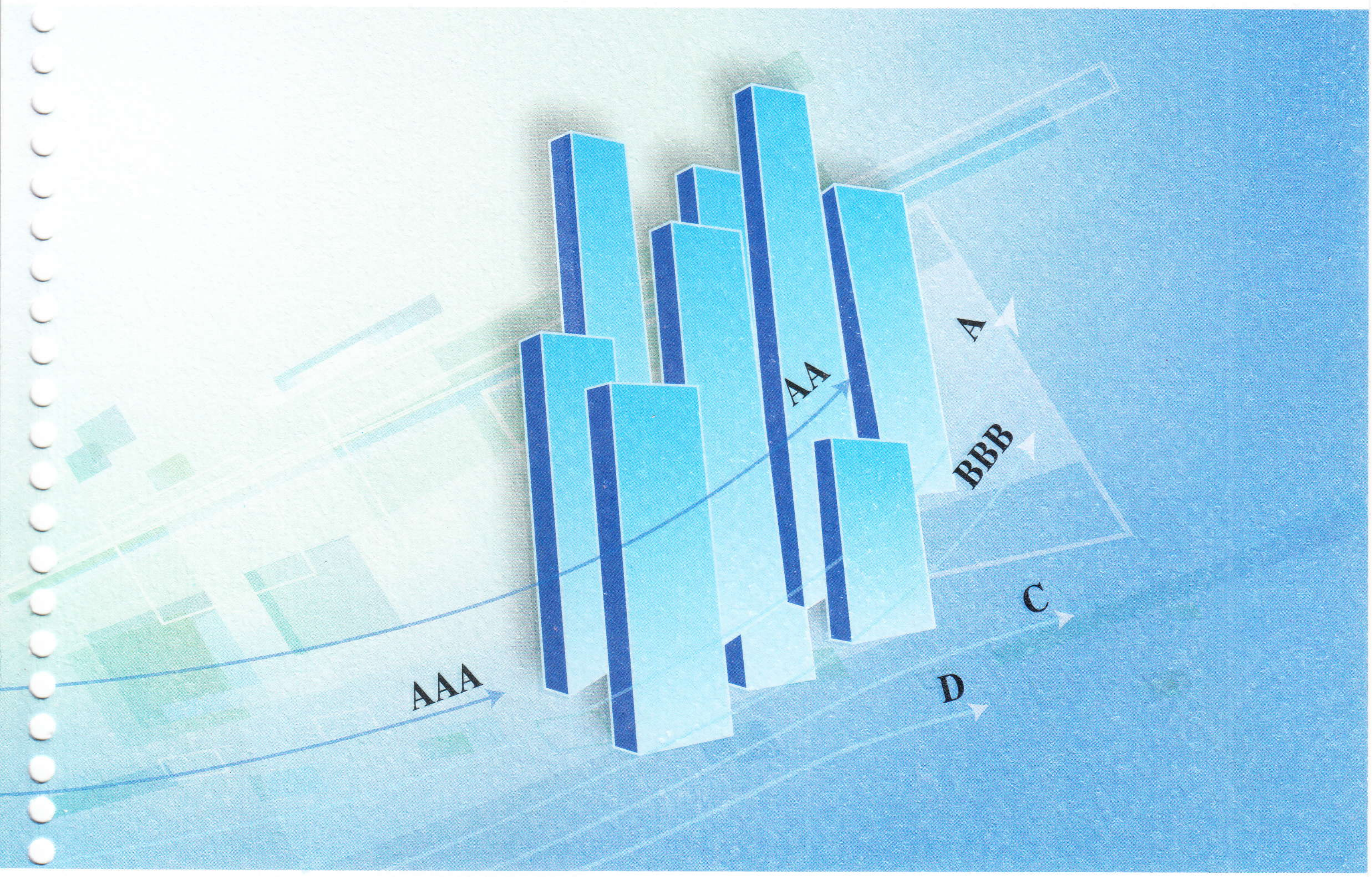
AlphaRating

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)

12 September, 2022

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 from	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
12 September, 2022	07 September, 2022	06 September, 2023	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,

Muhammed Asadullah
Managing Director & CEO

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

AlphaRating

Takaful Islami Insurance Limited | **AA** *Long Term Rating* | **ST-2** *Short Term Rating* | **Stable** *Outlook*

