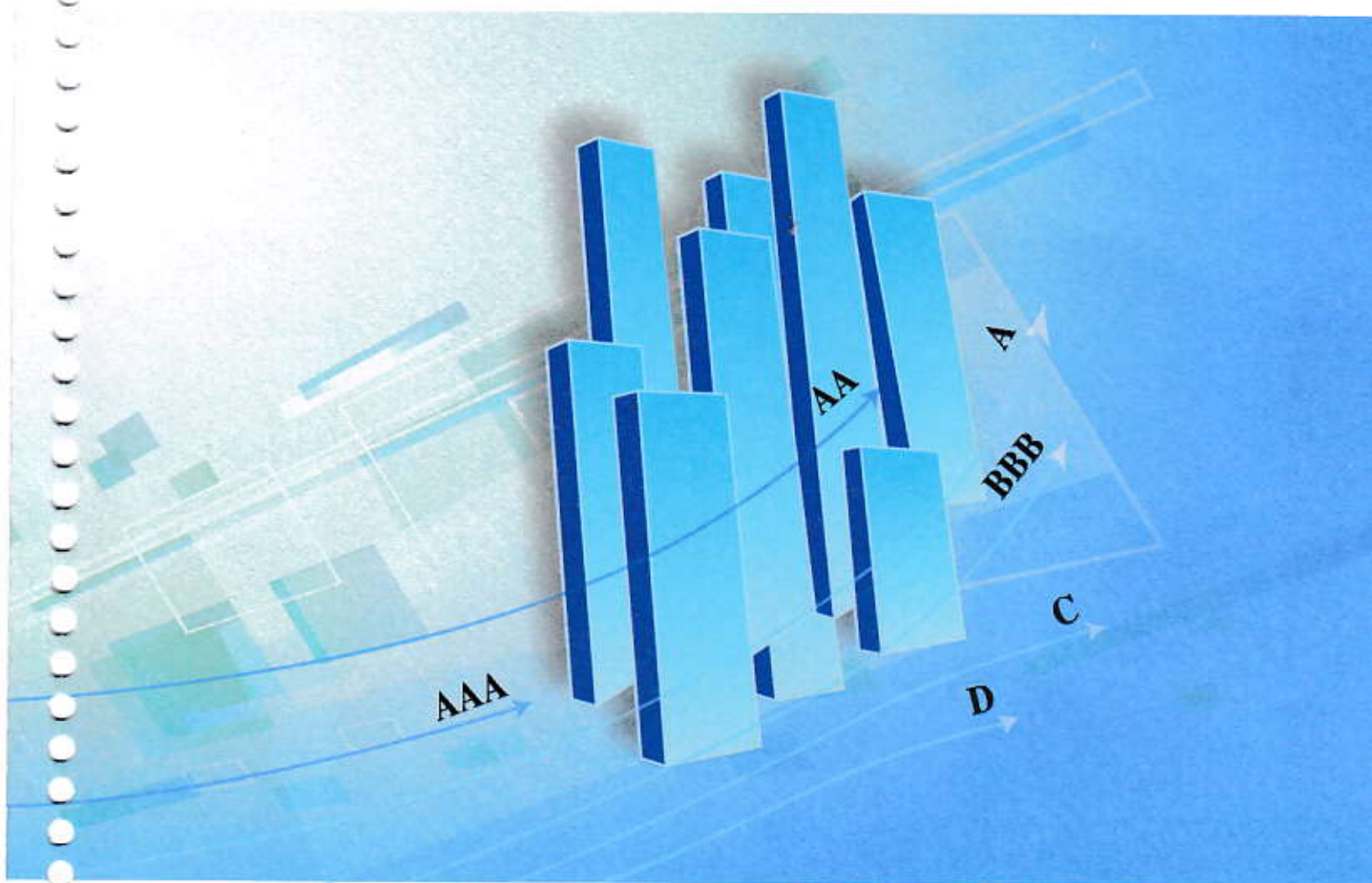


AlphaRating

## Credit Rating Report



Alpha Credit Rating Limited

# AlphaRating

**TAKAFUL ISLAMI INSURANCE LIMITED**

*Monir Tower (7th, 8th & 9th Floor)  
167/1, D.I.T. Extension Road, Motijheel (Fakirapool), Dhaka*

*(Non-Life Insurance)*

27 August, 2020

**Chief Executive Officer**

**Takaful Islami Insurance Limited**

**Monir Tower (7th, 8th & 9th Floor)**

**167/1, D.I.T. Extension Road, Motijheel (Fakirapool), Dhaka**

**Subject: Credit Rating of Takaful Islami Insurance Limited**

Dear Sir,

We are pleased to inform you that Alpha Credit Rating Limited (AlphaRating) has assigned the following rating to **Takaful Islami Insurance Limited**.

Date of Declaration	Valid Till	Long Term Rating	Short Term Rating	Outlook
27 August, 2020	26 August, 2021	AA-	ST-2	Stable

The rating may be changed or revised prior to expiry, if warranted by extraordinary circumstances in the management, operations and/or performance of the entity rated.

We, Alpha Credit Rating Limited, while assigning this rating to **Takaful Islami Insurance Limited**, hereby solemnly declare that:

- (i) We, Alpha Credit Rating Limited as well as the analysts of the rating have examined, prepared, finalized and issued this report without compromising with the matters of our conflict of interest, if there be any; and
- (ii) We have complied with all the requirements, policy and procedures of these rules as prescribed by the Bangladesh Securities and Exchange Commission in respect of this rating.

We hope the rating will serve the intended purpose of your organization.

With Kind Regards,

  
**Mainul Islam Chowdhury FCCA**  
 Chief Operating Officer

**This letter forms an integral part of the credit rating report.**



Business Risk  
MediumLiquidity  
GoodProfitability  
GoodSolvency Score  
GoodCapital Adequacy  
AdequateSector  
Non-life

## Rationale

### Contact Analysts

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### Date of Incorporation:

21 December, 1999

### Registered with the Department of Insurance:

21 May, 2001

### DSE Listing:

03 November, 2008

### Board Chairman:

Mr. Anwer Hossain Khan, MP

### Chief Executive Officer:

Mr. Md. Azizul Islam, FII

### Total Asset:

BDT 1,057.70 million

### Authorized Capital:

BDT 1,000.00 million

### Paid up Capital:

BDT 425.87 million

AlphaRating assigns long term rating "AA-" (pronounced as "Double A Minus") and short term rating "ST-2" on claim paying ability (CPA) of Takaful Islami Insurance Limited (Hereinafter referred to as 'TII' or 'the company') with a stable outlook. The rating is based on audited financial statement of 31<sup>st</sup> December, FY 2017 to FY 2019 and other qualitative factors. While assigning the rating AlphaRating has considered both favorable and unfavorable movement in overall performance of the company. The rating continues to draw comfort from established position in the market, experienced management team, long track record of the promoters in the insurance industry.

