

AlphaRating

TAKAFUL ISLAMI INSURANCE LIMITED

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

(Non-Life Insurance)

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14 September, 2023

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), vide credit rating Agreement No: 14413, has assigned the following rating to **Takaful Islami Insurance Limited**.

| Date of Declaration | Valid from | Valid Till | Rating Action | Long Term Rating | Short Term Rating | Outlook |
|---------------------|--------------------|--------------------|------------------------------|------------------|-------------------|---------|
| 14 September, 2023 | 07 September, 2023 | 06 September, 2024 | 3 rd Surveillance | 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,



Abdul Mannan

Chief Executive Officer



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

Business Risk
HighLiquidity
GoodProfitability
StableSolvency Score
ModerateCapital Adequacy
AdequateSector
Non-life

Previous Rating

Long Term Rating: AA

Short Term Rating: ST- 2

Outlook: Stable

Date of Declaration: 12
September, 2022

Valid Till: 06 September, 2023

Contact Analysts

Shanta Saha

shanta@alpharating.com.bd

Tanmoy Saha

tanmoy@alpharating.com.bd

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Date of Incorporation:

21 December, 1999

Registered with the Department
of Insurance: 22 May, 2001

DSE & CSE Listing:

03 November, 2008

Board Chairman:

Mrs. Tahmina Afroz

Chief Executive Officer (C.O):

Mr. Abul Kalam Azad

Total Asset:

BDT 1,243.74 million (As on 31
December, 2022)

Authorized Capital:

BDT 1,000.00 million

Paid up Capital:

BDT 425.87 million

Investment Limit:

BDT 156.02 million

Outstanding:

BDT 11.43 million (As on 30 June,
2023)

Rationale

AlphaRating, vide credit rating Agreement No: 14413, affirms long term rating "AA" (pronounced as "Double A") and short term rating "ST-2" on claim paying ability (CPA) of Takaful Islami Insurance Limited (Hereinafter referred to as 'TIIL' or 'the company') with a stable outlook. The rating is based on audited financial statement of 31st December, FY 2020-2022 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 premium, claim settlement period within only 30 days, agency commission within 15%, good liquidity, adequate reserve for un-expired risk, adequate paid up capital amidst strong capital base, 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, decreased net premium, decreased total investment income as well as yield on investment, decreased net profit margin, more than 100% combined ratio, slight decreased of solvency margin, decreased underwriting profit & total income, underwriting loss from marine hull & miscellaneous insurance revenue account, 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 st December | 2022 | 2021 | 2020 |
|--------------------------------------|--------|--------|--------|
| Combine ratio (%) | 106.32 | 96.33 | 85.84 |
| ROA (%) | 5.49 | 5.51 | 4.29 |
| Net profit Margin (%) | 10.90 | 11.24 | 8.34 |
| ROE (%) | 8.46 | 8.42 | 6.28 |
| Current ratio(x) | 3.20 | 3.29 | 4.33 |
| Solvency ratio(x) | 3.17 | 3.38 | 3.43 |
| Gross premium (BDT in million) | 626.23 | 610.99 | 576.08 |
| Net premium (BDT in million) | 357.89 | 363.85 | 369.65 |
| Net claim (BDT in million) | 4.90 | 26.99 | 15.95 |
| Excess mgt. exp. (BDT in million) | 96.95 | 106.51 | 50.48 |
| Operating cash flow (BDT in million) | 89.57 | 133.06 | 125.25 |
| Investment (BDT in million) | 898.62 | 895.72 | 814.92 |
| Yield on investment (%) | 4.83 | 7.11 | 6.68 |

The rating also considered Quard investment facility availed by the company from different branches of Islami Bank Bangladesh PLC. AlphaRating considered the above bank's facilities only while assigning the rating.

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



Abdul Mannan
Chief Executive Officer
Alpha Credit Rating Limited

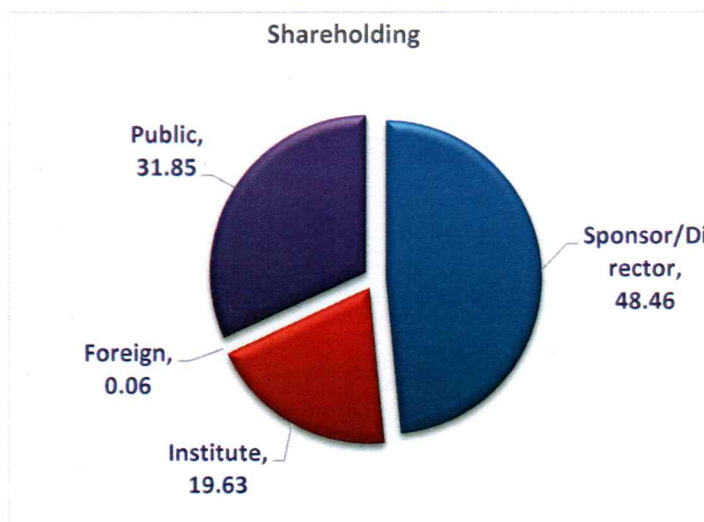
Company Profile

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 21st 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 51 branches covering major financial centers of Dhaka, Chattogram, Rajshahi and Khulna.