Rating Type *Surveillance* | **Date of Declaration** *12 September, 2022* | **Valid from** *07 September, 2022*

Valid Till *06 September, 2023*

Business Risk	Liquidity	Profitability	Solvency Score	Capital Adequacy	Sector
Medium	Good	Good	Good	Adequate	Non-life

Previous Rating

Long Term Rating: ***AA***
Short Term Rating: ***ST- 2***
Outlook: ***Stable***
Date of Declaration: ***07 September, 2021***
Valid Till: ***06 September, 2022***

Contact Analysts

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Contents

Date of Incorporation:
21 December, 1999

Registered with the Department of Insurance: *21 May, 2001*

DSE Listing:
03 November, 2008

Board Chairman:
Mrs. Tahmina Afroz

Chief Executive Officer:
Qazi Mukarram Dastagir

Total Asset:
BDT 1,246.65 million (As on 30th June, 2021)

Authorized Capital:
BDT 1,000.00 million

Paid up Capital:
BDT 425.87 million

Rationale

AlphaRating 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 2018 to FY 2021 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, along with claim settlement period within only 30 days, agency commission within 15%, improve in underwriting profit & total income, less than 100% combined ratio, improvement in Net profit margin, ROA & ROE, adequate reserve for un-expired risk, sufficient solvency, increased investment income along with total investment, adequate paid up capital amidst strong capital base, increased yield on investment, 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, decreased net premium, underwriting loss from fire & miscellaneous insurance revenue account, increased 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.

31st December	2021	2020	2019	2018
Combine ratio (%)	97.70	87.48	111.37	117.53
ROA (%)	9.93	8.97	8.55	6.96
Net profit (%)	18.87	12.99	18.54	21.02
ROE (%)	8.42	6.28	6.29	6.62
Current ratio(x)	3.29	4.33	3.95	3.36
Solvency ratio(x)	8.55	8.84	9.88	11.24
Gross premium (BDT in million)	610.99	576.08	494.85	428.28
Net premium (BDT in million)	363.85	369.65	248.97	215.29
Net claim (BDT in million)	26.99	15.95	19.88	11.48
Excess mgt. exp. (BDT in million)	111.51	56.56	39.66	53.26
Operating cash flow (BDT in million)	133.06	125.25	75.73	71.96
Investment (BDT in million)	928.26	858.76	828.71	810.80
Yield on investment (%)	6.86	6.34	6.77	5.93

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

Muhammed Asadullah
Managing Director & CFO
Alpha Credit Rating Limited

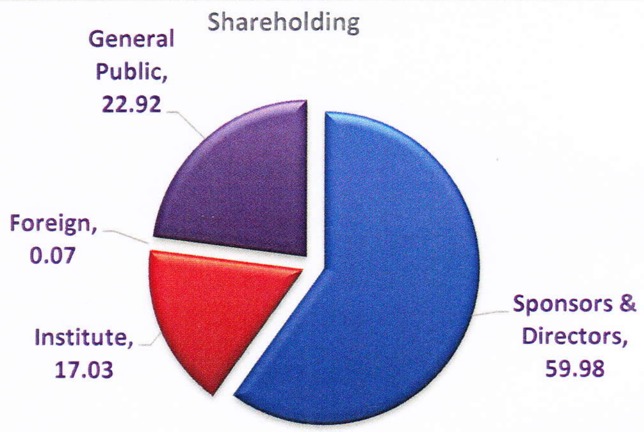
Company Profile

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 50 branches covering major financial centers of Dhaka, Chattogram, Rajshahi and Khulna.

TIIL is active member of capital market having BDT 2,274.145 million market capitalization on 07 September, 2022. 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 management information dated: 3rd August, 2022 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:

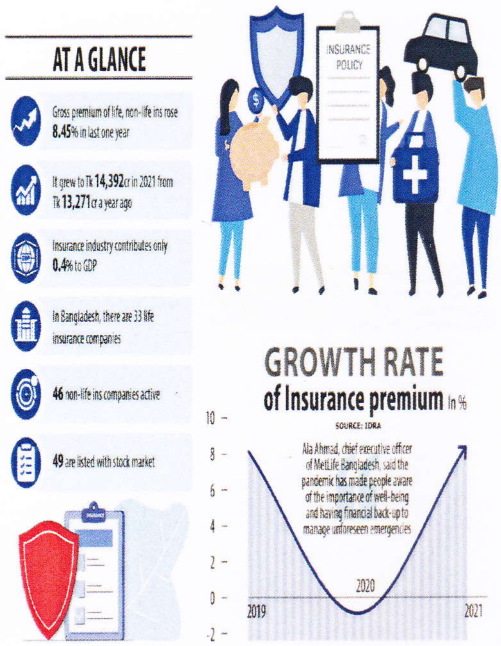
1. Erection All Risks Insurance
2. Contractor All Risks Insurance
3. Boiler & Pressure Vessel Insurance
4. Deterioration of Stock Insurance
5. Machinery Breakdown Insurance
6. Electronic Equipment Insurance

Industry Overview

The role of insurance in managing risks in an economy cannot be overstated. At a micro level, insurance safeguards households and companies from a myriad of risks. From a macro perspective, it reduces the financial burden on a government and creates a stable environment in which businesses can thrive and succeed. While Bangladesh has taken gigantic strides on the path to economic prosperity, its insurance sector is a vital area that requires considerable attention and can benefit significantly from regulatory reforms.

Snapshot of Bangladesh's insurance industry

Currently, Bangladesh's insurance sector comprises 46 non-life insurance companies and 33 life insurance companies. In addition, there are two state-owned insurance corporations-one in the non-life segment and the other in the life segment.



As per the provisions enunciated in the Motor Vehicles Ordinance, 1983 (hereinafter referred to as the MVO, 1983) taking a motor vehicle insurance was mandatory for the owners of motor vehicles except for the ones owned by the government. The newly enacted Road Transport Act, 2018 has made Act Liability Insurance (Third Party Motor Insurance) optional to the owners to take such insurance and instructed Police authority to curb practice for verifying obligatory insurance certificate and as such no penal action.

Insurance Development and Regulatory Authority (IDRA) has also cancelled the product "Third Party Motor Insurance". Now the owners of motor vehicles are to take only "Comprehensive Motor Insurance Policy" for compensation of loss or damages of vehicle as well as passengers. Now Police Authority is not checking motor insurance certificate and the owners of vehicle are reluctant to take comprehensive motor insurance policy. This situation has badly affected the motor insurance premium income.

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.

Life insurance penetration (insurance premiums as a share of GDP) in Bangladesh was 0.30% in 2020, while the average for emerging countries was 2.30% as per Swiss Re, a leading global re-insurer. In case of non-life insurance, it was 0.10% in Bangladesh, whereas 1.70% for emerging nations. In the year, overall insurance penetration was 0.40%, which was 0.50% in 2019 and 0.57% the year before. Bangladesh's insurance penetration mostly been on a downward trend as well as falls behind that of several other developing countries. Bangladesh's insurance sector is currently unable to keep pace with emerging markets around the globe. To bring this to perspective, total inflation adjusted premium growth was -9.10% in Bangladesh in 2020. However, this was 3.30% in emerging countries.

Need for key insurance products in Bangladesh

Agricultural sector

The sector accounts for more than a third of all employment in Bangladesh and is an integral part of the country's economy. Bangladesh suffers from agricultural production 'shocks' every five years, leading to a drop of up to 50% in crop income for rural households. This is one of the leading causes of poverty among many small- and medium-scale farmers. Moreover, there are very few providers of agricultural insurance products. Dedicated efforts to increase the penetration of different insurance products by private and state-owned companies, facilitated by conducive regulations, can help farmers transfer some of these risks and reduce their extreme income volatility.

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 2.48% of its GDP (as per The World Bank)—the lowest in South Asia. 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