The assigned rating is also supported by increased gross & net premium, improved claim paying ability along with claim settlement period within 90 days, agency commission within 15%, improve in underwriting profit & total income, improvement in net profit margin along with ROA & ROE, adequate reserve for un-expired risk, sufficient solvency, increase in investment income along with total investment, adequate paid up capital amidst strong capital structure, sufficient yield on investment, good liquidity position and stronger balance sheet with standard investment policy etc.

However, the strength of the rating is partly offset by overall socio economic condition of Bangladesh along with volatility of the share market, loss from fire & marine hull insurance revenue account, more than 100% combined ratio, excess management expense and associated business risk. The rating also considers inherent business risks, unhealthy competition between the competitors and level of sophistication of the domestic insurance market.

31 <sup>st</sup> December	2019	2018	2017
Combine ratio (%)	111.37	117.53	124.80
ROA (%)	8.55	6.96	8.54
Net profit (%)	36.29	32.50	39.05
ROE (%)	12.32	10.23	12.23
Current ratio(x)	3.95	3.36	3.41
Solvency ratio(x)	9.88	11.24	12.94
Gross premium (BDT in million)	494.85	428.28	397.11
Net premium (BDT in million)	248.97	215.29	207.63
Net claim (BDT in million)	19.88	11.48	31.53
Excess mgt. exp. (BDT in million)	39.66	53.26	51.31
Operating cash flow (BDT in million)	75.73	71.96	22.48
Investment (BDT in million)	828.71	810.80	804.01
Yield on investment (%)	6.77	5.93	9.89

The **Stable** Outlook assessed by AlphaRating reflects that, upside and downside risks to the rating are currently well balanced.

  
Mainul Islam Chowdhury FCCA  
Chief Operating Officer  
Alpha Credit Rating Limited

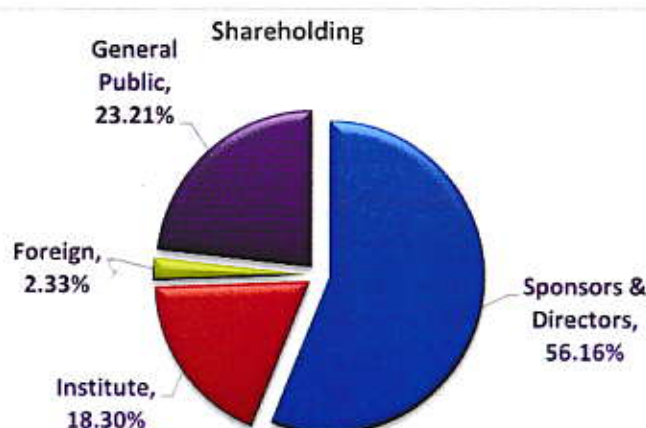
## Company Profile

Takaful Islami Insurance Limited is a Public Limited Company listed under the Companies Act 1994 and involved in general insurance business as per Insurance Act, 2010. Takaful Islami Insurance Limited is one of the leading insurance Companies in Bangladesh doing insurance business on the basis of Islamic Shariah in the private sector. The company get its incorporation certificate in 21<sup>st</sup> December, 1999 but gone into operation in the year of 2001. The main targets of the company are to carry on all traditional lines of non-life insurance businesses. At present, the company is operating with 43 branches covering major financial centers of Dhaka, Chittagong, Rajshahi and Khulna.

TIIL is active member of capital market having BDT 1,724.773 million market capitalization on 09 August, 2020. According to DSE, market share of the company is categorized as "Market Category A".

## Ownership Pattern

Shareholding of TIIL is a mixture of sponsors, institute, foreign and general public. As on 30 June, 2020 shareholding pattern of the company is presented below:



## Principal Product

The company is engaged in non-life Insurance business within the meaning of Insurance Act: 1938 subsequent amended Insurance Act, 2010. TIIL is carrying out following types of insurance and reinsurance business.

### 1. Fire Insurance:

1. Fire and Allied Perils
2. Household Insurance
3. Hotel Owners All Risks insurance
4. Insurance of Consequential Loss
5. Industrial All Risk Insurance

### 2. Motor Insurance:

1. Comprehensive Insurance
2. Act Only Liability Insurance

### 3. Marine Insurance:

1. Marine Cargo Insurance
2. Marine Hull Insurance

### 4. Health & Accident Insurance:

1. Overseas Mediclaim (OMP) Insurance

### 5. Miscellaneous Insurance:

1. All Risks Insurance
2. Fidelity Guarantee Insurance
3. Burglary & Housebreaking Insurance
4. Cash-on-Counter Insurance
5. Cash-in-Safe Insurance
6. Cash-in-Transit Insurance
7. Cash-in ATM Insurance
8. Money Insurance
9. Safe Deposit Box (Bank Lockers) Insurance
10. Public Liability Insurance
11. Products Liability Insurance
12. Workmen's Compensation Insurance
13. Professional Indemnity Insurance
14. Employer's Liability Insurance

### 5. Engineering Insurance:

1. Erection All Risks Insurance
2. Contractor All Risks Insurance
3. Boiler & Pressure Vessel Insurance
4. Deterioration of Stock Insurance
5. Machinery Breakdown Insurance
6. Electronic Equipment Insurance



## Industry Overview

### Snapshot of Bangladesh's insurance industry

Currently, Bangladesh's insurance sector comprises 46 non-life insurance companies and 32 life insurance companies. In addition, there are two state-owned insurance corporations—one in the general segment and the other in the life segment.

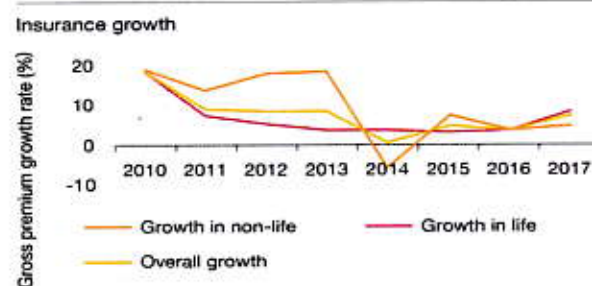
According to a sigma report of the Swiss Re Institute, as of 2017, the gross premium volume of life insurance in Bangladesh stands at USD 974 million and that of non-life insurance stands at USD 371 million. Figure 1 depicts the year-on-year growth. Life insurance constitutes 73.5% of Bangladesh's insurance market and non-life insurance, 26.5%.

