



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Family Takaful Limited

Report Contents

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

Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
26-Jun-2024	A+ (ifs)	Stable	Maintain	-
26-Jun-2023	A+ (ifs)	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Pakistan's Life Insurance market is dominated by the public sector (~66.6% share as of Dec-23), while the private sector holds only ~33.4%. The sector players have shifted their focus from first-year persistency to second-year, prioritizing Gross Premium Written (GPW) growth. During CY23, overall GPW showed a YoY growth of ~7.7%. Out of the total, ~46.6% of the GPW pertains to renewals, followed by group life without cash value (~37.2%). Net Premium also showed a YoY increase of ~7.4%. As policy maturities and surrenders have largely trickled in, net claims grew by ~31%. To adapt, the industry holds a substantial investment book (CY23: PKR 2,021bln, CY22: PKR 1,747bln) stabilizing the overall outlook.

The assigned rating incorporates Dawood Family Takaful Limited's ('Dawood Family Takaful' or 'the Company') substantial capacity to meet policyholder and contractual obligations along with its ability to enhance takaful volumes. Substantial business acumen and an experienced management team supports the rating. The Company has expanding its reach through solidifying footprints in Punjab, KPK and Karachi. Moreover, sound IT infrastructure provides support to the operational efficacy of the Company. Dawood Family Takaful reaps benefits from its brand image impetus in building retail penetration. The Company's GPW has posted a dip (CY23: PKR 1,930mln, CY22: PKR 2,070mln) due to operational challenges. Despite low underwriting results, the Company managed its combined ratio well. Substantial support from the investment income benefits the Company's bottom-line. Dawood Family Takaful holds an adequate risk absorption capacity with substantial investments in risk-free government securities. The financial risk remains intact supported by adequate liquidity and risk appetite.

The rating is dependent on improving the competitive positioning of the Company. Moreover, improvement in core and operational profitability remains imperative. Solvency profile as indicated through reserves, must remain adequate, at all times.

Disclosure

Name of Rated Entity	Dawood Family Takaful Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Assessment Framework Life Insurance(Mar-24),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Life Insurance(Jun-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Dawood Family Takaful Limited ("DFTL" or "the Company") was incorporated as a public unlisted company on 04-May-07.
Background DFTL is a subsidiary of First Dawood Group of Companies ('the Group') with expertise in various sectors. The Company received its license to carry takaful operations from SECP on 16-May-08.
Operations The Company operates majorly in takaful business, offering both individual and group family takaful schemes. DFTL operates through a network of 71 branches all across Pakistan.

Ownership

Ownership Structure The major stake (~36.4%) of the Company is held by the Group, followed by financial and non-financial institutes with a stake of ~16.8%. Directors hold a stake of ~15.4%. Foreign companies and others hold a stake of ~8.1% and ~8.6%, respectively. While, general public has a stake of ~14.65%.
Stability The ownership structure of the Company has changed over time with the dilution of the stake residing with the Group from ~50.4% to ~36.4%.
Business Acumen The Sponsors possess robust expertise and a diversified business portfolio offering substantial support to the Company.
Financial Strength The Company gathers its financial strengths from the Group, if needs be.

Governance

Board Structure The overall control of the Company lies among seven-member Board. Four members, including one female director, are Non-Executive Directors, while two are Independent Directors and one Executive Director.
Members' Profile The Board's chairman, Mr. Ayaz Dawood has is an experienced finance professional and has worked in Pakistan and Canada. He is the CEO of B.R.R Investments (Pvt.) Ltd. All other Board members possess diversified professional background and rich business acumen.
Board Effectiveness During CY23, the Board met four times. The Board is assisted by three committees including: 1) Investment Committee, 2) Audit Committee, and 3) Ethics, HR, Remuneration & Nominations Committee. The Board committees, except Ethics & HR, meet on quarterly basis whereas the Ethics & HR committee met on a half yearly basis. The minutes of these meetings are adequately documented.
Financial Transparency The External Auditor M/s BDO Ebrahim & Co, Chartered Accountants, has expressed an unqualified audit opinion for the period ended Dec-23.