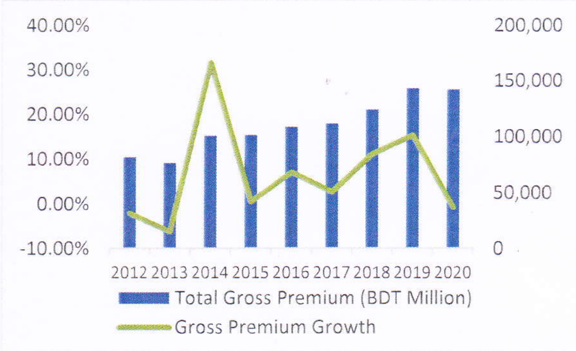
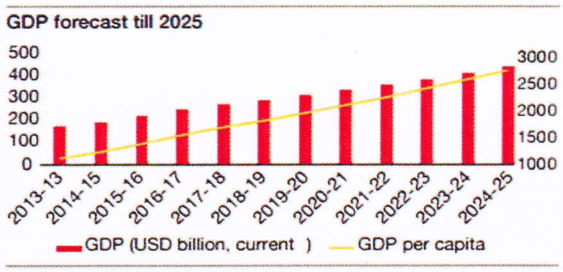
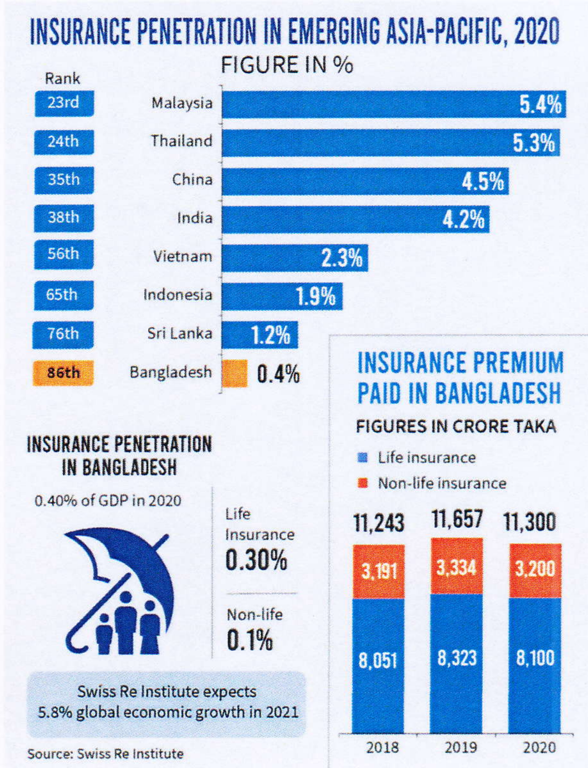


Figure 2: Bangladesh's economy has seen steady growth



Source: PwC analysis



Favorable indicators for insurance sector development

Bangladesh sustained an annual GDP growth rate of 3.51% in 2020. 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.

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.

Bancassurance opportunity

Bancassurance (a partnership between an insurance company and a bank where the bank sells insurance products) presents specific growth opportunities in Bangladesh's insurance sector and can result in mutual benefits for banks, insurers, customers and regulators. Banks usually have the preexisting technological and human resources to provide the best customer services.

Thus, it is likely to be more convenient for customers to, for instance, pay premiums and repay cash loans backed by life insurance policies from their banks' ATMs. Customers could also benefit from more customized product suites, including overdraft insurance, depositors' insurance and loan-bundled insurance. Further, decreased costs of insurance for insurers are likely to lower premium rates, making insurance more accessible to customers. Insurers may develop new financial products in collaboration with their bank partners. In Bangladesh, it has been found that customers tend to trust banks more than they trust insurance agents.

On the regulatory side, financial institutions that diversify their product range may reduce systematic risk. In addition, insurers can access the various distribution channels of banks and widen their market reach without having to create a network of agents from scratch. Partnerships with banks could also boost insurers' solvency levels. Selling a range of financial services to customers can be in the best interests of banks since diversification into insurance products would give them a stable source of income. Banks can also reduce their risk-based capital needs for the same level of revenue. Another added benefit is that bundled insurance can help minimize the impact of non-performing assets (NPAs). As such, bancassurance can prove to be one of the fastest ways to raise Bangladesh's insurance penetration rate.