Micro-insurance and Islamic insurance (takaful) are also a part of Bangladesh's insurance sector. In 2017, 2.20 million new life and 2.36 million new non-life insurance policies were issued. Further, the number of active life insurance policies was 10.78 million in 2017. The assets of all insurance companies in Bangladesh stood at USD 5,810.61 million by the end of 2017, with an average growth rate of 13.83% from 2009. Investments in both life and non-life insurance companies have grown at an average rate of 14.95% during 2009-2017, with returns increasing from 8% to 11.5% during the same period. The life insurance sector has a competitive landscape, with market share being closely distributed among multiple players.

### Benchmarking Bangladesh's insurance industry

Although Bangladesh's insurance sector has witnessed some growth, in comparison with other emerging nations, there is a lot of room for improvement. According to the Seventh Five Year Plan (2016–2020) of the Government of Bangladesh (GoB), a majority of the population across product segments (life and non-life) remains untapped by the insurance market. Overall, insurance penetration (insurance premiums as a share of GDP) in Bangladesh was 0.55% in 2017 and has mostly been on a downward trend since 2009 (see Figure 2). Figure 3 indicates that Bangladesh's insurance penetration rate falls behind that of several other developing countries. Compared to its South Asian counterparts, Bangladesh has the lowest premium per capita. In emerging markets, the average per capita spending on insurance increased by 13% to USD 166 in 2017. The average insurance penetration in emerging markets increased to 3.3% in 2017 (2016: 3.2%), as premium growth continued to outpace GDP growth within these economies. Egypt, like Bangladesh, is one of the countries featured on Goldman Sachs' Next Eleven (N-11), and has been implementing regulatory reforms.

Figure 1: Growth of Bangladesh's insurance sector



Source: Bangladesh Insurance Association 2017 Annual Report

Figure 2: Trend of insurance penetration in Bangladesh

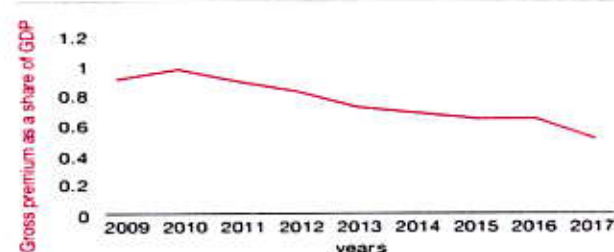
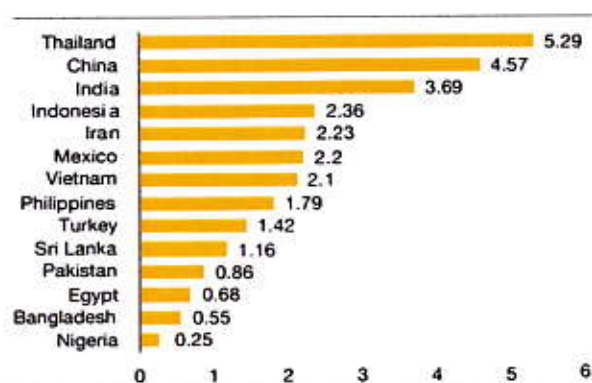


Figure 3: Insurance Penetration: Premiums as a percentage of GDP- 2017



Source: Swiss Re Institute (2018)



These reforms have helped Egypt strengthen its insurance sector significantly, as evidenced by the growth of its insurance density premium per capita from USD 8 in 1999 to USD 16 in 2017. Across the financial sector, there is low penetration of financial products and services beyond current accounts (see Figure 4). Among all financial products, savings products account for a mere 18%.

## Challenges and Opportunities

### Key challenges

Various challenges underlie the limited growth of Bangladesh's insurance sector. For one, the relationship between customers and insurance companies is marked by lack of trust. According to a recent study by PwC, a majority of Bangladeshi people do not trust insurance agents, and there is limited awareness regarding insurance products. Claim settlement-related problems also undermine the customer-insurer relationship, and the process of settling claims can be arduous and long. Secondly, Bangladesh lacks potential employees with adequate skills and knowledge to provide insurance services of the highest standard. In particular, employees holding advanced degrees in relevant fields are needed. From a macroeconomic perspective, Bangladesh suffers due to uneven income distribution where a majority of the people are poor and do not have the disposable income to afford insurance. This hinders the growth of the country's overall insurance penetration rate. Moreover, the country's technological capacities need major advancement. Globally, the insurance sector has been undergoing digitization and platforms are being created to optimize customer service and streamline processes. In contrast, in Bangladesh, there is limited utilization of modern technology and processes. Insurance companies do not have access to accurate and up-to-date demographic statistics for actuarial computations. Lastly, the regulatory environment in Bangladesh leaves much to be desired.

### Favorable indicators for insurance sector development

Bangladesh sustained an impressive annual GDP growth rate of 7.86% in FY 2017-18 according to the Bangladesh Bureau of Statistics (BBS). Bangladesh's GDP growth rate has been increasing steadily for the last five years. Strong consumption and public investment, recovery of readymade garments (RMG) exports and high remittance growth were the main propellers of economic growth, bolstering the rise in income per capita and growth of the middle-class population.

Figure 4: Low penetration of savings products

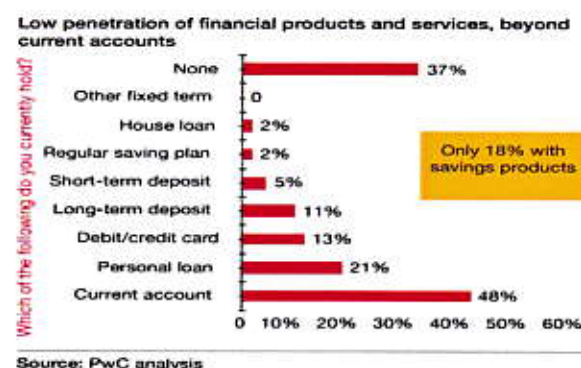


Figure 5: Bangladesh's economy has seen steady growth

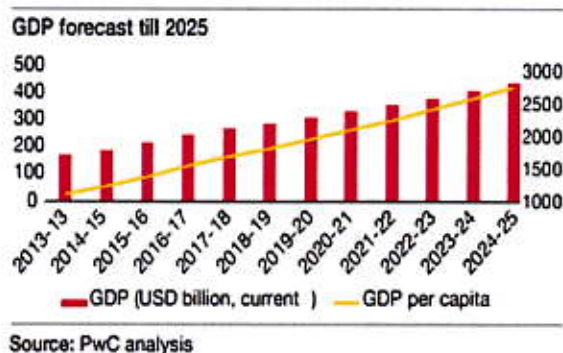
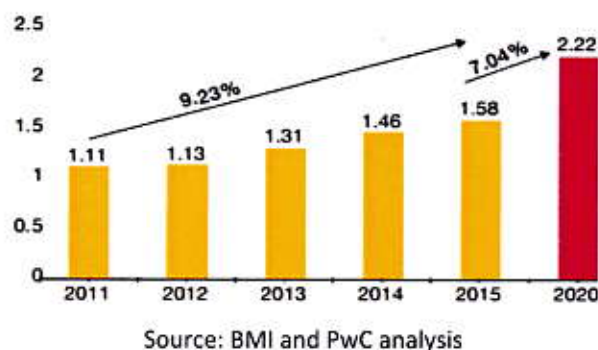


Figure 6: Bangladesh's insurance sector is projected to grow by 7.04% by 2020 (in terms of premiums)



Bangladesh is poised to capture some of this growth. The country's economic growth has been on an upward trend, which bodes well for the insurance sector (see Figure 5).

