

Public Comments & Suggestions on Pak-Qatar Family Takaful Limited Draft Prospectus

1. Explain the “Cede Money” and Qard-e-Hasan Structure Clearly:

The prospectus refers to a PKR 50 million cede money transfer and potential Qard-e-Hasan support to the PTF. A dedicated section should outline:

- When Qard-e-Hasan will be triggered
- Treatment and repayment terms for both Qard-e-Hasan and cede money
- Possible impact on shareholder returns if substantial support to PTF is required

CTI Response:

If the admissible assets in the PTF are insufficient to cover liabilities, shareholders will be required to provide Qard-e-Hasan (interest free loan) to the PTF from the current shareholders’ fund balance, as per the requirements of Takaful Rules, 2012. (Ref: 5.1.1 of the prospectus)

The Qard-e-Hasna is paid back to the Shareholders’ Fund upon the sustainable financial position of the PTF fund. The Cede Money usually refers to as the initial donation to the fund which is irrevocable and currently stands as Rs. 5.5 million, most recent being Rs. 5.0 million to Life Time Kafalat (LTKP) PTF Sub-Fund.

The Additional PKR 50 million referred is intended to be contributed in the form of capital-contribution (recoverable) to support the promising Life Time Kafalat Fund (LTKP). This contribution is not triggered by any asset-liability mismatch, but rather a strategic move to ensure self-resilience of LTKP sub-fund. The life time kafalat product features guaranteed, Shariah Compliant monthly income for life for the covered member, as well as the spousal/nominee income in case of the covered member’s death, mirroring the annuity-based products. This intended capital-contribution support alongside strong inflow of takaful contributions would help generate sufficient investment income, enabling self-sufficiency at time of maturity of takaful benefits. The Company expects the amount intended to be contributed, as discussed, shall be paid back within a short period of time.

Though arithmetically the shareholders’ fund would not be able to earn any profit upon the above-mentioned capital contribution, however, the SHF shall surely be benefitted with the recurring and increased Investment Management Fee, which shall be generated from growing LTKP Fund, given the need of Pensions in the prevalent changed strategy from Defined Benefit to Defined Contribution form Pensions and as well as the innovative product launched for the first time in Pakistan. It must be noted that the solvency position of the Company, however, clearly indicates that no capital contributions shall be required, rather the cash flow projections under **6.11.3 of the Prospectus**, provide for its repayment starting from CY2027.

The support to the LTKP fund as discussed above is not for the reasons of solvency challenges as it falls under the Individual Life Statutory Fund which has sufficient solvency cover.

The discussed period of non-earning by the shareholders’ fund should not be taken as a cost, in fact an opportunity from the eyes of the management, supporting the respective participant takaful sub fund, having the potential to contribute positively in the Shareholders’ net equity.

2. Address BancaTakaful Concentration Exposure

Despite only 5% contribution from BancaTakaful in 2024, partnerships with 14 banks create reliance risk. The prospectus should discuss the financial impact of losing key bank partners, supported by sensitivity analysis.

CTI Response:

While BancaTakaful channels contributed approximately 5% of total premiums in 2024, the Issuer maintains well-established and diversified partnerships across 14 banks. Given the limited revenue contribution and the strength and stability of these relationships, the potential impact of losing any single banking partner is considered immaterial and adequately mitigated.

3. Provide a Breakdown of Marketing and Hiring Spend

Around 47.50% of IPO proceeds are allocated to marketing and hiring. A detailed split is needed, including:

- Planned roles and productivity expectations for new hires
- Marketing KPIs such as customer acquisition cost, lead conversion, and business growth targets

CTI Response:

As disclosed in the prospectus, approximately PKR 332.7 million (47.5% of IPO proceeds) is allocated toward marketing (PKR 122.1 million; 17.4%) and hiring (PKR 210.6 million; 30.1%) initiatives. The hiring budget primarily supports expansion of sales capacity through approximately 331 new hires (41 digital sales and 290 additional field sales team members) over the next five years. The average annual cost per hire is estimated at PKR 7.3 million for digital sales and PKR 34.8 million for field sales, with recruitment costs averaging PKR 4.6 million and PKR 3.0 million, respectively. These hires are intended to strengthen nationwide distribution, enhance digital reach, and drive premium growth. Marketing spends, focused on digital campaigns (Approx. 322 million impressions) and integrated marketing (Approx. 243,000 leads) is designed to improve brand visibility and customer acquisition. These forward-looking initiatives are reasonably budgeted and proportionate to PQFTL's growth objectives.