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)

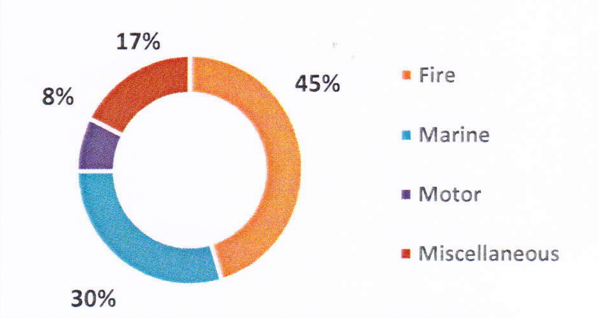
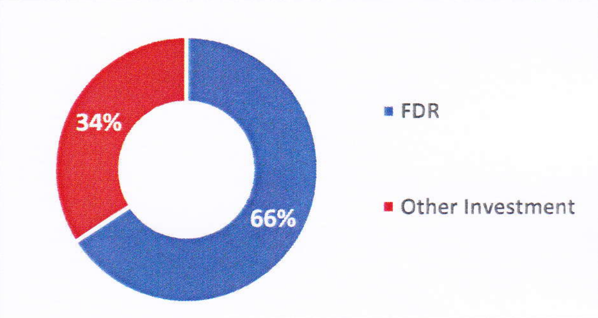


*Figure 4: Investment Portfolio Mix (FY 2020)



* Year book 2020's data is used here because of the non-availability of latest year book

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 county'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). Govt. has intended to keep lending interest rate as maximum as 9% therefore FDR interest rate will also decline which will ultimately reduce 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 The daily Star- Mar 4, 2022]

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 2021, 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.

The Chief Executive Officer (CEO) has obtained his M.S.S in Economics from Dhaka University in 1982. He also obtained L.L.B. from the same university in 1985. He passed intermediate level of ICMA course. He has more than 35 years of experience in the insurance industry.

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 2021 the company decreased investment with the banks which has also been indicated by 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 2021, gross premium of the company has increased to BDT 610.99 million and net premium has increased to BDT 363.85 million whereas in FY 2020 gross premium was BDT 576.08 million and net premium was BDT 369.65 million. This shows that the company has collected higher gross premium & lower net premium than that of 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 7.42% in FY 2021. Analysis revealed that, the ratio was negatively impacted by decreased net premium compared to that of last year.

Selected Indicators:
(Without considering commission on reinsurance ceded)

FYE 31 December

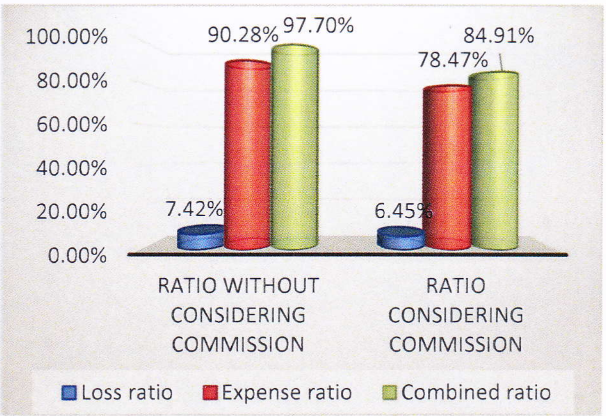
	2021	2020	2019	2018
Loss ratio (%)	7.42	4.31	7.99	5.33
Expense ratio (%)	90.28	78.73	103.38	112.20
Combined ratio (%)	97.70	83.04	111.37	117.53

Moreover, expense ratio of the company has also deteriorated by 11.55 percentile points in FY 2021 due to the same effect of decreasing net premium. Consequently combined ratio of the company has deteriorated to 97.70% in FY 2021 compared to previous year. This ratio has created negative impact on the overall underwriting performance of the company. However, combined ratio less than 100% indicates an underwriting profit.

Selected Indicators:
(After considering commission on reinsurance ceded)

	2021	2020	2019	2018
Loss ratio (%)	6.45	3.77	6.04	4.08
Expense ratio (%)	78.47	68.81	78.24	85.80
Combined ratio (%)	84.91	72.58	84.28	89.88

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



During the first six months of 2022, the loss, expense & combined ratio stood at 4.67%, 113.36% & 118.04% 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 216.98 million whereas total actual management expense is BDT 328.49 million in FY 2021. It has been observed that, during FY 2021 the gap between actual & allowable management expense has been increased to BDT 111.51 million whereas in FY 2020 the gap was BDT 56.56 million. By analyzing the expense schedule it has been observed that actual management expense is 151.39% of allowable management expense whereas it was 122.55% in FY 2020. On the other hand, actual management expense has increased to BDT 328.49 million in FY 2021 from BDT 307.41 million in FY 2020.