In the next decade, Bangladesh will continue to witness the rise of the middle and wealthy class in major cities. This could easily translate into a higher demand for insurance products as individuals and companies become increasingly risk aware. As shown in Figure 6, insurance penetration in Bangladesh is expected to grow at 7.04% and be worth approximately USD 2.2 billion (in terms of insurance premiums) by the year 2020.

As the country becomes increasingly industrialized, the demand for non-life insurance, such as fire, accident and property as well as workers' compensation insurance, is likely to experience substantial growth in demand.

Despite various challenges, Bangladesh's insurance sector has tremendous potential for growth, especially given the country's favorable macroeconomic picture. Regulatory reforms and the introduction of bancassurance, health, expatriate, agriculture, education, coastal, and public pension insurance products along with deep distribution channels can catalyze growth in the insurance sector.

Regulations that focus on reducing the risk of insolvency can help build trust in the market at a global level, which in turn will increase the flow of funds into the economy. With adequate capital requirements in place, insurance companies will serve as a safeguard for investments in infrastructure bonds, thereby boosting infrastructure development.

Strong regulations can also help strengthen the reinsurance market, which will ease the financial burden on the government arising from catastrophic events, thus directly contributing towards development opportunities for the country. Further, well-defined regulations can drive competition, enabling companies to provide the best solutions and offer more options to customers. Regulatory frameworks, ideally framed with reference to international standards and principles, will go a long way towards creating a resilient insurance sector.

A resilient insurance sector can, in turn, have far-reaching economic, commercial and social benefits for Bangladesh. Thriving against odds, it could also, in the long run, encourage entrepreneurship and innovation while facilitating risk transfer



## Business Risk Analysis

### Competition in the Market

Unhealthy competition among the existing companies, presence of unethical practice of providing commissions over premium and expected entry of multinational insurance company in Bangladesh are critical factors. Moreover, there is a tendency of native customers to go for foreign brands (companies). Lack of information and knowledge among the general public about the insurance sector often leads them to choose cheap but unreliable alternatives. All of the aforementioned factors put profound impact on profitability of the company. However, people have a growing interest to prefer companies with a high claim settlement rates. Overall steady growth of the insurance industry in Bangladesh with increasing number of customers and net premium income are positive aspects for the company.

Limited advertisement which is only targeting niche corporate and industrial segments deprives TIIL from greater earnings. Large Retail and SME segments are yet to penetrate; these sectors can lead TIIL to generate greater revenue as well as profit.

### Investment Risk

Investment risk arises out of investment decisions and acceptance of high exposures in any one type of investment instrument.

TIIL invests in Statutory Deposit with Bangladesh Bank, Investment in Shares and Fixed Deposit with Banks. The company also invests significant amount of money in the capital market. Though TIIL generate some profit from share investment in 2019, the investment remains risky due to susceptibility to the volatility of the capital market. Risk has been increased further due to inadequate diversification of investment profile which has been discussed in detail in the later part of this report.

### Human Resource

Human resource is one of the key driving forces for the sustainable growth of the insurance companies. Historically, Bangladesh is experiencing from lack of skilled manpower in the insurance sector. As an important sector under the financial system, it has not yet been providing full range of financial services to the people because of having a number of limitations, one of them is low capable of human resources. For this, the insurance sector has not gained much popularity and yet to develop. After a long age of operations, the insurance sector had not been recognized as one of the trusted sector like bank. Therefore, steps should be taken to hire qualified and efficient people and retain them. Furthermore, proper training should be given to develop their skills to increase efficiency and effectiveness.

TIIL arranges training programs on underwriting, reinsurance, claims and Islamic Shariah. Sometimes officers of TIIL take training from Insurance Academy, Insurance Association, Academy of learning, BIPD and Central Shariah Council.

The Chief Executive Officer (CEO) is an Associate of Bangladesh Insurance Academy (ABIA) and a Fellow of Insurance Institute of India (FII). He also completed Associateship and Fire Specialized Diploma from the same institute. He is also lecturer of the said institute. There are also some other BIA Diploma holders in TIIL.

### Interest Rate Risk

Interest risk arises out of investment decisions and acceptance of high exposures in any one type of investment instrument. Volatility of money market has also great influence over the interest rate structure of fund held by TIIL. Interest Income of TIIL is a significant portion of total income. This income from fixed and other deposit may fall with the reduction of interest rate of commercial bank.

In order to ease up interest rate exposure, companies can invest into secondary market to secure its revenue and also to generate capital gains. However, this source has also its own drawback, if the overall capital market position fall, then the performance of investment fund will also decline. Thus the company should more concentrate on traditional business within the framework of Govt. policy in order to minimize any loss/reduction of income arises from the investment already made.



### Regulatory Risk

Previously, insurance companies were regulated by insurance act- 1938, this act was replaced by 'Insurance Act-2010'. The preceding act was introduced with a view to regulate the insurance industry more strictly, protect the policy holders' interest and establish a fair and healthy competition within the industry. The government also established Insurance Development Regulatory Authority (IDRA) as a regulatory body of the industry. IDRA closely monitors the industry and proposes draft regulations to design more effective regulatory system. At present regulatory requirements has been introduced in order to make the market more reliable and uniform such as regulation on claim settlement to protect the right of policy holder and insurance companies are required to set up a special fund named as "policyholders' Protection Fund"; For further enhancing the solvency position, paid up capital for non-life insurance companies have been raised to BDT 400.00 million. As per circular issued by IDRA, agents will be paid commission at a maximum rate of 15%.

TIIL has complied with most of the regulations currently introduced by IDRA. Therefore, regulatory risk appears to be low. However, to comply with more sophisticated regulations, the company may need to put more effort and cost which may hamper the overall profitability.

### Liquidity Risk

Liquidity risk is the risk that firm not being able to meet up the obligations as the fall due. Because of the nature of operation, insurance companies need to maintain high liquidity ratio to settle the claim promptly to comply with regulation and also maintain the reputation in the market.