Management

Organizational Structure The Company operates through Retail, Distribution & Marketing, Actuarial Services, Finance, Internal Audit, Risk & Compliance, Training & Development, HR, Investment, Risk Management, IT and Operations. Head of Human Resources reports to the COO. COO and all the Heads reports to the CEO, who then reports to the BoD.
Management Team Mr. Ghazanfar-Ul-Islam, the CEO holds an experience of above two decades. Mr. Nabeel Asif serves as the CFO and holds an overall experience of above two decades. He is assisted by a team of professionals.
Effectiveness The Company has four management committees namely; i) Underwriting Committee, ii) Claims Settlement Committee iii) Risk Management & Compliance Committee iv) Re-takaful Committee. All of these committees are headed by Executive Director. These committees met on quarterly basis and meeting minutes are adequately maintained.
Claim Management System The claims of policyholders on the Waqf are entered into the system after intimation 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).
Investment Management Function The Investment Committee is responsible for the implementation, modification, and execution of investment policy. Management ensures optimum asset/liability matching. According to the investment policy, the waqf fund invests in low-risk securities.
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 Life Insurance market is dominated by public sector (~67% share as of Dec-23). While, the private sector holds only ~33% of the market share. GPW of the industry stood at ~PKR 406bln during CY23 (CY22: ~PKR 377bln), showing a YoY growth of ~8%. GPW is bifurcation i.e., between regular premium products (first year premium, second year premium and subsequent year premium), single premium products and group life policies. ~47% of the total premium pertains to renewal premium products, and is followed by premium booked under the category of group life without cash values at ~37%, during Dec-23. Net Premium stood at PKR~399bln, during CY23 (CY22: PKR~372bln), showing a YoY increase of ~7%. On the claims end, Net Claims stood at ~PKR 367bln, during CY23 (CY22: ~PKR 281bln). The total investment book of the insurance industry stood at ~PKR 2,021bln, during CY23 (CY22: ~PKR 1,747bln). Going forward, the overall outlook of the industry remains stable
Relative Position The Company operates as a small player and holds a market share of ~0.6% as of Dec-23.
Persistency During CY23, the first year persistency clocked at ~46% (CY22: ~51%) whereas the renewal persistency clocked at ~73% (CY22: ~80%). This decrease in persistency is mainly because of decreasing purchasing power of customers because of inflationary pressure.
Revenue The Company generates the revenue primarily from sale of takaful plans. The Company recorded GPW of ~PKR 1,930mln during CY23 (CY22: ~PKR 2,070mln) mainly from subsequent year premium.
Profitability During CY23, the Company reported the underwriting profit of ~PKR 194mln (CY22: ~PKR 537mln) due to increase in surrender and maturity claims by ~39.55% and ~14.29% respectively. The Company recorded net profit of ~PKR 260mln during CY23 (CY22: ~PKR 143), mainly because of exponential increase in investment income.
Investment Performance During CY23, the investment income of the Company increased ~356% and stood at ~PKR 1,574mln (CY22: ~PKR 345mln). The increase is mainly due to higher returns on government securities as the Company over the year has significantly increased the proportion of investments in government securities.
Sustainability The management aims to establish a robust presence in the Punjab region, with the goal of strengthening the business and enhancing profitability. Despite the current uncertain political and economic climate, the Company intends to maintain its market share. To achieve this, the Company has motivated its sales force and introduced small incentives to make their products more appealing.

Financial Risk

Claim Efficiency As of CY23, the Company reported outstanding claims of ~PKR 12mln (CY22: ~PKR 9mln). The increase in outstanding claims is mainly because of maturity of previously sold policies and increase in lower purchasing power of policyholders leading to surrender claims.
Re-Insurance The Company has in place reinsurance treaty arrangements with Munich Re (AA- by S&P) and Hannover Re (AA- by S&P).
Cashflows & Coverages As of CY23, the liquidity of the Company stood at 3.4x. Liquid assets of the Company increased by ~19.2% and reported at ~PKR 7,888mln (CY22: ~PKR 6,620mln). Liquid investment to outstanding claims stood at 566.4x. The liquid investments has increased mainly because increased proportion of investments in government securities which are yielding higher returns.
Capital Adequacy As of CY23, the equity increased by ~11.76% and recorded at ~PKR 2,385mln (CY22: ~PKR 2,134mln). The increase in equity is due to increase in both reserves and unappropriated profit.



PKR mln

Dawood Family Takaful
Public Unlisted Company

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M

A BALANCE SHEET

1 Investments	8,401	8,179	7,019	6,593
2 Insurance Related Assets	194	204	175	168
3 Other Assets	1,389	1,321	810	545
4 Fixed Assets	250	264	233	236
Total Assets	10,234	9,968	8,237	7,542
5 Underwriting Provisions	-	-	-	-
6 Insurance Related Liabilities	7,171	6,968	5,739	5,145
7 Other Liabilities	469	423	215	154
8 Borrowings	176	192	149	165
Total Liabilities	7,816	7,583	6,103	5,463
Equity	2,419	2,385	2,134	2,079

B INCOME STATEMENT

1 Gross Premium Written	385	1,930	2,070	2,047
2 Net Insurance Premium	362	1,737	1,942	1,923
3 Underwriting Expenses	(381)	(1,543)	(1,404)	(1,360)
Underwriting Results	(19)	194	537	563
4 Management Expenses	(130)	(545)	(420)	(211)
5 Investment Income	371	1,574	345	220
6 Other Income / (Expense)	71	326	250	180
7 Net Change in Reserve for Policyholders' Liabilities	(254)	(1,279)	(543)	(582)
Profit Before Tax	38	270	170	169
8 Taxes	(2)	(10)	(27)	(10)
Profit After Tax	36	260	143	159

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	71.0%	57.6%	41.4%	39.7%
Combined Ratio (Loss Ratio + Expense Ratio)	141.3%	120.2%	94.0%	81.7%
2 Investment Performance				
Investment Income / Operating Profit	167.6%	128.7%	74.6%	38.4%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims	514.53	566.45	517.59	566.60
4 Capital Adequacy				
Liquid Investments / Equity	3.35	3.31	3.10	3.10

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>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent