

**RATINGS (DECEMBER 2011)**  
**DAWOOD FAMILY TAKAFUL LIMITED (DFTL)**

RATINGS	NEW	PREVIOUS
IFS	A-	A-

**FINANCIAL DATA**

PKR (mln)	Sep-11*	Dec -10	Dec -09
Total Assets	811	818	772
Equity	584	642	708
Gross Contribution	210	145	50
Excess of income over expenditure	15	17	4
Operator's Net Income/(loss) before tax	(78)	(105)	(43)
Operator's ROE%	(8.7)	(9.7)	(4.5)
Loss Ratio%	32.5	27.6	36.6

\* Based on unaudited accounts for nine months

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**RATING RATIONALE AND KEY DRIVERS**

- The rating reflects DFTL's growing takaful volumes, a result of an effective business strategy employed by its management, though overall market share is likely to improve only gradually, given intense competition. The company has employed a sound technology infrastructure that lends support to its operational efficiency. The company maintains an investment portfolio funded from available capital. However, with a sizeable portion of debt investments being non-performing, alongwith equity investment in an unlisted bank, the potential benefit to liquidity and earnings has been compromised.
- The rating is dependent on the company's ability to achieve break-even on a timely basis without material erosion in equity base. Retention and cohesiveness of senior management is considered critical to ensure consistency in business strategy. As a major portion of investments out of shareholders' funds is not performing adequately, any material drag on equity on this account besides business losses, may negatively impact the rating. This becomes critical given there is no formal shareholding agreement amongst major sponsors and financial profile of key sponsor is stressed.

**ASSESSMENT**

- DFTL manages takaful under a separate risk pool – Participants' Takaful Fund (PTF) – for the in/(out) flows of the participants' risk related contributions. Currently, DFTL manages two classes of family takaful in PTF: Group Family Takaful (PTF-G) and Individual Family Takaful (PTF-I). Investment component of PTF-I (in the form of units) is credited and managed in a separate pool – Participants' Investment Fund (PIF).

- Underlying source of income of the operator is Takaful fee. This has, improved from the last year (2010: PKR 112mln, 2009: PKR 22mln) yet insufficient to absorb high expenses. Therefore, company posted a loss before tax of PKR 105mln during 2010 (2009: PKR 43mln). During 9MCY11, operator fee increased significantly (53%) compared to same period last year. Investment income though declined by 7% (as company reduced its exposure in sukuk bonds) contributed 26% to the total income. Despite increase in operator fee, loss before tax remained same (9MCY11: PKR 78mln, 9MCY10: 78mln) due to significant increase in management expenses mainly driven by expanding human resource. With gradual expansion in contribution and sustainable persistency, the company is expected to achieve operational profitability in 2015.

- During 2010, PTF observed accelerated growth (309%) in Gross Contribution (GC), mainly driven by PTF-I. Overall loss ratio declined to 28% (2010: 37%) due to increase in low risk PTF-I and funds earned income before technical reserves of PKR 17.3mln (2009: 4.5mln). In 9MCY11, the gross contribution grew by 62% when compared with the same period last year. This growth is in line with the trend of increasing contribution from individual takaful. Consequently, income before technical reserves increased by 76% (9MCY11: 15.5mln, 9MCY10: PKR 8.8mln).

- The company maintains investment portfolio separately for the Shareholders' fund (SHF), each of the Takaful Fund (PTF-I, PTF-G) and PIF. The investment book of SHF is concentrated in long-term sukuk (9MCY11: 53%, 2010: 52%) followed by remunerative bank deposits (9MCY11: 21%, 2010: 22%) and equities (9MCY11: 10%, 2010: 9%). Moreover, 16% of sukuk bonds held in the portfolio are in default thus eroding the equity base of SHF. While, 20% sukuk have doubtful status and could be a potential drag on equity. Around 11% of the investment is in unlisted security of Burj Bank Limited implying a weak liquidity profile. For Takaful Funds, during 9MCY11, DFTL shifted its focus towards investment in bank deposits (9MCY11: 56%, 2010: 44%) followed by Government securities (1H11: 44%, 2010: 52%) and Sukuk bonds (9M11: 2%, 2010: 4%).

- Going forward, in order to enhance its revenue stream, the company intends to open new branches while focusing on both tapped and untapped segments of market. Since the public sector business is largely awarded to state owned insurance corporation the company will focus on financial sector, pharmaceutical, textile and small and medium enterprises. For untapped sectors, DFTL will concentrate on schools, hospitals, hotels and restaurants, NGOs and welfare societies. In order to control claims expense, the company will avoid certain type of risks which includes restricting business in high risk geographical areas and insuring individuals involved in hazardous occupation. The management's ability to establish DFTL amidst a competitive landscape would be a challenging task.

- The control environment is built around a robust insurance solution – PREMIA, a fully integrated ERP system – which is supported by Oracle 9iAS, developed by 3i InfoTech. The policy rates are automatically generated according to the profile of the customer and the takaful plan offered. The solution allows management a real time access to vital business reports with the convenience of World Wide Web.

- DFTL witnessed a decline in cession level (9MCY11: 49%, 2010: 50%, 2009: 67%). This is due to increase in proportion of individual policies and the company cedes contribution only above a certain amount, while most of the individual clients fall below that limit. However, in PTF-G the cession level depends on the size of the group being covered.

- DFTL has strong capital base (PKR 750mln), which is higher than most other life insurers in the industry. At end-9MCY11, equity of the company is PKR 584mln (after adjusting losses) and is expected to further decline until DFTL achieves break-even.

**Profile**

- Dawood Family Takaful Limited (DFTL) – Shariah compliant life Insurer – established in May 2008. DFTL has a network of 25 branches with its head office in Karachi. DFTL has diverse shareholding structure with First Dawood Group (FDG) holding the majority stake (36.6%), followed by the Bank of Khyber (15%), and GulfCap (8%). Other stakeholders include Allied Bank Limited, Habib Metropolitan Bank Limite and Ora-Tech Systems (Pvt.) Ltd. The financial profile of FDG has been stressed since the local money market crisis of CY08.

- DFTL's seven member BoD has seen changes in the last couple of years as an outcome of restructuring in FDG. Mr. Rizawan Ahmed, the new CEO of the company, joined DFTL in March 2011. He has close to five decades of experience. A committed team of professionals assists the CEO. The team's continued commitment is critical for achieving the desired level of business in initial years of the company's operations.