



The Pakistan Credit Rating Agency Limited

DAWOOD FAMILY TAKAFUL LIMITED (DFTL)

IFS RATING REPORT

	MAINTAIN [MAR-16]	MAINTAIN [APR-15]
Insurer Financial Strength (IFS) Rating	A-	A-
Outlook	Stable	Stable

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MARCH 2016

PROFILE & OWNERSHIP

- DFTL, an unlisted Shariah-compliant Life Insurer, commenced operations beginning 2009
- operates through a branch network of 41 branches
- DFTL is majorly owned by First Dawood Group (FDG) holding 40% stake, followed by the Bank of Khyber (15%), and GulfCap (8%)

GOVERNANCE

- Seven member board, including the CEO
- Major representation of FDG (three members), and rest of BoK (one member), two independent directors and CEO
- Chairman of the board, Mr. Rizwan-ul-Haque, holds senior position at associated bank (FDG)
- Executive role held by Mr. Rafique Dawood at DFTL board; Chairman at other FDG companies

MANAGEMENT QUALITY

- Mr. Nasir Mahmood, the CEO of DFTL since Mar14, previously headed the sales function
- Team of professionals assists the CEO

BUSINESS RISK

- Gross Contributions (GC) predominantly come from unit-linked products (9M15: 95%), rest in group (5%)
- During 9M15, DFTL's GC (PKR 660mln) rose by 22%, enabling it to sustain its market share of 0.7%
- Persistency in renewable GC decreased to 70% (9M14: 73%); comparable with peers
- PTF's performance improved with operating ratio of 88% (9M14: 94%), doubling the surplus to PKR 41mln
- PIF's performance also improved; claims ratio (surrenders/withdrawals) improved to 25% (9M14: 29%)
- Operator's net loss continued, though close to break even (9M15: PKR 58mln, 9M14: PKR 64mln)

BUSINESS STRATEGY

- Aggressive growth strategy, in line with industry's growth potential
- Expanding footprints through Bancatakaful on the cards
- Focus on profitability continued
- Penetration into retail segment through Bancatakaful remains to be seen

FINANCIAL RISK

- DFTL has maintained surplus over its technical reserves, which is expected to insulate the company from any unfavorable movement in its assets, going forward
- The liquid assets, excluding tied up sukuks, provide 1.2 times coverage to policyholders' liabilities
- Sizeable investment book (Sep15: PKR 1,759mln) predominantly classified under Statutory funds (89%); conservatively deployed in bank deposits (74%), equities (10%), government securities (10%) and debt securities
- Investment book of SHF (Sep15: PKR 194mln) is deployed in sukuks (55%) and bank deposits (42%); sukuk portfolio is tied up investments in group companies - repayments being received as per restructured terms
- Reinsurance agreements with Hannover Re (rated 'A' by S&P) and Munich Re (rated 'AA-' by S&P; moderate cessation

RATING RATIONALE

The rating reflects DFTL's ability to continue capturing takaful volumes, though this is enough only to sustain market share (~1% in 2015). This is helping the company in gradually bridging the gap towards operational break-even. However, it requires continued business expansion and maintained efficiency. Herein, the company is eyeing bancassurance as an important source of contribution. The Takaful Fund (PTF) combined with Shareholders' Fund (SHF) amount to an aggregate surplus at end-Dec15. SHF, on a standalone basis, is in loss which is shrinking every year. A sound IT infrastructure provides support to the operational efficacy of DFTL. The company has adequate risk absorption capacity. However, investment book of shareholders' fund still has a proportion of non-performing sukuk investments; some of them are being repaid at agreed restructured terms.

KEY RATING DRIVERS

The rating is dependent upon continued improvement in surplus in takaful fund, continued independence of management from sponsors and sustained liquidity position. At the same time, consistent decline in operating loss of the operator is important. Upholding strong governance practices is critical. The sponsors financial profile was relatively stretched, which is now improving.

INDUSTRY SNAPSHOT

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 24%), wherein the private sector growth (35%) has outpaced the industry's average. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover, targeting niche market. Investment portfolios of life insurers are highly skewed towards government securities (primarily PIBs). Interest rate cuts brought revaluation gains augmenting bottom-line.



Dawood Family Takaful Limited

	<i>PKR mln</i>		
	30-Sep-15	31-Dec-14	31-Dec-13
BALANCE SHEET			
Investments			
Liquid Investments	1,606	1,281	864
Others (Sukuk - non-liquid)	153	172	197
	1,759	1,453	1,062
Insurance Related Assets	42	36	38
Other Assets	260	252	253
TOTAL ASSETS (SHF + PTF)	2,060	1,741	1,352
Equity	399	447	472
Balance of Takaful Statutory Funds	1,535	1,155	734
Insurance Related Liabilities	33	58	48
Other Liabilities	94	81	99
TOTAL EQUITY & LIABILITIES (SHF + PTF)	2,060	1,741	1,352
INCOME STATEMENT			
REVENUE ACCOUNT			
Gross Contribution Written (GC)	660	837	666
Participants Investment Fund (PIF)	(303)	(316)	(251)
Retakaful Expense	(31)	(45)	(42)
Wakala Fee	(201)	(325)	(286)
Net Claims	(22)	(29)	(10)
Operating Income/(Expenses)	5	4	9
Investment Income	22	22	12
Technical reserves incurred during the year	(90)	(98)	(83)
Surplus Before Distribution	41	50	16
PROFIT AND LOSS (INCLUDING SHAREHOLDERS FUND)			
Profit/(Loss) before Tax	(58)	(39)	(69)
RATIO ANALYSIS			
Underwriting Results			
Loss Ratio	7%	6%	3%
Combined Ratio	94%	94%	99%
Performance			
Operating Ratio	88%	89%	96%
Investment Yield (SHF + PTF)	7%	9%	7%
Liquidity & Solvency			
Liquidity Ratio – times	1.1	1.2	1.2

SHF: Shareholders' Fund

PTF: Participants' Takaful Fund

INSURER FINANCIAL STRENGTH (IFS) RATING SCALE & DEFINITIONS

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

RATING SCALE	DEFINITION
AAA	Exceptionally Strong. 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-	Very Strong. 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-	Strong. 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-	Good. 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-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	Weak. 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.
CCC CC C	Very Weak. 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.
D	Distressed. Either failed to make payments on their obligations in a timely manner, are deemed to be insolvent, or have been subjected to some form of regulatory intervention. Limited liquid assets available to fund obligations.

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<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>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.</p>
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Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Entity
Sector
Type of Relationship
Purpose of the Rating

Dawood Family Takaful Limited (DFTL)
 Life Insurance - Family Takaful
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
31-Mar-16	A-	Stable	Maintain
16-Apr-15	A-	Stable	Maintain
12-May-14	A-	Stable	Maintain
7-May-13	A-	Stable	Maintain
30-Nov-11	A-	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

Insurer Financial Strength Rating Methodology
 Insurance | Life - Viewpoint | Mar-16

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[Rating Team Statement](#)

Rating Procedure

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[Probability of Default \(PD\)](#)

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