TIIL is active member of capital market having BDT 1,801.429 million market capitalization on 05 September, 2023. 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 per DSE dated 31st July, 2023 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 Medclaim (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

6. 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

Health sector

Health insurance is another crucial area that needs development. Health insurance is virtually non-existent in Bangladesh's public and private sectors. Bangladesh's expenditure on health is only 2.64% of its GDP—the lowest in South Asia. Close to 9% of households make huge healthcare payments and 7% have to finance their healthcare costs by selling their assets. People in rural areas are especially vulnerable to falling into the poverty trap. Pension schemes are mostly seen in the Government sector and most of the elderly population relies on family support for sustenance. As Bangladesh develops and life expectancy rises, its elderly population will increase proportionately. The insurance sector can play a vital role in reducing the burden on the overall spending on healthcare and contribute positively towards increasing the livelihood of the general public of the nation.

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 study by PwC, a majority of Bangladeshi people do not trust insurance agents, and there is limited awareness regarding life 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.

Figure 1: Insurance Industry Trend of Bangladesh

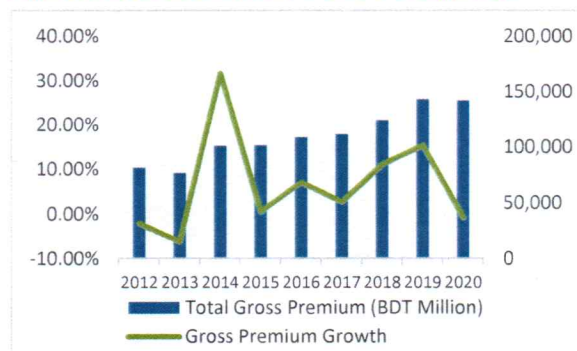
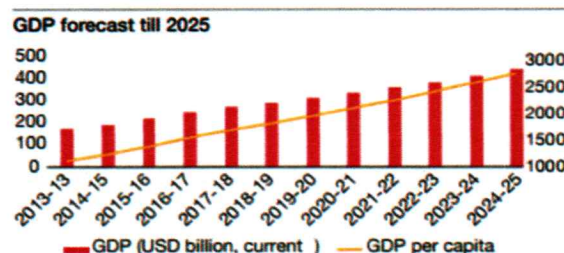
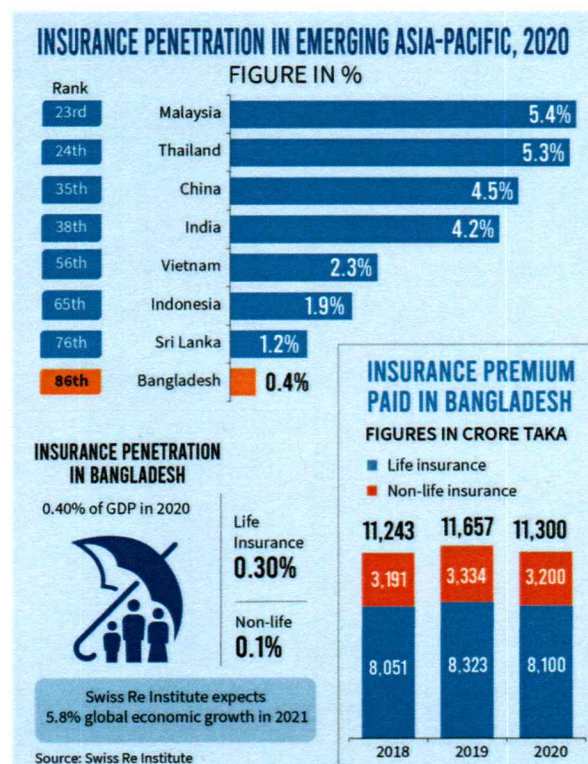


Figure 2: Bangladesh's economy has seen steady growth



Source: PwC analysis



Favorable indicators for insurance sector development

Bangladesh sustained an impressive annual GDP growth rate of 6.10% in 2021. Bangladesh's GDP growth rate has been increasing steadily for the last six 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.