4. Balance the Valuation Narrative

Section 4(A) highlights strengths but lacks balance. Key challenges should be acknowledged, such as:

- Heavy reliance on one flagship product
- Increasing competitive pressure in the Takaful market
- Execution risk in digital transformation initiatives

CTI Response:

Section 4(A) appropriately emphasizes Pak-Qatar Family Takaful's (PQFTL) market leadership, growth trajectory, and financial strength. Nonetheless, the prospectus already acknowledges potential risks

and mitigants in relevant sections, including product concentration, competitive dynamics, and digital transformation execution. While PQFTL’s flagship savings and protection plans represent a key revenue driver, the company continues to diversify its product mix through new offerings such as the PQ Islamic Pension Fund. Competitive pressures are mitigated through its established 44% share of the family takaful segment and sustained growth in direct and BancaTakaful channels. Further, execution risk on digital initiatives is managed through phased deployment, integration of Microsoft Dynamics 365 CRM, and strong governance oversight. Overall, these factors collectively demonstrate that PQFTL’s strategic risks are recognized and well-managed within the company’s business model.

5. Include a Dividend Policy

A forward-looking dividend framework would assist investors in assessing expected returns. A policy outlining a target payout range (for example, 30% to 50% of net profit) would add transparency.

CTI Response:

The Company has already provided a forward-looking, non-binding dividend payout framework in 6.13 of the prospectus, outlining an expected payout ratio of approximately **78%–80%** over FY25–FY30, subject to profitability, cash availability, and capital requirements. This disclosure serves the same purpose as a target payout range by giving investors visibility on the Company’s dividend outlook and return expectations.

6. Add a Quick Risk Snapshot

The risk section is comprehensive but lengthy. An upfront summary table listing major risks (for example, sales tax litigation, underwriting exposure, capital requirements) and their potential financial implications will help retail investors navigate key concerns more efficiently

CTI Response:

Section 5 of the prospectus follows a pre-defined format as set under Schedule 1 of PO regulations 2017. However, for your convenience we have attached a table below highlighting PQFTL’s key internal and external risk factors, along with their potential financial implications:

Category	Risk Description	Potential Financial Implications
Underwriting Risk	Inaccurate pricing assumptions (mortality, inflation, claims frequency) could lead to losses within Participants’ Takaful Fund (PTF).	Potential shortfall in PTF may require Qard-e-Hasan support from Shareholders’ Fund , impacting profitability.
Operational Risk	Exposure to human error, IT/system disruption, model inaccuracies, and low policy persistency.	May result in higher claims ratio, customer attrition, and regulatory penalties.
Fraudulent Claims Risk	False or exaggerated claims by policyholders.	Direct financial losses, higher legal costs, and weakened actuarial assumptions.

Liquidity Risk	Mismatch between asset liquidity and claims obligations.	Inability to settle claims on time; financial liabilities due within 1 year amount to PKR 2.2 Bn (CY24).
Credit Risk	Counterparty default on investments, re-takaful or policyholder contributions.	Loss of income / capital erosion on PKR 53.8 Bn investment portfolio; exposure to re-takaful default.
Capital Adequacy Risk	Revised SECP capital requirements (PKR 3.0 Bn by 2030).	Capital shortfall could impact authorization to conduct takaful operations.
Cash Flow Risk	Negative operating cash flow observed in CY23 (PKR -24 Mn).	May constrain internal liquidity and dependence on shareholder support.
Tax & Legal Exposure	Provincial Sales Tax litigation (aggregate exposure PKR 949.4 Mn) and other legal cases (~PKR 81 Mn excluding tax).	Adverse court ruling could materially affect profitability and reserves.
Market Risk	Exposure to changes in market yields, equity performance and volatility.	Mark-to-market losses on investment portfolio affecting returns and solvency.
Regulatory / Shariah Compliance Risk	Non-compliance with SECP, PSX, or Shariah rules.	Potential withdrawal of authorization, trading suspension or reputational damage.