TIIL invests in FDR and holds large amount of cash to maintain high liquidity ratio. However, in FY 2019 the company increased investment with the banks which has comparatively fortified the liquidity ratio.

### Internal Control Risk

Internal control risk arises from non-compliance of rules and regulation, which ultimately puts negative impact on overall business performance.

Internal control system of the company has been designed to provide the directors with reasonable assurance that assets are safeguarded against unauthorized use. The company has placed rigorous internal control system. However, developing an effective internal control system is an evolving process. Therefore, management should routinely check whether the internal control system is adequate and relevant with the present operational process of the company, failure to which could disrupt the operation and hamper the overall profitability.

### Insurance/Actuarial Risk

The risk under an insurance contract is that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principle risk the company faces under such contracts is that the actual claims and benefit payments exceed the premiums written or the carrying amount of insurance liabilities. This is influenced by the frequency of claims, actual benefits paid being greater than originally estimated subsequent development of long-term claims.

TIIL reduces this risk with the help of its experienced underwriting team who undertakes pre-insurance surveys of large and complicated risk. Risk management team ensures proper understanding of the right level of risk acceptance, risk control and risk related expenditure. TIIL also takes reinsurance coverage from SBC & foreign re-insurance companies that also help the company to pay off its claims.



## Financial Risk Analysis

### Underwriting Process & Quality

Revenue from underwriting is the prime source of income of TIIL. The company has its separate underwriting department which is responsible for evaluation of risk associated with the clients, thereby making decisions whether to accept the risk; sets the level of coverage to be given and insurance premium to be charged. During FY 2019, gross premium of the company has increased to BDT 494.85 million and net premium has increased to BDT 248.97 million whereas in FY 2018 gross premium was BDT 428.28 million and net premium was BDT 215.29 million. This shows that the company has higher premium collection than previous year.

Underwriting performance is measured by combined ratio which is the ratio of expenses & losses to net premiums. Loss ratio of the company has observed to increase & stood at 7.99% in FY 2019. Analysis revealed that, the main reason behind such increase in loss ratio is; net claim paid out has increased by 73.17% in FY 2019 whereas 15.64% increase has noticed in net premium.

#### Selected Indicators:

(Without considering commission on reinsurance ceded)

	2019	2018	2017
Loss ratio (%)	7.99	5.33	15.19
Expense ratio (%)	103.38	112.20	109.61
Combined ratio (%)	111.37	117.53	124.80

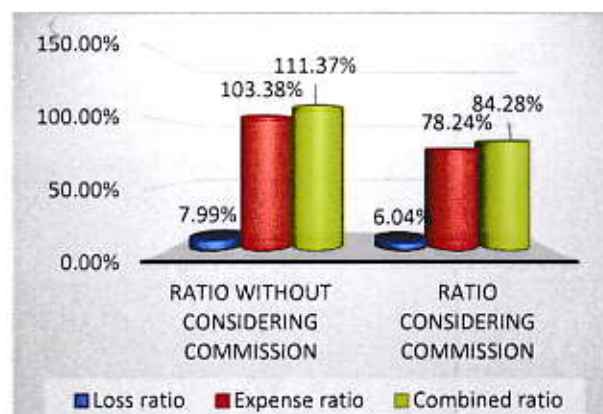
Moreover, expense ratio of the company has decreased by 8.82 percentile points in FY 2019. It has been observed that, actual management expense of TIIL has been consistently increasing over the year due to mainly increase in both allocated and unallocated expenses, which shows the inefficiency of the management to control the expenses. However, with the increased net premium, TIIL was able to reduce the expense ratio to some extent but still it shows 103.38%, which is considered as high and brings the negative feedback for the company. Consequently combined ratio of the company has decreased to 111.37% in FY 2019 compared to 117.53% in FY 2018 but still can create negative impact on the overall underwriting performance of the company. As combined ratio of TIIL is more than 100% indicates that an underwriting loss. So the company should focus on controlling its management expense in future years for better underwriting performance.

#### Selected Indicators:

(After considering commission on reinsurance ceded)

	2019	2018	2017
Loss ratio (%)	6.04	4.08	12.05
Expense ratio (%)	78.24	85.80	86.98
Combined ratio (%)	84.28	89.88	99.03

If we consider commission on reinsurance ceded along with net premium, overall performance of the company shows better performance and combined ratio becomes below than 100%.





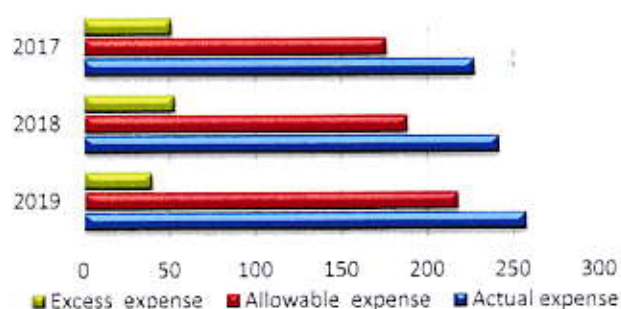
## Management Expense

As per the Insurance Act 2010, all the non-life insurance company are obligated to calculate the allowable management expenses and maintain the actual management expenses within the limit. As per given guideline TIIL's allowable management expense is BDT 217.73 million whereas total actual management expense is BDT 257.39 million in FY 2019. It has been observed that, during FY 2019 the gap between actual & allowable management expense has been decreased by BDT 13.60 million whereas in FY 2018 the gap was BDT 1.95 million. By analyzing the expense schedule it has been observed that actual management expense is 118.21% of allowable management expense whereas it was 128.28% in FY 2018. On the other hand, actual management expense has increased to BDT 257.39 million in FY 2019 from BDT 241.57 million in FY 2018.

### Selected Indicators

BDT in millions	2019	2018	2017
Actual management expense	257.39	241.57	227.58
Allowable management expense	217.73	188.31	176.27
Excess management expense	39.66	53.26	51.31
Actual mgt. exp. as % of allowable exp.	118.21	128.28	129.11
Agency Commission	62.73	54.21	52.22

According to IDRA, agency commission must be within 15% of its gross premium of all classes of insurance. TIIL incurred BDT 62.73 million agency commission in 2019 against the gross premium of BDT 494.85 million. So, the agency commission was 12.68% of the gross premium income which was within the prescribed limit set by the authority.