Selected Indicators

BDT in millions	2021	2020	2019	2018
Actual management expense	328.49	307.41	257.39	241.57
Allowable management expense	216.98	250.86	217.73	188.31
Excess management expense	111.51	56.56	39.66	53.26
Actual mgt. exp. as % of allowable exp.	151.39	122.55	118.21	128.28
Agency Commission	31.43	77.14	62.73	54.21

According to IDRA, agency commission must be within 15% of its gross premium of all classes of insurance. TIIL incurred BDT 31.42 million agency commission in 2021 against the gross premium of BDT 610.99 million. So, the agency commission was 5.14% of the gross premium income which was within the prescribed limit set by the authority.

During the first six months of 2022, the actual management expense has exceed the allowable management expense by BDT 56.85 million.

Claim Management

Selected Indicators

BDT in millions	2021	2020	2019	2018
Claim Initiated (BDT in million)	301.56	275.02	144.51	144.50
Claim Settled (BDT in million)	23.46	41.07	54.29	35.06
Claim Repudiated (BDT in million)	-	-	-	-
Number of Claim Initiated	197	145	175	211
Number of Claims Settled	136	99	124	141
Number of Claims Repudiated	-	-	-	-

During FY 2021, the company settled 136 claim worth of BDT 23.46 million against 197 initiated claims worth of 301.56 million. The number of initiated claims as well as the number of settled claims has increased in FY 2021, which is 69.04% of total initiation. Moreover, there was no claim repudiated in FY 2021 which states company's loyalty towards their policy holder and good claim management by the company.

Selected Indicators

BDT in millions	2021	2020	2019	2018
Claim Outstanding at the beginning of the year	22.12	13.49	13.50	17.79
Claim Lodged During the year	26.99	15.95	19.88	11.48
Total claims	49.11	29.43	33.38	29.27
Claim outstanding at the end of the year	30.01	22.12	13.49	13.50
Claims paid during the year	19.10	7.31	19.89	15.77
Claim Paid % of total claim	38.89	24.84	59.60	53.89

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 including motor, marine, fire & MISC, which is within the regulatory requirement of 90 days and this can bring positive campaign for the company.

During the first six months of 2022, TIIL has initiated & settled 112 & 42 number of claims. And they don't have any repudiated claims during this period.

Profitability

Profitability position of the company has increased 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 57.01% of total income. However, total underwriting profit has increased by only BDT 17.22 million in FY 2021 compared to previous year. TIIL was able to generate higher underwriting profit from marine cargo revenue account as well as from marine hull revenue account which was loss making sector in FY 2020. On the other hand, loss in miscellaneous and fire 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 42.99% of total income in FY 2021. It has been observed that investment income has increased by BDT 9.31 million in FY 2021. During the year, most of the investment income comes from interest income which decreased to BDT 34.05 million from BDT 42.03 million in FY 2021. Other portion of investment income for the company are dividend income and profit from sale of shares. During this year, both Dividend income & profit from sales of shares of TIIL has increased than that of the last year.

Selected Indicators

	2021	2020	2019	2018
Net profit (%)	18.87	12.99	18.54	21.02
Return on assets (%)	9.93	8.97	8.55	6.96
Return on equity (%)	8.42	6.28	6.29	6.62

In FY 2021, profit after tax of the company has increased to BDT 68.65 million from BDT 48.02 million in FY 2020. On the other hand, net premium of TIIL has decreased to BDT 363.85 million from BDT 369.65 million in FY 2020. Decreased net premium against increased profit after tax has resulted net profit to improve by 5.88 percentile point in FY 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, both ROA and ROE has increased due to higher increase in profitability compare to the increase in asset & equity base of the company.

During the first six months of 2022, Net profit margin, ROA & ROE of RICL has reached to 45.54%, 2.92% & 9.75% respectively.

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	2021	2020	2019	2018
Investment in Govt. Security Bond	25.00	25.00	25.00	25.00
Investment in Shares	115.89	83.06	126.69	179.93
Investment in Subsidiary Company	49.97	-	-	-
STD Account	31.84	40.08	17.91	42.02
FDR Account	705.55	710.60	659.10	563.85

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 decreased in FY 2021 & stood at BDT 705.55 million in FY 2021, which represent 0.71% of increase compared to that of previous year. On the other hand investment in STD account has also declined in FY 2021 by 20.56%. 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 1,246.65 million in FY 2021.