Macroeconomic trends indicate potential growth in the country's insurance sector, especially given Asia's unprecedented growth. The region is set to represent a large share of overall life insurance premiums between 2016 and 2025, rising from 11.6% to 21.7% (see Figure 2).

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 3).

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.

Bancassurance opportunity

Bancassurance is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base. This partnership arrangement can be profitable for both companies. Banks earn additional revenue by selling insurance products and insurance companies expand their customer bases without increasing their sales force.

Bancassurance provides a new way of gaining revenue for banks and insurance companies by working together with similar aims. There is a huge untapped market as currently less than 1% of the total population have insurance. Bancassurance would help many more people to have access to insurance by taking advantage of the nationwide reach of banks' branch networks to avail insurance products. In other words, all the potential clients of banks are the target group of Bancassurance and insurance products can be offered to the customer who has a bank account or eligible to have a bank account.



The concept of bancassurance is relatively new in Bangladesh and has been introduced by private commercial banks. In May 2022 the Central Bank finalized guidelines for local banks to provide this service. It will provide new business opportunities to the stagnant local insurance industry and boost revenue of the banks from the partnership. It is expected that the insurance penetration that remained below 0.05 per cent of the GDP will dramatically improve after launching the bancassurance.

As per guideline, the banks will apply for a corporate agent license to IDRA upon receiving approval from the BB and then notify the central bank accordingly with a copy of the license as soon as it is received from IDRA. In approving bancassurance, the bank shall meet the following criteria: a) capital to risk-weighted asset ratio (CRAR) with capital conservation buffer (CCB) not to be less than 12.5 per cent; b) shall meet the credit rating not less than Bangladesh Bank (BB) rating grade 2 defined at the Guidelines on Risk-Based Capital Adequacy [Revised Regulatory Capital Framework for banks in line with Basel III]; c) shall meet the minimum CAMELS rating of 2 of Bangladesh Bank; d) the level of net non-performing loans (NPL) shall not be more than 5 per cent; e) shall have a positive net profit for the last three consecutive years; and f) shall have a viable bancassurance business plan and review mechanism. A bank will not be allowed to sign agreements with more than three life insurance and three non-life insurance companies at the same time, according to the guidelines. The banks will require establishing a separate and dedicated department or wing to procure the business through the model, under which bank customers will be the clients of the insurance products.

Advantages of Bancassurance

To Banking Institutions: diversification of product and customer portfolio, improved profitability and non-interest fee income, customer loyalty and retention, cost-effective use of existing resources, increased customer lifetime value etc.

To Customers: One stop-shop for all financial needs, improved application and policy processing time, ease of renewals, trust in insurance products and services, customized product and expert advice etc.

To Insurance Companies: High market penetration rate, relevant offer generation and customer engagement, increased operational efficiency and reduced costs, high service and product responsiveness, increased premium turnover.

Disadvantages of Bancassurance

- Association and dependence may cause conflict of interest between the partners leading to new operational and performance risk.
- The conflict of interest between bank products and insurance products and their policies could confuse the customers regarding where to make the investment.
- For such synergy to work, it requires intensive planning and monitoring which could a lot to the participating company.
- This requires huge initial investment and trained employees.

COVID-19 Impact on Insurance Sector

Insurance which plays a vital role in managing risks both in micro and macro level has seen lowest penetrations in Bangladesh compared to its regional peers. Surprisingly, Insurance penetration has been declining for the past several years even though the country's Per-capita GDP has been showing a stable growth over a decade now. Insurance penetration in Bangladesh stood at 0.40% in 2020, down from 1.13% in 2010. COVID-19 has impacted the insurance industry in multiple ways—from employee and business continuity issues to client service considerations and outlook.

Due to COVID-19, fire and marine insurance are expected to take the biggest hit. These two components consist of around 75% of non-life insurance companies total premium income (see Figure 3).

Fire Insurance

The biggest source of premium for non-life insurance company is fire insurance, which accounts for 45% of total premium income for non-life insurance companies.

Factories for the RMG sector are the major driver of fire insurance premium. A total of 419 readymade garment (RMG) factories 348 registered with BGMEA and 71 with BKMEA did not reopen since April 26, 2020 even after a month-long closure in line with public holidays. According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), some 268 factories out of 348 were closed temporarily and the rest 80 permanently.

