company has achieved 10% YoY growth in new business and 11.6% YoY in overall gross contribution. The Company has grown over the years, achieved a net profitability position and aims to enhance it further through increasing its outreach. The management aims to establish strong footprints in Punjab, KPK and Karachi regions in order to garner increased business. Moreover, a sound IT infrastructure provides support to the operational efficacy of Dawood Family Takaful. The Company reaps benefits from its brand image, impetus in building retail penetration. The rating captures the resilience of the Company over the years and also factors in adequate risk absorption capacity. Liquidity of the Company has improved from the last year as the portfolio of investments is beefed up with government securities. Rating also takes into account the track record and presence of an experienced management team which possesses considerable experience in the takaful business.

Gross Premium Written (GPW) of the Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln; CY20: PKR~233bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. Past year has been very challenging due to the COVID-19 which has caused immense stress on most businesses. CY21 has shown a recovery in business and a positive trend in the growth of the industry, as compared to the corresponding period. Recent hike in the policy rate will be a source of safe return for the Companies on Govt. investments. On the other hand, a massive hike in inflation is also going to affect the surplus income of the general public.

The rating is dependent upon continued improvement in the Company's system share, surplus in takaful fund, and sustained liquidity position. At the same time, upholding strong governance practices are critical.

Disclosure

Name of Rated Entity	Dawood 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	Waqas Ahmad waqas.ahmad@pacra.com +92-42-35869504

Profile

Legal Structure Dawood Family Takaful Limited (Dawood Family Takaful), is an unlisted Shariah-compliant Family Takaful operator.

Background The Company received certificate of registration on May 16, 2008 and commenced operations in beginning of 2009.

Operations The principal activity of the Company is to undertake family takaful business. Dawood Family Takaful operates through a network of 80 branches majorly divided in North, Central and South, with majority of the revenue coming from the central region.

Ownership

Ownership Structure The majority shareholding of the Company owned by Dawood Group holding 53% stake, followed by the Bank of Khyber (15%), Gulf Cap (8%) and Habib Metropolitan Bank Limited (5%).

Stability Shareholding structure of the Company has been stable over the period with majority stake residing with First Dawood Group.

Business Acumen First Dawood Group (FDG) represents a branch of the reputable Dawood family, which is one of the well-known business groups in Pakistan. FDG has the experience of operating financial institutions namely Dawood Islamic Bank Limited, B.R.R. Guardian Modaraba, First Dawood Investment Bank Ltd and 786 Investment Ltd.

Financial Strength First Dawood Group (FDG) has pursued an increasing diversification in the financial sector providing a solid financial footing to the Company.

Governance

Board Structure The overall control of the Company vests in a six-member Board of Directors, including CEO of the Company. The board includes three representatives of FDG, one of BoK, one independent director and one executive director (CEO).

Members' Profile Mr. Mr. Ayaz Dawood is the Chairman of the board. He has vast experience in the financial sector in Pakistan and Canada. He is the Chief Executive Officer of B.R.R Investments (Private) Limited, managing BRR Guardian Modaraba.

Board Effectiveness Board members possess diversified backgrounds and rich business acumen. They provide their input to the management as well as participate in the decision-making process.

Financial Transparency The External Auditors of the Company, M/S Yousuf Adil, Chartered Accountants, has expressed an unqualified audit opinion on the financial statements for period end-Dec'21.

Management

Organizational Structure The Company has a well-defined organizational structure and segregated reporting lines.

Management Team Mr. Ghazanfar-ul-Islam, has been associated with the Company since over a decade. Previously, he had been associated with the Company for eight years as CFO. He has vast takaful industry experience and Modaraba experience prior to that.

Effectiveness The Company has five management committees, a) Underwriting Committee, b) Claims Committee, c) Risk Management & Compliance Committee, d) Human Resource Committee, and e) Re-Takaful Committee.

Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation/notification by the customer. The apportionment of the claim to retakaful operator's share is done automatically by the system. On the other hand, the claims on Participants' Investment Fund (PIF) can be made through partial or full redemption of units held in Personal Investment Account (PIA). Request for units redemption along with original policy from the customer, minimum PKR 10,000, is received and processed in the head office.

Investment Management Function The Investment Committee (IC), comprising Head of Actuary (HoA), an appointed third-party Actuary (Mr. Shujat Hussain), three BoD members, CEO, CIO and CFO, is responsible for implementation, modification, and execution of investment policy with respect to (i) Shareholders Fund (ii) Waqf Fund – Group and Individual, and (iii) PIF. HoA's ensures proper management of asset/ liability match. As per the investment policy, waqf fund is invested in low-risk securities (including GoP Ijara Sukuks and bank deposits).

Risk Management Framework Risk is managed at department level, where every department has developed its own statement of risk tolerance, approved by the CEO. The Company uses an In-House developed operating software to handle the operations relating to underwriting, claims administration, retakaful transactions, policy administration and unitized investment funds. Software runs on real time basis supported by Oracle.