## Claim Management

### Selected Indicators

BDT in millions	2019	2018	2017
Claim Initiated (BDT in million)	144.51	144.50	217.37
Claim Settled (BDT in million)	54.29	35.06	111.73
Claim Repudiated (BDT in million)	-	-	-
Number of Claim Initiated	175	211	258
Number of Claims Settled	124	141	157
Number of Claims Repudiated	-	-	-

During FY 2019, the company settled 124 claim worth of BDT 54.29 million against 175 initiated claims worth of 144.51 million. The number of initiated claims as well as the number of settled claims has declined in FY 2019, which is 70.86% of total initiation. Moreover, there was no claim repudiated in FY 2019 which states company's loyalty towards their policy holder and good claim management by the company.

### Selected Indicators

BDT in millions	2019	2018	2017
Claim Outstanding at the beginning of the year	13.50	17.79	15.18
Claim Lodged During the year	19.88	11.48	31.53
Total claims	33.38	29.27	46.71
Claim outstanding at the end of the year	13.49	13.50	17.798
Claims paid during the year	19.89	15.77	28.92
Claim Paid % of total claim	59.60	53.89	61.92

However, it has been observed that TIIL's average claim settlement period after getting all the necessary documents is maximum 30 days for motor insurance and maximum 90 days for other business classes, which is within the regulatory requirement of 90 days and this can bring positive campaign for the company.



## Profitability

Profitability position of the company has improved compared to previous year. TIIL earns profit from different sources including interest income and underwriting profit. Underwriting profit is one of the main source of income for TIIL comprising 53.47% of total income. However, total underwriting profit has increased by only BDT 13.31 million in FY 2019 compared to previous year. TIIL was able to generate higher underwriting profit from marine cargo and motor revenue account as well as from miscellaneous revenue account which was loss making sector in FY 2018. On the other hand, loss in fire and marine hull revenue account has affected the underwriting profit negatively.

Other than underwriting, investment income (interest income, dividend income & profit from sale of shares) are other significant source of revenue for TIIL comprising 46.53% of total income in FY 2019. It has been observed that investment income has increased by BDT 8.06 million in FY 2019. During the year, most of the investment income comes from interest income which increased to BDT 39.56 million from BDT 37.39 million in FY 2018. Other portion of investment income for the company are dividend income and profit from sale of shares. Though, Dividend income has decline during the year but TIIL was able to gain higher profit from sales of shares.

### Selected Indicators

	2019	2018	2017
<b>Net profit (%)</b>	36.29	32.50	39.05
<b>Return on assets (%)</b>	8.55	6.96	8.54
<b>Return on equity (%)</b>	12.32	10.23	12.23

In FY 2019, profit after tax of the company has increased to BDT 90.36 million which has increased by 29.14% from FY 2018. On the other hand, net premium of TIIL has increased to BDT 248.97 million which has increased by 15.64% in FY 2019. The higher increase in profit after tax compared to increase in net premium has resulted to increase in net profit by 3.79 percentile point in FY 2019.

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets and return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. During the year, both ROA and ROE has increased due to higher increase in profitability compare to the increase in asset & equity base of the company.

## Investment Profile

AlphaRating observed that investment activities of TIIL spread over different sectors such as Invest in Govt. security Bond, Investment in shares, investment in fixed deposit account etc. Level of investment of the company over the last three financial years given below:

### TIIL's Investment Mix

Investment Category	2019	2018	2017
<b>Investment in Govt. Security Bond</b>	25.00	25.00	25.00
<b>Investment in Shares</b>	126.69	179.93	207.38
<b>STD Account</b>	17.91	42.02	38.78
<b>FDR Account</b>	659.10	563.85	532.85

According to the Insurance Act 2010, the company has to maintain statutory requirement of investing BDT 25.00 million with National Investment Bond which is being maintained duly. However, it has been noticed that, investment in FDR has been following an increasing trend over the years and stood at BDT 659.10 million in FY 2019, which represent 16.69% increase compared to previous year. On the other hand investment in STD account has declined in FY 2019 by 57.38%. Along with this the company maintains sufficient cash & bank balances, sundry debtors, fixed assets etc. As a result, total asset base of the company has been increased to BDT 1057.70 million in FY 2019.

Investment in share is another significant area of investment for the company which has been showing decreasing trend as well and stood at BDT 126.69 million in FY 2019 at market price which is lower than the cost price. It has been observed that, provision has been made by TIIL for shortfall amount of share price aggregation of BDT 16.03 million in FY 2019.

### Selected Indicators

BDT in millions	2019	2018	2017
<b>Total Investment</b>	828.71	810.80	804.01
<b>Investment income as % of total income</b>	46.53	48.42	82.35
<b>Yield on Investment (%)</b>	6.77	5.93	9.89

Investment income as % of total income has decreased to 46.53% in FY 2019, which was 48.42% in FY 2018. The reason behind this fall is, investment income has increased by 3.19% whereas total income has increased by 21.52%. On the other hand, yield on investment has increase to 6.77% in FY 2019 from 5.93% in FY 2018 due to mainly increase in investment income.



## Liquidity Analysis

### Selected Indicators

	2019	2018	2017
Current ratio (times)	3.95	3.36	3.41
Current asset/net claim (times)	44.52	67.62	22.14
Current liabilities/total liabilities (%)	100	100	100
Cash & bank balance/total assets (%)	64.91	61.19	60.99
Operating cash flow/net claim paid out (%)	380.92	626.73	71.29
Operating Cash Flow (BDT in million)	75.73	71.96	22.48

Liquidity position refers to company's ability to pay short term obligation as they fall due. While analyzing the liquidity position of the company, it is observed that Current Ratio was improved due to mainly decrease in current liabilities in 2019 compared to 2018. Current asset to net claim ratio has decreased during FY 2019 and the ratio stood at 44.52 times. Scrutiny reveals that the net claim has increased by 73.17% compared to 14.01% increase in current assets and this situation has led the current asset to net claim ratio to decline in FY 2019. Current liability to total liability of the company remained at 100% as there is no non-current liability.

Cash & bank balance to total assets has been increasing over the years and stood at 64.91% in FY 2019. Further analysis reveals that cash & cash balance increased by 12.06% whereas total assets has increased by 5.64% from previous year. However, though operating cash flow position of the company has increased by 5.24% compared to FY 2018 but higher increase in net claim paid out by 73.17% has influenced the operating cash flow to net claim paid out to deteriorated in FY 2019.

From the above analysis, it has found that liquidity position of the company has improved in FY 2019 compared to FY 2018.

## Reinsurance Utilization

Under the discretion of Insurance Act, the retention limit of non-life insurance companies is being revised from time to time depending on the financial strength, underwriting expertise etc. In accordance with the present rule, 50% of the re-insurable general business shall be reinsured with Sadharan Bima Corporation (SBC) and the remaining 50% of such business may be reinsured either with SBC or with any other insurer whether in or outside Bangladesh.