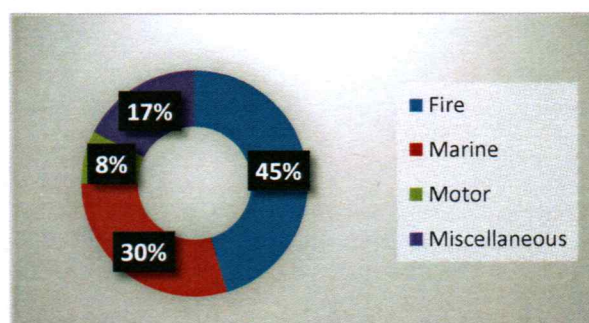
A recent study by Human Rights Watch shows that when orders were cancelled, 72.1% of buyers refused to pay for raw materials already purchased by the supplier, and 91.3% of buyers refused to pay for the "cut-make-trim" cost - or production cost - of the supplier. As a result, 58% of factories surveyed reported having to shut down most or all their operations. This shut down of factories may strangle the fire premium growth rate.

Marine Insurance

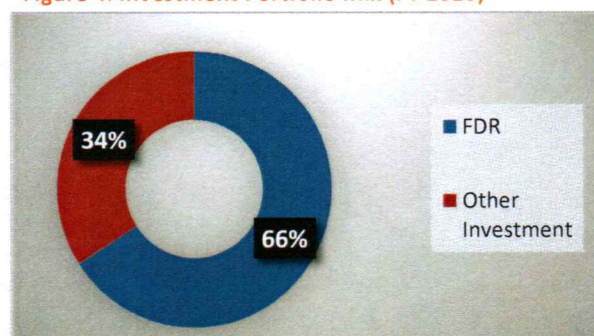
Marine insurance that depends on import cargo accounts for 30% of the non-life insurance's total premium a year. Insurance companies' premium income from marine insurance is expected to go down to a new low if this global pandemic countries and world trade continues to slow down.

Bangladesh import plummeted to deepen economic crisis amid COVID-19 pandemics. Businesses did not open LCs for products, including raw materials of Bangladesh's largest exporting sector readymade garments, capital machinery, and intermediate goods. Plummeting import means lower marine insurance premium for non-life insurance companies.

* Figure 3: Premium Income Segment (FY 2020)



* Figure 4: Investment Portfolio Mix (FY 2020)



Motor and Miscellaneous

Most of the motor vehicles are covered under third party insurance coverage. Since premium charged under third party insurance coverage is insignificant and has a higher rate of renewal, premium from this category will have a less impact. But it is projected that, new motor sales to decline and first party insurance premium to decline too.

Aviation insurance is major contributor of miscellaneous segment. In this COVID-19 situation, the aviation sector may take a few years to turn around. As a result, it can be assumed that the insurance sector will face indirect losses.

Life Insurance Premium

The COVID-19 has hampered the country's economic activity at an unprecedented scale, raising the specter of job losses and salary cuts. The outbreak of the deadly disease could have a widespread impact on the job market of Bangladesh. Most of the organizations would go for cost cutting and remuneration on aggregate to fall. This may include reduced health insurance benefit for employees. This could have negative impact for life insurance companies.

Investment Income

Most of the time insurance company's premium income is eaten away by claim and management expenses. History shows most of the insurance companies have a combined ratio (Direct Management expenses + Claims and Commission to net premium) above 80%. As a result, they rely on investment income for other expenses like provision, tax and indirect management expenses.

FDR consist 34% of total investment and other investment consist 66% of total investment (see Figure 4). The Bangladesh Bank has imposed 9 per cent capping on lending rate in April 2020, which has formally removed from 01 July, 2023. Under the new framework, the lending rate for banks will be determined by incorporating a 3 per cent premium with six-month moving average interest rate (SMART) of 182-day Treasury bill. Therefore, FDR interest rate will also increase which will ultimately increase total investment income in the insurance sector.

Impact on Cost Centers

In 2019, non-life insurers in Bangladesh agreed not to give more than 15% commission to agents. Since these field agents are poorly paid, they now have less motivation to go out in the field and bring new business amid COVID-19 outbreak. So it's expected that agent commission expenses may go down. Some insurance companies may go for salary cut during this COVID-19 pandemic which could result in lower indirect management expenses. Overall, it is expected that benefits of cost savings will be counterbalanced to some extent by higher level of revenue de-growth.

Conclusion

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.

Source: [COVID-19 Impact on Bangladesh Economy by Lankabangla asset management, Potential for growth: Transforming Bangladesh's insurance sector by PWC, Chapter four-Bima published by ministry of finance, insurance year book-2020, etc.]

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 2022, the investment remains risky due to susceptibility to the volatility of the capital market.

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.

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.

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 2022, gross premium of the company has increased to BDT 626.23 million and net premium has decreased to BDT 357.89 million whereas in FY 2021 gross premium was BDT 610.99 million and net premium was BDT 363.85 million. Moreover, TIIL has reported BDT 73.05 million underwriting profit in FY 2022, which has decreased from 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 decrease & stood at 1.37% in FY 2022. Due to decrease of net claim at a higher rate compared to net premium, this ratio has decreased.