Investment in share is another significant area of investment for the company which has been showing decreasing trend as well and stood at BDT 115.89 million in FY 2021 at market price which is higher than the cost price.

Selected Indicators

BDT in millions	2021	2020	2019	2018
Total Investment	928.26	858.75	828.71	810.80
Investment income as % of total income	42.90	44.69	46.53	48.42
Yield on investment (%)	6.86	6.34	6.77	5.93

Investment income as a % of total income has decreased in FY 2021. During FY 2021, Investment income of TIIL has decreased to BDT 63.68 million with a fall rate of 14.46% whereas total income has increased to BDT 148.42 million with a growth rate of 21.77%. These resulted investment income as % of total income to decrease FY 2021. At the same time, yield on investment has increased to 6.86% in FY 2021 from 6.34% in FY 2020 due to higher investment income.

During the first six months of 2022, total investment has increased to BDT 941.10 million. And Investment income as % of total income & Yield on investment reached to 52.07% & 2.86% respectively.

Items	Investment in subsidiary company	BSEC approved Shares (Total)	Land & building in Municipality area	FDR (Total)	Fixed deposit in FI
Required Rate (in terms of total assets)	20% (max)	25% (max)	20% (max)	80% (max)	10% (max)
TIIL's Rate	7.79%	9.76%	7.89%	58.46%	3.98%

It is to be noted that, the company has complied with investment rules for non-life insurance companies issued on 14.11.2019 which is depicted in the above table for FY 2021.

Liquidity Analysis

Selected Indicators

	2021	2020	2019	2018
Current ratio (times)	3.29	4.33	3.95	3.36
Current asset/net claim (times)	34.75	55.83	44.52	67.62
Current liabilities/total liabilities (%)	99.72	99.43	100.00	100.00
Cash & bank balance/total assets (%)	59.27	67.23	64.91	61.19
Operating cash flow/net claim paid out (%)	492.97	785.41	380.92	626.73
Operating Cash Flow (BDT in million)	133.06	125.25	75.73	71.96

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 decreased because current liabilities has increased at a higher rate than the growth rate of current assets. Current asset to net claim ratio has decreased during FY 2021 and the ratio stood at 34.75 times. Scrutiny reveals that the net claim has increased by 69.26% whereas current assets has increased by only 5.37% and this situation has led the current asset to net claim ratio to deteriorate in FY 2021. Current liability to total liability of the company increased to 99.72% from 99.43% because of deferred tax liability.

Cash & bank balance to total assets has decreased and stood at 59.27% in FY 2021. Further analysis reveals that cash & cash balance has decreased by 1.80% whereas total assets have increased by 11.39% from that of previous year. Operating cash flow to net claim paid out has decreased because operating cash flow position of the company has been increased by only 6.24% whereas net claim paid has increased by 69.26% compared to that of previous year.

During June 2022, current ratio & cash flow from operation has decreased to 3.13 times & BDT 35.28 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 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 oversees reinsurers (Kenya re 35%, Asian Re 10% & RICB 5%). JB boda & Co (s) PTE LTD is acting as their reinsurance brokers.

Reinsurance retention limit with oversees reinsurers for last three years is presented below:

Selected Indicators

BDT in millions	2021	2020	2019	2018
Fire	10.00	8.00	8.00	7.50
Marine Cargo	4.50	3.87	3.75	3.37
Marine Hull	3.00	3.00	3.00	3.00
Miscellaneous	4.50	4.50	4.50	4.50
Engineering	6.38	6.00	6.18	6.18

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

Business Class\ Year	2021	2020	2019	2018
Fire	44.08%	44.71%	39.71%	37.25%
Marine (Hull & Cargo)	83.35%	81.38%	68.63%	73.60%
Motor	86.89%	96.57%	97.02%	93.18%
Misc.	8.46%	14.03%	11.82%	7.99%
Total (Average)	59.55%	64.17%	50.31%	50.27%

During 2021, total sum insured was BDT 205.30 billion whereas it was BDT 169.44 million in FY 2020. 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 four years & During the first six months of June 2022.