It has been found that TIIL is in line with the existing regulation, takes 50% reinsurance coverage from Sadharan Bima Corporation (SBC) while rest is reinsured with overseas reinsurers.

Reinsurance retention limit for last three years is presented below:

### Selected Indicators

BDT in millions	2019	2018	2017
Fire	8.00	7.50	7.00
Marine Cargo	3.75	3.37	3.00
Marine Hull	3.00	3.00	3.00
Miscellaneous	4.50	4.50	1.95
Engineering	6.18	6.18	6.00

Individual class wise risk retention ratios of last 3 years are presented below:

Business Class\ Year	2019	2018	2017
Fire	39.71%	37.25%	40.69%
Marine (Hull & Cargo)	68.63%	73.60%	69.92%
Motor	97.02%	93.18%	83.38%
Misc.	11.82%	7.99%	14.28%
Total (Average)	54.30%	53.00%	52.07%

During 2019, total sum insured was BDT 156.63 billion whereas it was BDT 126.51 million in FY 2018. Generally high retention level signifies inadequate reinsurance protection while low retention level may hamper profitability. TIIL's risk retention rate remained above 50% throughout the last three year.

It has been observed that, risk retention of TIIL was quite high in motor and marine insurance compared to risk retention of fire and miscellaneous insurance. Moreover, Overall risk retention has increased to 54.30% in FY 2019 compared to 53.00% in FY 2018.



## Solvency Analysis

### Selected indicators

BDT in millions	2019	2018	2017
Available Solvency (AS)	602.19	606.32	628.23
Required Solvency (RS)	60.96	53.93	48.56
AS/RS (times)	9.88	11.24	12.94

Solvency margin ratio is an important financial indicator and one of the key benchmark for industry regulators. Solvency Margin means the amount by which the assets of the insurance company exceed its liabilities and other comparable commitments.

As per The Insurance Development & Regulatory Authority's (IDRA) regulations 2010, every non-life insurer needed to prepare statement of solvency margin but still insurance Development & Regulatory Authority's (IDRA) has not prescribed any formula or guidelines to calculate the minimum solvency margin. From the above table we can see that, solvency margin has declined to 9.88 time in FY 2019, which was 11.24 times in FY 2018. The reason behind such decline is, available solvency has declined by 0.68% whereas required solvency has increased by 13.04% and for which solvency ratio has declined in FY 2019.

## Reserve Adequacy

TIIL has maintained the reserve for un-expired risk as per Insurance Act, 2010; 100% of the net premium income for marine hull insurance and 40% for all other business classes. The company also maintained reserve for exceptional losses. In FY 2019 the reserve has increased to BDT 251.82 million, which has increased by 10.97% from that of previous year. However, the reserve represents 101.14% of net premium.

Reserve for exceptional losses represent 12.67 times of net claim in 2019 which was 19.77 times in 2018, suggesting the company's unexpected events absorbing capability has deteriorated from previous year.

## Capital Adequacy

According to statutory capital requirement, every non-life insurance company is required to have BDT 400.00 million as paid up capital and TIIL has fulfilled this requirement in FY 2018. Paid-up capital of the company has increased and stood at BDT 425.87 million at the end of FY 2019.

The board of TIIL has last issued 6% stock dividend in FY 2018 (6% 2017, 5% 2016, 5% 2015, 12% 2014, 15% 2013, 15% 2012, 17% 2011, 15% 2010, and 15% 2009) along with 5% cash dividend in FY 2018 (5% 2016 and 5% 2015)

## Management & Other Qualitative Factors

### Composition of the Board

TIIL's board is comprised of 20 directors including 12 sponsor directors, 06 public shareholder directors and 02 independent directors. The board is chaired by Mr. Anwar Hossain Khan, MP. The company is aptly supported by its diversified board and the directors gather experience from different sectors. Thus they have the ability to come up with new ideas and think out of the box. The board is mainly responsible to set the strategy and policies and monitors the operations of the company. The board delegates the power to the management to execute, monitor and implementation of the company's policies and strategies and business plan.

### Board Committees

#### Executive Committee

Executive Committee is comprised of 08 members of the Board of Directors and chaired by Mr. Anwar Hossain Chowdhury. The committee is responsible for monitoring and analyzing business, income, expenditure activities of the company and report to the Board. During 2019, 13 meetings were held by the committee.

#### Claims Committee

Claim Committee is comprised of 06 members of the Board of Directors and chaired by Mr. Md. Abul Hashem. The committee is responsible for monitoring and analyzing all sorts of claims activities of the company and report to the Board. During 2019, 06 meetings were held by the committee.

### Audit Committee

Audit committee consists of 05 members of the Board of Directors and the committee is chaired by Mr. A.K.M. Aminul Islam, Independent Director of the company. The committee is responsible to assist the board of directors in ensuring that financial statements reflect true and fair view of the state of affairs of the company. The committee also oversees other important aspects such as financial reporting process, adherence with accounting policies and principles, internal control & risk management system, performance of external auditors etc. The committee operates according to the term and condition of the Board and BSEC notification no BSEC/CMRRCD/2006-158/207/Admin/80 dated 3<sup>rd</sup> June, 2018. During 2019, 05 meetings were held by the committee.

### Nomination & Remuneration Committee (NRC)

NRC is comprised of 04 members of the Board of Directors and chaired Mr. Md. Humayun Kabir Patwary. The responsibility of the committee is to assist the board in formulation of the nomination criteria or policy for determining qualification, positive attributes experience and independence of the directors and top level executives. The committee also discharge the responsibilities of the BOD relating to remuneration of directors and top level executives. During 2019, 03 meetings were held by the committee.

### Shariah Council

Shariah Council is comprised of 05 members and chaired by Moulana Kamaluddin Jafree. Shariah Council is responsible to re-fix percentage of Tabarru and Service charge after stabilization of the present situation. During 2019, 02 meetings were held by the Shariah Council.



### ***IT Infrastructure & Its Utilization***

Takaful Islami Insurance Limited is determined to use information Technology (IT) towards utmost facilities. To synchronize with the pace of state-of-the-art IT facilities, TIIL has made its IT department strengthened with experienced and efficient resources with a goal to reach its valued clients with latest IT facilities. TIIL with help of external software developer organization developed "Integrated Insurance Business Solution (IIBS)" software, which facilitates all the business process and functions of TIIL. Integrated Insurance Business Solution (IIBS) save working time in preparing different documents and generate MIS reports. TIIL has established WAN between head office and all the branches situated all over the country. All the operational process and functionalities are included in ERP applications IIBS.

### ***Internal Control***

TIIL's internal control system have been designed by the audit committee with reasonable assurance that assets are safeguarded against unauthorized use by the employees or management or third parties, transactions are authorized and properly recorded and material error and irregularities are either prevented or detected within a reasonable period of time.