Selected Indicators:

(Without considering commission on reinsurance ceded)

| | FYE 31 December | | |
|--------------------|-----------------|-------|-------|
| | 2022 | 2021 | 2020 |
| Loss ratio (%) | 1.37 | 7.42 | 4.31 |
| Expense ratio (%) | 104.95 | 88.91 | 81.52 |
| Combined ratio (%) | 106.32 | 96.33 | 85.84 |

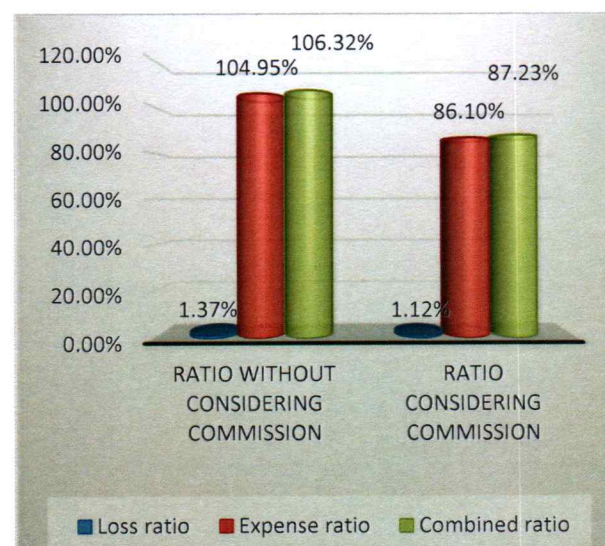
On the other hand, expense ratio of the company has increased to 104.95% in FY 2022 due to increase of actual management expense of the company. Consequently combined ratio of the company has reported 106.32% in FY 2022, which was 96.33% in previous year. This ratio has created negative impact on the overall underwriting performance of the company. However, combined ratio more than 100% indicates an underwriting loss.

Selected Indicators:

(After considering commission on reinsurance ceded)

| | 2022 | 2021 | 2020 |
|--------------------|-------|-------|-------|
| Loss ratio (%) | 1.12 | 6.45 | 3.77 |
| Expense ratio (%) | 86.10 | 77.27 | 71.25 |
| Combined ratio (%) | 87.23 | 83.72 | 75.02 |

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%.



During second quarter ended June 2023, TIIL reported loss, expense & combined ratio (Without considering commission on reinsurance ceded) of 5.52%, 89.92% & 95.44% respectively.

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 278.67 million whereas total actual management expense is BDT 375.62 million in FY 2022. Therefore, TIIL reported excess management expense of BDT 96.95 million in FY 2022. It has been observed that, during FY 2022 excess management expense has decreased by BDT 9.56 million. By analyzing the expense schedule it has been observed that actual management expense is 134.79% of allowable management expense whereas it was 149.09% in FY 2021. On the other hand, actual management expense has increased to BDT 375.62 million in FY 2022 from BDT 323.49 million in FY 2021.

Selected Indicators

| BDT in millions | 2022 | 2021 | 2020 |
|---|--------|--------|--------|
| Actual management expense | 375.62 | 323.49 | 301.34 |
| Allowable management expense | 278.67 | 216.98 | 250.86 |
| Excess management expense | 96.95 | 106.51 | 50.48 |
| Actual mgt. exp. as % of allowable exp. | 134.79 | 149.09 | 120.12 |
| Agency Commission | 85.93 | 31.43 | 77.14 |

According to IDRA, agency commission must be within 15% of its gross premium of all classes of insurance. TIIL incurred BDT 85.93 million agency commission in FY 2022 against the gross premium of BDT 626.23 million. So, the agency commission was 13.72% of the gross premium income which was within the prescribed limit set by the authority.

During second quarter ended June 2023, TIIL has excess management expense of BDT 52.09 million.

Claim Management

Selected Indicators

| BDT in millions | 2022 | 2021 | 2020 |
|-----------------------------------|--------|--------|--------|
| Claim Initiated (BDT in million) | 341.21 | 301.56 | 275.02 |
| Claim Settled (BDT in million) | 93.28 | 23.46 | 41.07 |
| Claim Repudiated (BDT in million) | - | - | - |
| Number of Claim Initiated | 167 | 197 | 145 |
| Number of Claims Settled | 112 | 136 | 99 |
| Number of Claims Repudiated | - | - | - |

During FY 2022, the company has settled 112 claim worth of BDT 93.28 million against 167 initiated claims worth of 341.21 million. Both number of initiated & settled claims has decreased in FY 2022. During FY 2022, TIIL has settled 67.07% of total initiation. Moreover, there was no claim repudiated in FY 2022 which states company's loyalty towards their policy holder and good claim management by the company.