Solvency Analysis

Selected indicators

BDT in millions	2021	2020	2019	2018
Available Solvency (AS)	720.55	704.78	602.19	606.32
Required Solvency (RS)	84.26	79.69	60.96	53.93
AS/RS (times)	8.55	8.84	9.88	11.24

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. During FY 2021, solvency ratio of the company has slightly declined. By analyzing it has observed that required solvency has increased at higher percentage compared to available solvency for which solvency ratio has declined and stood at 8.55 times in FY 2021.

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 2021 the reserve has increased to BDT 310.45 million, which has increased by 11.79% from that of previous year. However, the reserve represents 85.32% of net premium.

Reserve for exceptional losses represent 11.50 times of net claim in 2021 which was 17.41 times in 2020, suggesting the company's unexpected events absorbing capability has deteriorated from that of previous year.
During June 2022, exceptional losses represent 39.66 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 in FY 2018. Paid-up capital of the company has increased and stood at BDT 425.87 million at the end of FY 2021.

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 11% cash dividend in FY 2021 (10% 2020 10% 2019 and 5% 2018)

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 polices and strategies and business plan.

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 2021, 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 2021, 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 2021, 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 2021, 05 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 2021, 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 !T 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

Mrs. Tahmina Afroz	Chairman
Mr. Emdadul Haque Chowdhury	Vice Chairman
Mr. Md. Humayun Kabir Patwary	Sponsor Director
Mr. Md. Abul Hashem	Sponsor Director
Engr. Khondaker Mesbahuddin Ahmed	Sponsor Director
Mr. Abul Hashem	Sponsor Director
Mr. Md. Moshiur Rahman Chamak	Sponsor Director
Mrs. Shahanaz Parvin	Sponsor Director
Mr. Md. Iqbal Hossain (Rep. of Eastern Diagnostic H & OPMS)	Sponsor Director
Mr. Redwan Kabir	Sponsor Director
Mr. Md. Riazul Haider (Rep. of Hazi Shakhawat Anwara Eye Hospital)	Sponsor Director
Mr. Md. Saiful Islam (Rep. of Modern Diagnostic Center Ltd.)	Public Shareholder Director
Mr. Khorshed Alam Khan	Public Shareholder Director
Mr. Md. Jahirul Islam	Public Shareholder Director
Mr. Billal Hossain (Rep. of Daffodils Sign Media)	Public Shareholder Director
Mr. Md. Zia Uddin Podhar	Public Shareholder Director
Mr. Md. Mofiz Uddin	Sponsor Shareholder
Mr. Anwer Hossain Khan MP	Sponsor Shareholder
Mrs. Farzana Rahman	Sponsor Shareholder
Mrs. Nasreen Haque	Sponsor Shareholder
Mr. Anwar Hossain Chowdhury	Sponsor Shareholder
Mr. Tofazzal Hossain	Sponsor Shareholder
Mr. Md. Mahedi Hasan	Independent Director
Mr. A.B.M Kaikobad	Independent Director
Mr. Md. Jahirul islam	Independent Director
Mr. Md. Azizul Hossain Baten	Independent Director
Qazi Mukarram Dastagir	Chief Executive Officer

Shareholders

Category of Shareholders	% of total Shares
Sponsors & Directors	59.98
Institute	17.03
Foreign	0.07
General Public	22.92
Total	**100.00**

*as per management information dated: 3rd August, 2022

Auditor

ARTISAN
Chartered Accountants
Shah Ali Tower (7th Floor) 33, Kawran Bazar, Dhaka-1215

Head Office

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Alpha Credit Rating Limited Dhaka

Business Risk Analysis → Financial Risk Analysis → Management/ Ownership/ Governance Risk Analysis → Rating Committee

Business Risk Analysis

Analysis is segmented into two or three sub sectors:

- Industry Outlook
- Competitive Position
- Operational

Financial Risk Analysis

Analysis is segmented into four sub sectors:

- Earnings
- Cash Flow Generating Ability & Debt Servicing Capacity
- Capital Adequacy
- Financial Flexibility

Management/ Ownership/ Governance Risk Analysis

It is one of the key elements of the rating methodology since management decides what businesses to be in, what strategies should be pursued and how these activities should be financed.

Rating Committee

Senior personnel review each company to determine the appropriate final credit rating.

- Review Modeling Assumption
- Approve Company-Specific Adjustments

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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