Properly designed management structure, clearly defined responsibilities, delegation of authorities, establishment of accountability at each level and system of periodic reporting and monitoring performance are the key elements of the internal control framework employed in TIIL.

### ***Corporate Governance***

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance facilitates the rules regulation to work in the best interest of stakeholders. TIIL believes in adopting the best and follows the principles of transparency and accountability, Integrity, ethical behavior and sustainable organization practices in the area of corporate governance. The company also complies with the all other conditions imposed by BSEC's Notification on Corporate Governance. During FY 2019 the company achieved the certificate of good corporate governance from "Huda Hossain & Co., Chartered Accountants".

## **End of the Report**

## Company Information

### Board of Director (As on 30.06.2020)

Mr. Anwer Hossain Khan, MP	Chairman
Mr. Emdadul Haque Chowdhury	Vice Chairman
Mr. Anwar Hossain Chowdhury	Sponsor Director
Mr. Md. Abul Hashem	Sponsor Director
Engr. Khondaker Mesbahuddin Ahmed	Sponsor Director
Mr. Md. Humayun Kabir Patwary	Sponsor Director
Mr. Shamsul Arefin Khaled	Sponsor Director
Mrs. Nasreen Haque	Sponsor Director
Mr. Abul Hashem	Sponsor Director
Mr. Md. Moshir Rahman Chamak	Sponsor Director
Mrs. Shahanaz Parvin	Sponsor Director
Mrs. Tahmina Afroz	Sponsor Director
Mr. AFM Motassem Belal (Rep. of Modern Diagnostic Center Ltd.)	Public Shareholder Director
Mr. Khorshed Alam Khan	Public Shareholder Director
Mr. Md. Jahirul Islam	Public Shareholder Director
Mr. Mosharraf Hossain Chowdhury (Rep. of Daffodils Sign Media)	Public Shareholder Director
Mr. Md. Zia Uddin Podhar	Public Shareholder Director
Mr. Billal Hossain	Public Shareholder Director
Mr. A.K.M. Aminul Islam	Independent Director
Mr. Md. Nurun Nabi Bhuiyan	Independent Director
Mr. Md. Azizul Islam	Chief Executive Officer

### Shareholders

Category of Shareholders	% of total Shares
Sponsors & Directors	56.16
Institute	18.30
Foreign	2.33
General Public	23.21
<b>Total</b>	<b>100.00</b>

### Auditor

#### ARTISAN

Chartered Accountants

Shah Ali Tower (7<sup>th</sup> Floor) 33, Kawran Bazar, Dhaka-1215

### Head Office

#### Takaful Islami Insurance Limited

Monir Tower (7<sup>th</sup>, 8<sup>th</sup> & 9<sup>th</sup> Floor), 167/1, D.I.T. Extension Road, Motijheel (Fakirapool), Dhaka

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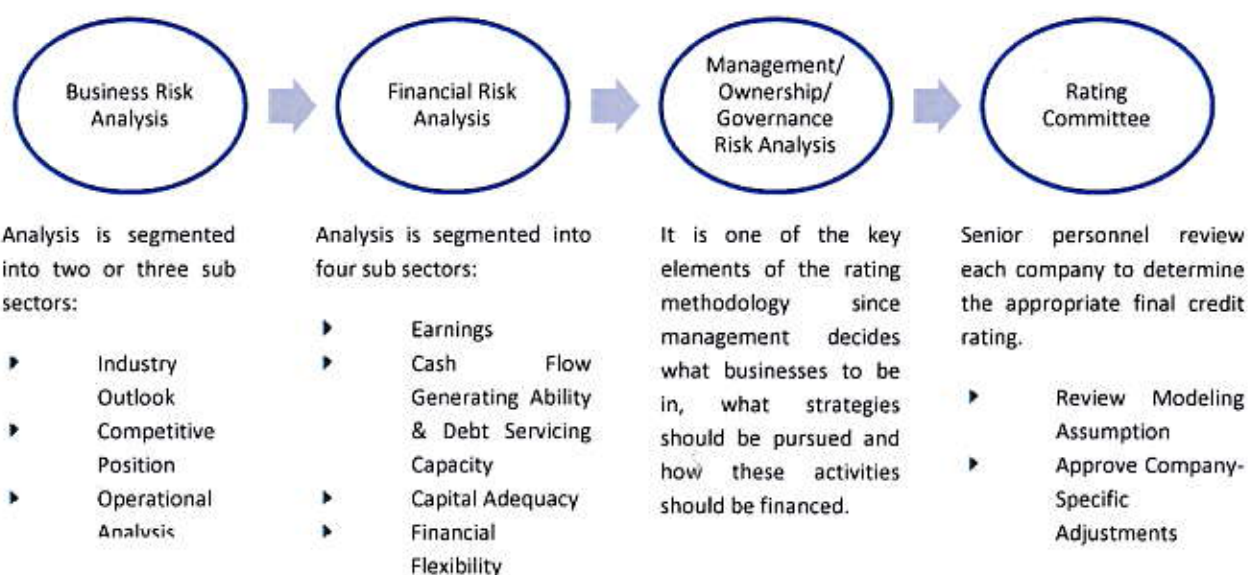
Fax: 88-02-41070083

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Web Address: [www.takaful.com.bd](http://www.takaful.com.bd)



## AlphaRating's Research Methodology for Determining Insurance Rating



## Rating Outlook

POSITIVE	Rating may be raised
NEGATIVE	Rating may be lowered
STABLE	Rating is likely to remain unchanged
DEVELOPING	Rating may be raised, lowered or remain unchanged.

ST-4	ST-5
ST-1	ST-2
ST-6	ST-3

ST-1	Strong Capacity
ST-2	Good Capacity
ST-3	Adequate Capacity
ST-4	Weak Capacity
ST-5	Very Weak Capacity
ST-6	High Risk of Default

BB	A	BBB
CC	AAA	D
B	AA	CCC

AAA	Exceptionally Strong Capacity
AA	Very Strong Capacity
A	Strong Capacity
BBB	Low Expectation of Ceased or Interrupted Payments
BB	Elevated Vulnerability to Ceased or Interrupted Payments & Key Financial Indicators
B	Significant Risk of Ceased or Interrupted Payments Could Occur in the Future.
CCC	Real Possibility That Ceased or Interrupted Payments Could Occur in the Future.
CC	Probable that Ceased or Interrupted Payments Could Occur in the Future.
C	Ceased or interrupted payments are imminent

Note: "+" or "-" may be appended to a rating to indicate the relative position of a credit within the rating category. Such suffixes are not added to ratings in the 'AAA' category or to ratings below the 'B' category.

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