Selected Indicators

| BDT in millions | 2022 | 2021 | 2020 |
|--|-------|-------|-------|
| Claim Outstanding at the beginning of the year | 30.01 | 22.12 | 13.49 |
| Claim Lodged During the year | 4.90 | 26.99 | 15.95 |
| Total claims | 34.91 | 49.11 | 29.43 |
| Claim outstanding at the end of the year | 19.46 | 30.01 | 22.12 |
| Claims paid during the year | 15.45 | 19.10 | 7.31 |
| Claim Paid % of total claim | 44.25 | 38.89 | 24.84 |

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

During second quarter ended June 2023, TIIL has initiated 108 claims & settled 43 claims. Moreover, there was no repudiated claims during the quarter.

Profitability

TIIL earns profit from different sources including interest income, underwriting profit etc. Underwriting profit is one of the main source of income for TIIL comprising 62.44% of total income. However, total underwriting profit has decreased by BDT 11.56 million in FY 2022 compared to previous year. TIIL was able to generate underwriting profit from fire revenue account in FY 2022, which was loss making sector in FY 2021. On the other hand, decline of underwriting profit from marine cargo, motor and loss in miscellaneous 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) is the other significant source of revenue for TIIL comprising 37.07% of total income in FY 2022. It has been observed that investment income has decreased by BDT 20.29 million in FY 2022. During the year, most of the investment income comes from interest income which has decreased to BDT 31.26 million from BDT 34.05 million in FY 2022. Other portion of investment income for the company are dividend income and profit from sale of shares. During this year, profit from sales of shares of TIIL has decreased than that of the last year.

Selected Indicators

| | 2022 | 2021 | 2020 |
|-----------------------|-------|-------|------|
| Net profit Margin (%) | 10.90 | 11.24 | 8.34 |
| Return on assets (%) | 5.49 | 5.51 | 4.29 |
| Return on equity (%) | 8.46 | 8.42 | 6.28 |

In FY 2022, profit after tax of the company has slightly decreased to BDT 68.26 million from BDT 68.65 million in FY 2021. On the other hand, gross premium of TIIL has increased to BDT 626.23 million in FY 2022 from BDT 610.99 million in FY 2021. Increased gross premium against decreased profit after tax has resulted net profit margin to decrease to 10.90% in FY 2022 from 11.24% in 2021.

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 percentage of net income earned as a percentage of shareholders equity. During the year, ROA has slightly declined whereas ROE has slightly increased.

During second quarter ended June 2023, Net profit margin, ROA & ROE of TIIL has reported 5.65%, 1.79% & 2.78% respectively.

Investment Profile

AlphaRating observed that investment activities of TIIL spread over different sectors such as Invest in Govt. Treasury 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 | 2022 | 2021 | 2020 |
|-----------------------------------|--------|--------|--------|
| Investment in Govt. Security Bond | 25.00 | 25.00 | 25.00 |
| Investment in Shares (At Cost) | 128.40 | 115.20 | 79.32 |
| Investment in Subsidiary Company | 49.97 | 49.97 | - |
| FDR Account | 695.25 | 705.55 | 710.60 |

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 decreased & stood at BDT 695.25 million in FY 2022, which represent 1.46% of decrease compared to that of previous year.

Investment in share is another significant area of investment for the company and stood at BDT 128.40 million in FY 2022 at cost price which is higher than the market price.

Selected Indicators

| BDT in millions | 2022 | 2021 | 2020 |
|--|--------|--------|--------|
| Total Investment | 898.62 | 895.72 | 814.92 |
| Investment income as % of total income | 37.08 | 42.90 | 44.69 |
| Yield on investment (%) | 4.83 | 7.11 | 6.68 |

Investment income as a % of total income has decreased in FY 2022. During FY 2022, Investment income of TIIL has decreased to BDT 43.39 million with a fall rate of 31.86% whereas total income has decreased to BDT 117.01 million with a fall rate of 21.16%. These resulted investment income as % of total income to decrease FY 2022. At the same time, yield on investment has decreased to 4.83% in FY 2022 from 6.86% in FY 2021 due to decrease of investment income.

During second quarter ended June 2023, Investment income as % of total income & Yield on investment reported 37.09% & 1.85% respectively.

| Items | Investment in subsidiary company | BSEC approved Shares | Land & building in Municipality area | FDR | Govt. Securities |
|--|----------------------------------|----------------------|--------------------------------------|-----------|------------------|
| Required Rate (in terms of total assets) | 20% (max) | 25% (max) | 20% (max) | 80% (max) | 7.50% (Min) |
| TIIL's Rate | 4.24% | 11.51% | 7.61% | 62.86% | 4.59% |

It is to be noted that, except govt. securities, the company has complied with other investment rules for non-life insurance companies issued on 14.11.2019 which is depicted in the above table for FY 2022.

Liquidity Analysis

Selected Indicators

| | 2022 | 2021 | 2020 |
|--|---------|--------|--------|
| Current ratio (times) | 3.20 | 3.29 | 4.33 |
| Current asset/net claim (times) | 191.47 | 34.75 | 55.83 |
| Current liabilities/total liabilities (%) | 99.68 | 99.72 | 99.43 |
| Cash & bank balance/total assets (%) | 57.58 | 59.27 | 67.23 |
| Operating cash flow/net claim paid out (%) | 1828.01 | 492.97 | 785.41 |
| Operating Cash Flow (BDT in million) | 89.57 | 133.06 | 125.25 |

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 has slightly decreased because current liabilities has increased at a higher rate than current assets. Current asset to net claim ratio has increased during FY 2022 and the ratio stood at 191.47 times. Scrutiny reveals that the net claim has decreased by 81.85% whereas current assets has increased by only 0.02% and this situation has led the current asset to net claim ratio to improve in FY 2022. Current liability to total liability of the company has decreased to 99.68% in FY 2022 from 99.72% in FY 2021 due to increase of deferred tax liability.

Cash & bank balance to total assets has decreased and stood at 57.58% in FY 2022. Further analysis reveals that cash & cash balance has decreased by 3.07% whereas total assets have decreased by 0.23% from that of previous year. Operating cash flow to net claim paid out has increased in FY 2022. Though operating cash flow position of the company has decreased by 32.68% but higher decrease of net claim paid has resulted to decline this ratio.

During second quarter ended June 2023, current ratio has reported 3.46 times & cash flow from operation has reported BDT 60.57 million.

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 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 i.e. Kenya re (30%), Asian Re (10%), Himalayan Re (5%) & RICB (5%). JB Boda & Co (s) PTE Ltd. is acting as their reinsurance brokers.

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

| Business Class\ Year | 2022 | 2021 | 2020 |
|-----------------------|--------|--------|--------|
| Fire | 41.28% | 44.08% | 44.71% |
| Marine (Hull & Cargo) | 76.48% | 83.35% | 81.38% |
| Motor | 87.45% | 86.89% | 96.57% |
| Misc. | 39.33% | 8.46% | 14.03% |
| Total (Average) | 57.15% | 59.55% | 64.17% |

During 2022, total sum insured was BDT 244.17 billion whereas it was BDT 205.30 million in FY 2021. 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 years under consideration.

During second quarter ended June 2023, risk retention rate reported 63.46%

Solvency Analysis

Selected indicators

| BDT in millions | 2022 | 2021 | 2020 |
|-------------------------|--------|--------|--------|
| Available Solvency (AS) | 467.18 | 525.02 | 518.78 |
| Required Solvency (RS) | 147.32 | 155.49 | 151.37 |
| AS/RS (times) | 3.17 | 3.38 | 3.43 |

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 need 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. Solvency ratio of the company is declining over the years under consideration and reported 3.17 times in FY 2022. It has observed that, available solvency has decreased at higher rate compared to required solvency and for which solvency ratio has declined and stood at 3.17 times in FY 2022.

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 2022 the reserve has increased to BDT 328.34 million, which has increased by 5.76% from that of previous year. However, the reserve represents 91.74% of net premium.

Reserve for exceptional losses represent 67.01 times of net claim in 2022, which was 11.50 times in 2021, suggesting the company's unexpected events absorbing capability has increased from that of previous year.

During second quarter ended June 2023, exceptional loss represents 143.48% of net premium and 25.99 times of net claim.

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 since FY 2018. Paid-up capital of the company has stood at BDT 425.87 million at the end of FY 2022.

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 12% cash dividend in FY 2022 (11% 2021, 10% 2020, 10% 2019, 5% 2018, 5% 2017, 5% 2016 and 5% 2015)

Bank Facilities & Credit History

Exhibit: Bank Exposure:

| Bank | Mode of facility | Limit (BDT in millions) | Outstanding* (BDT in millions) | As on |
|----------------------------|------------------|----------------------------|-----------------------------------|------------|
| Islami Bank Bangladesh PLC | Quard | 156.02 | 11.43 | 30.06.2023 |
| Total | | 156.02 | 11.43 | |

* As per management information

TIIL has been availing external finance from Islami Bank Bangladesh PLC, Head Office Complex Branch, Dhaka, Badda Branch, Dhaka, bangshal Branch, Dhaka, Chapainawabganj Branch, Chapainawabganj, Chawk Mogaltuly Branch, Dhaka, Dholaikhal Branch, Dhaka, Elephant Road Branch, Dhaka, Farmgate Branch, Dhaka, Fatulla Branch, Narayanganj, Foreign Exchange Corporate Branch, Dhaka, Gandaria branch, Dhaka, Gulshan Circle-1 Branch, Dhaka, Ramna Corporate Branch, Dhaka, Setabganj branch, Dinajpur, Patgram SME/Krishi Branch, Lalmonirhat, Paltan branch, Dhaka, New Market Branch, Dhaka, Mouchak branch, Dhaka. AlphaRating considered the above bank's facilities only while assigning the rating.

Management & Other Qualitative Factors

Composition of the Board

TIIL's board is comprised of 20 directors including 11 sponsor directors, 05 public shareholder directors and 04 independent directors. The board is chaired by Mrs. Tahmina Afroz. 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. During 2022, 08 meetings were held by the Board.

Board Committees

Executive Committee

Executive Committee is comprised of 07 members of the Board of Directors and chaired by Mr. Md. Humayun Kabir Patwary. The committee is responsible for monitoring and analyzing business, income, expenditure activities of the company and report to the Board. During 2022, 12 meetings were held by the committee.

Claims Committee

Claim Committee is comprised of 05 members of the Board of Directors and chaired by Mr. Khorshed Alam Khan. The committee is responsible for monitoring and analyzing all sorts of claims activities of the company and report to the Board. During 2022, 07 meetings were held by the committee.

Audit Committee

Audit committee consists of 04 members of the Board of Directors and the committee is chaired by Mr. Md. Mahedi Hasan, 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 3rd June, 2018. During 2022, 04 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. Azizul Hossain. 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 2022, 02 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 2022, 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.

End of the Report

Company Information

Board of Director

| | |
|--|-------------------------------|
| Mrs. Tahmina Afroz | Chairman |
| Mr. Emdadul Haque Chowdhury (Emdad) | Vice Chairman |
| Mr. Md. Humayun Kabir Patwary | Sponsor Shareholder Director |
| Mr. Md. Abul Hashem | Sponsor Shareholder Director |
| Mrs. Tanzin Zaman | Sponsor Shareholder Director |
| Mr. Abul Hashem | Sponsor Shareholder Director |
| Mr. Md. Iqbal Hossain (Rep. of Eastern Diagnostic H & OPMS) | Sponsor Shareholder Director |
| Mr. Md. Moshir Rahman Chakrabarti | Sponsor Shareholder Director |
| Mrs. Shahanaz Parvin | Sponsor Shareholder Director |
| Mr. Redwan Kabir | Sponsor Shareholder Director |
| Mr. Md. Riazul Haider (Rep. of Hazi Shakhawat Anwara Eye Hospital) | Sponsor Shareholder Director |
| Mr. Md. Saiful Islam (Rep. of Modern Diagnostic Center Ltd.) | Public Shareholder Director |
| Mr. Md. Jahirul Islam | Public Shareholder Director |
| Mr. Md. Zia Uddin Podhar | Public Shareholder Director |
| Mr. Mahmud Ali Khan (Rep. of Daffodils Sign Media) | Public Shareholder Director |
| Mr. Khorshed Alam Khan | Public Shareholder Director |
| Mr. Md. Mahedi Hasan | Independent Director |
| Mr. Md. Azizul Hossain | Independent Director |
| Mr. A.B.M Kaikobad | Independent Director |
| Mr. Md. Jahirul Islam | Independent Director |
| Mr. Abul Kalam Azad | Chief Executive Officer (C.O) |

Shareholders

| Category of Shareholders | % of total Shares |
|--------------------------|-------------------|
| Sponsor/Director | 48.46 |
| Institute | 19.63 |
| Foreign | 0.06 |
| Public | 31.85 |
| Total | 100.00 |

*As per DSE & CSE dated 31st July, 2023

Auditor

Zoha Zaman Kabir Rashid & Co.

Chartered Accountants

The Savil, Level 7 & 8, Plot 6B Block CWS, Dhaka-1212

Head Office

Takaful Islami Insurance LimitedMonir Tower (7th, 8th & 9th Floor), 167/1, D.I.T. Extension Road, Motijheel (Fakirapool), Dhaka

Contact Number: 88-02-41070071-3 (PABX)

Fax: 88-02-41070083,

E-mail: takaful@dhaka.net,Web Address: www.takaful.com.bd

AlphaRating's Research Methodology for Determining Insurance Rating