Business Risk

Industry Dynamics Gross Premium Written (GPW) of the Life Insurance industry in Pakistan stood at PKR~95bln during 1QCY22 (1QCY21: PKR~62bln; CY21: PKR~291bln; CY20: PKR~233bln), showing a YoY growth of ~53%. Major growth was observed in Govt. sector. Past year has been very challenging due to the COVID-19 which has caused immense stress on most businesses. CY21 has shown a recovery in business and a positive trend in the growth of the industry, as compared to the corresponding period. Recent hike in the policy rate will be a source of safe return for the Companies on Govt. investments. On the other hand, a massive hike in inflation is also going to affect the surplus income of the general public.

Relative Position The Company is classified as small-sized insurance company with a market share of about ~1% as at Dec'21.

Persistency Dawood Family Takaful has first year persistency ratio of 48% for CY21 (CY20: 51%) and 84% (CY20: 81%) for second year. The decline in renewal of policies is due to economic uncertainty.

Revenue During CY21, the Company's gross contribution PKR 2,047mln (CY20: PKR 1,834mln; CY19: PKR 1,636mln) grew by ~12% on YoY basis, due to higher growth in individual premium.

Profitability The surplus before distribution in PTF stood at PKR 75mln during CY21 (CY20: PKR 164mln; CY19: PKR 194mln) decline is mainly due to increase in claims expenses. Shareholder's fund reported a profit after tax of PKR 35mln during CY21 (CY20: PKR 76mln).

Investment Performance Investment income of the participant takaful fund has reduced to PKR 37mln (CY20: PKR 107mln CY19: PKR 89mln). Majority of the investment income emanates from debt securities.

Sustainability The management's intention to established strong footprints in the Punjab region. The Company envisages enhancing business and profitability of the Company, as demonstrated in the latest financial statements. Under current uncertain political and economic circumstances, the Company is planning to maintain its market share, through additional bancassurance business. Additionally, the Company has motivated sales force, along with that the management is attaching small incentives to their products to make them more desirable.

Financial Risk

Claim Efficiency The loss ratio increased to 24% in CY21 (CY20:18%; CY19: 10%) mainly on the account of increased in claims expense in proportion of net contribution revenue.

Re-Insurance Dawood Family Takaful has in place reinsurance treaty arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P).

Cashflows & Coverages The liquidity base of the Company – in Shareholders' Fund, Takaful fund and the Investment fund provides the comfort. The liquid assets, at CY21, adequately cover the Company's liabilities toward participants by 1.1x as at end-Dec'21 (CY20: 1.1x; CY19: 1.1x).

Capital Adequacy The Company has paid-up capital of PKR 750mln. As of end-Dec'21, the net shareholder's equity of the Company is in PKR 526mln (CY20: 491mln; CY19: PKR 414mln).



Dawood Family Takaful Limited

	PKR mln	PKR mln	PKR mln	PKR mln
	31-Dec-21	30-Dec-20	31-Dec-19	31-Dec-18
BALANCE SHEET				
Investments				
Liquid Investments	6,449	5,898	4,876	3,883
Others (Sukuk - non-liquid)	144	71	71	70
	6,593	5,969	4,947	3,953
Insurance Related Assets	168	93	139	74
Other Assets	782	762	429	263
TOTAL ASSETS (SHF + PTF)	7,542	6,823	5,514	4,290
Equity	526	491	414	380
Balance of Takaful Statutory Funds	6,283	5,746	4,694	3,729
Insurance Related Liabilities	315	222	107	81
Other Liabilities	418	363	298	100
TOTAL EQUITY & LIABILITIES (SHF + PTF)	7,542	6,823	5,514	4,290
INCOME STATEMENT - Extracts				
	31-Dec-21	30-Dec-20	31-Dec-19	31-Dec-18
REVENUE ACCOUNT				
Gross Contribution Written (GC)	2,047	1,834	1,636	1,471
Participants Investment Fund (PIF)	(1,224)	(1,051)	(928)	(864)
Retakaful Expense	(124)	(95)	(63)	(52)
Wakala Fee	(566)	(519)	(475)	(374)
Net Claims	(170)	(125)	(63)	(57)
Operating Income/(Expenses)	124	135	124	112
Investment Income	37	107	89	31
Technical reserves incurred during the year	(49)	(123)	(125)	(182)
Surplus Before Distribution	75	164	194	86
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)				
Profit/(Loss) before Tax	45	89	51	21
RATIO ANALYSIS				
	31-Dec-21	30-Dec-20	31-Dec-19	31-Dec-18
Underwriting Results				
Loss Ratio	24%	18%	10%	10%
Combined Ratio	95%	92%	84%	90%
Performance				
Operating Ratio	89%	76%	70%	85%
Investment Yield (SHF + PTF)	3%	10%	8%	-1%
Persistence - First Year	48%	51%	62%	67%
Persistence - Second Year	84%	81%	83%	88%
Liquidity & Solvency				
Liquidity Ratio – times	1.1	1.1	1.1	1.1
<i>SHF: Shareholders' Fund</i>				
<i>PTF: Participants' Takaful Fund</i>				
Dawood Family Takaful Limited				
Jun-22				

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).
- (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)
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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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