

Life Insurance

Sector Study

TABLE OF CONTENTS



Contents	Page No.
Overview Global Industry	1
Overview Local Industry	2
Industry Dynamics	3
Premium Mix	4
Claims Break Up	5
Takaful Snapshot	6
Investment Portfolio	7
Persistency	8
Premium Growth	9
Business Risk	10

Contents	Page No.
Financial Risk	11
Expense Ratio	12
Loss Ratio	13
Regulatory Framework	14
Rating Scale	15
SWOT Analysis	16
Outlook & Future Prospects	17
Bibliography	18



LIFE INSURANCE

Overview | Global Industry

- Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.
- Life insurance** is a contract between an insurer and a policyholder which guarantees that the insurer pays a sum of money to named beneficiaries when the insured policyholder dies, in exchange for the premiums paid by the policyholder during their lifetime.

Year	Life Insurance Direct Premiums Written (USD mln)
CY17	2,723,040
CY18	2,882,179
CY19	2,916,267

- During CY19, the global life insurance direct premiums grew ~1.2% and reached USD~2,916bln as compared to the previous year (CY18: USD~2,882bln). Meanwhile, CY20 was a challenging year for the industry due to disruptions created by the COVID-19 pandemic and resulting economic fallout. The sector’s premiums are expected to decline slightly in CY20 while recovery is expected in CY21.
- The adjacent table shows top 10 countries in terms of life insurance premiums written during CY19. The most significant share is occupied by the United States which constitutes ~22% of total life premiums written at USD~629bln. Meanwhile, the top 10 countries account for ~76% of global life insurance premiums written.

Top 10 Countries (CY19)		
Rank	Country	Life Insurance Premiums Written (USD mln)
1	United States	628,522
2	Japan	341,328
3	China	329,432
4	United Kingdom	264,221
5	France	167,588
6	Italy	124,133
7	Germany	101,550
8	Taiwan	97,423
9	South Korea	94,483
10	Canada	53,317
Total		2,201,997



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Overview | Local Industry

- In terms of Gross Premium Written (GPW), Pakistan's life insurance industry had a total size of PKR~242,851mln in CY20 and exhibited a growth of ~6.2% as compared to the previous year (CY19: PKR~228,691mln)
- State Life Insurance Company is the only state owned insurance company in the life insurance industry. The remaining 8 companies in the industry are private players out of whom 2 operate within the Takaful segment (Islamic mode of Insurance) and the other 6 in conventional segment.
- The insurance industry in Pakistan is relatively small, amounting to ~0.51% of Pakistan's nominal GDP (~USD 1.5bln in CY20), compared to its peers in the region as the sector penetration and density remains very modest. Gross premiums written of life insurers in India reached USD~81.2bln in FY21, amounting to ~3.06% of India's nominal GDP, from USD~77.1bln in FY20.
- The following slide details the dynamics of the local life insurance industry.

Industry Overview	CY18	CY19	CY20	1QCY21
Conventional	6	6	6	6
Takaful	2	2	2	2
Total Private Sector	8	8	8	8
Public Sector	1	1	1	1
Total Life Insurance Companies	9	9	9	9
Gross Premium Written (GPW) (PKR mln)	225,724	228,691	242,851	62,532
Growth (YoY)	8.04%	1.31%	6.19%	29%
Market Share (%)				
Public Sector	51%	52%	51%	48%
Private Sector	49%	48%	49%	52%
Regulator	Securities & Exchange Commission of Pakistan (SECP)			
Industry Association	The Insurance Association of Pakistan (IAP)			

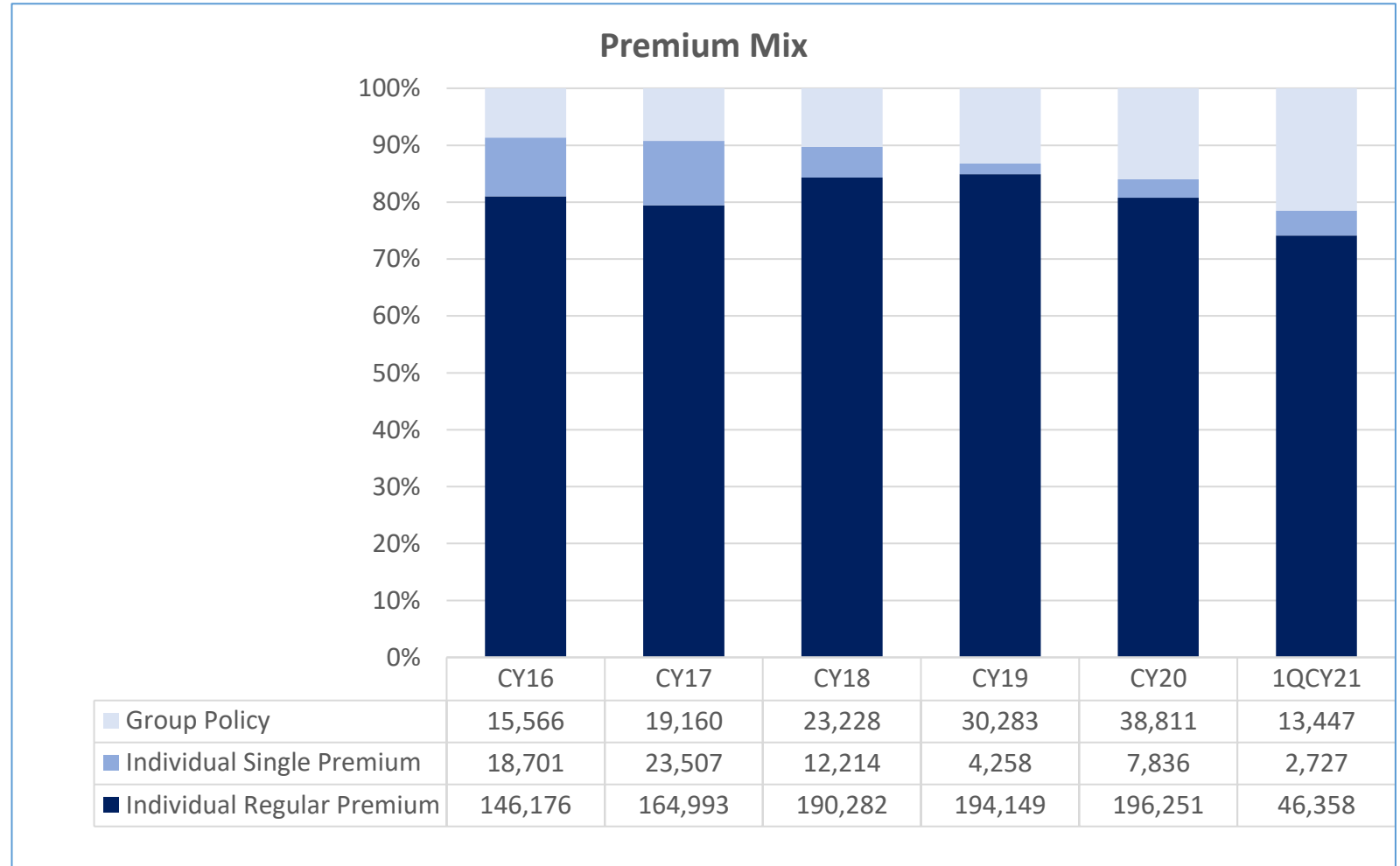
Industry Dynamics

		CY18			CY19			CY20			1QCY21		
		Gross Premium (PKR mln)	Growth (%)	Market share(%)	Gross Premium (PKR mln)	Growth (%)	Market share(%)	Gross Premium (PKR mln)	Growth (%)	Market share(%)	Gross Premium (PKR mln)	Growth (%)	Market share(%)
Conventional													
1	Jubilee Life	51,887	10%	23%	49,627	-4%	22%	46,507	-6%	19%	13,150	19%	21%
2	EFU Life	30,790	-2%	14%	31,750	3%	14%	32,546	3%	13%	9,114	25%	15%
3	Adamjee Life	13,247	-4%	6%	12,969	-2%	6%	17,101	32%	7%	4,969	37%	8%
4	IGI Life	4,794	-15%	2%	4,815	0%	2%	6,161	28%	3%	1,937	44%	3%
5	TPL Life	435	61%	0%	753	73%	0%	1,130	50%	0%	316	25%	1%
6	Askari Life	44	129%	0%	302	589%	0%	449	49%	0%	141	47%	0%
Conventional Total		101,197	3%	45%	100,217	-1%	44%	103,894	4%	43%	29,627	25%	47%
Takaful													
7	Pak Qatar Family	7,817	-5%	3%	8,287	6%	4%	7,961	-4%	3%	2,158	28%	3%
8	Dawood Family	1,471	12%	1%	1,636	11%	1%	1,834	12%	1%	461	24%	1%
Private Sector Premium		110,485	2%	49%	110,140	0%	48%	113,690	3%	47%	32,245	25%	52%
9	SLIC	115,238	14%	51%	118,551	3%	52%	129,161	9%	53%	30,287	33%	48%
Total Premium		225,724	8%	100%	228,691	1%	100%	242,851	6%	100%	62,532	29%	100%

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Premium Mix

- Individual regular premiums have the largest share in the overall premium mix of the life insurance industry at PKR~196,251mIn or ~81% in CY20.
- Group premiums show a rising trend and have increased their share from ~9% in CY16 to a share of ~22% in 1QCY21.
- Meanwhile, the individual single premiums are declining and their share in the total has fallen from ~10% in CY16 to ~4% in 1QCY21.

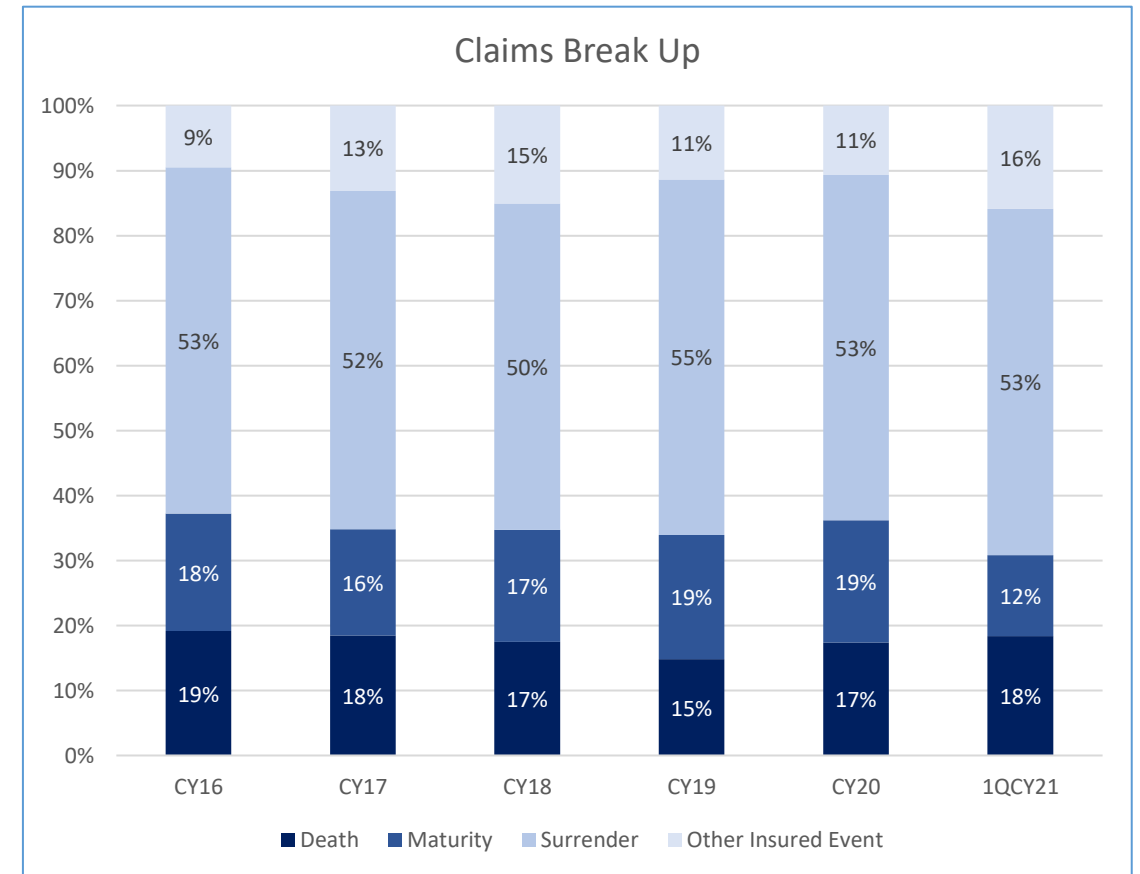




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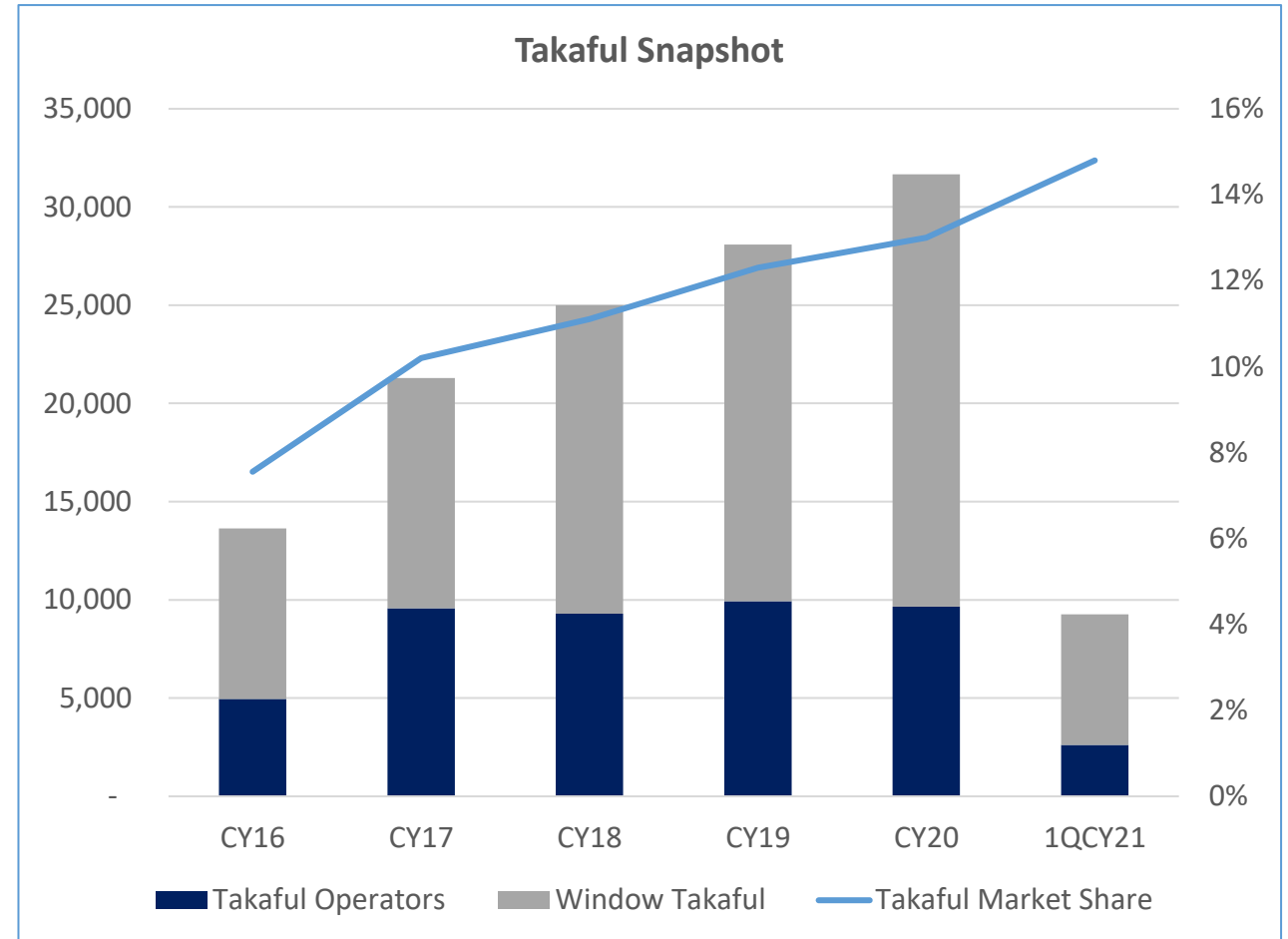
Claims Break Up

- The life insurance industry’s net claims stood at PKR~128,406mln in CY20, an increase of ~9% as compared to net claims of PKR~117,724mln in CY19. The increase is likely attributable to the pandemic and resulting deaths.
- The largest portion of claims is due to surrender which constitutes ~53% of all claims. In addition, claims due to death and maturity account for ~17% and ~19% of net claims in CY20. Meanwhile, claims due to other insured events accounted for ~11% of total claims in CY20.
- The overall claims mix has remained relatively stable in recent years with claims due to surrender making up the largest share and claims due to other insured events having the smallest share.



Takaful Snapshot

- There are 2 dedicated Takaful players while the remaining players have Window Takaful operations.
- The share of Takaful segment in overall Gross Premium Written has steadily increased in past few years with total takaful premiums rising from PKR~13,628mIn or ~8% of the total in CY16 to PKR~31,662mIn or ~13% of the total industry premium in CY20.
- In 1QCY21, the premium for takaful segment stood at PKR~9,259mIn, a growth of ~43% as compared to PKR~6,474mIn in 1QCY20. The market share of Takaful during 1QCY21 rose to ~15%.
- Window Takaful operators occupy ~70% of the total Takaful market while the dedicated Takaful players have a share of ~30% .

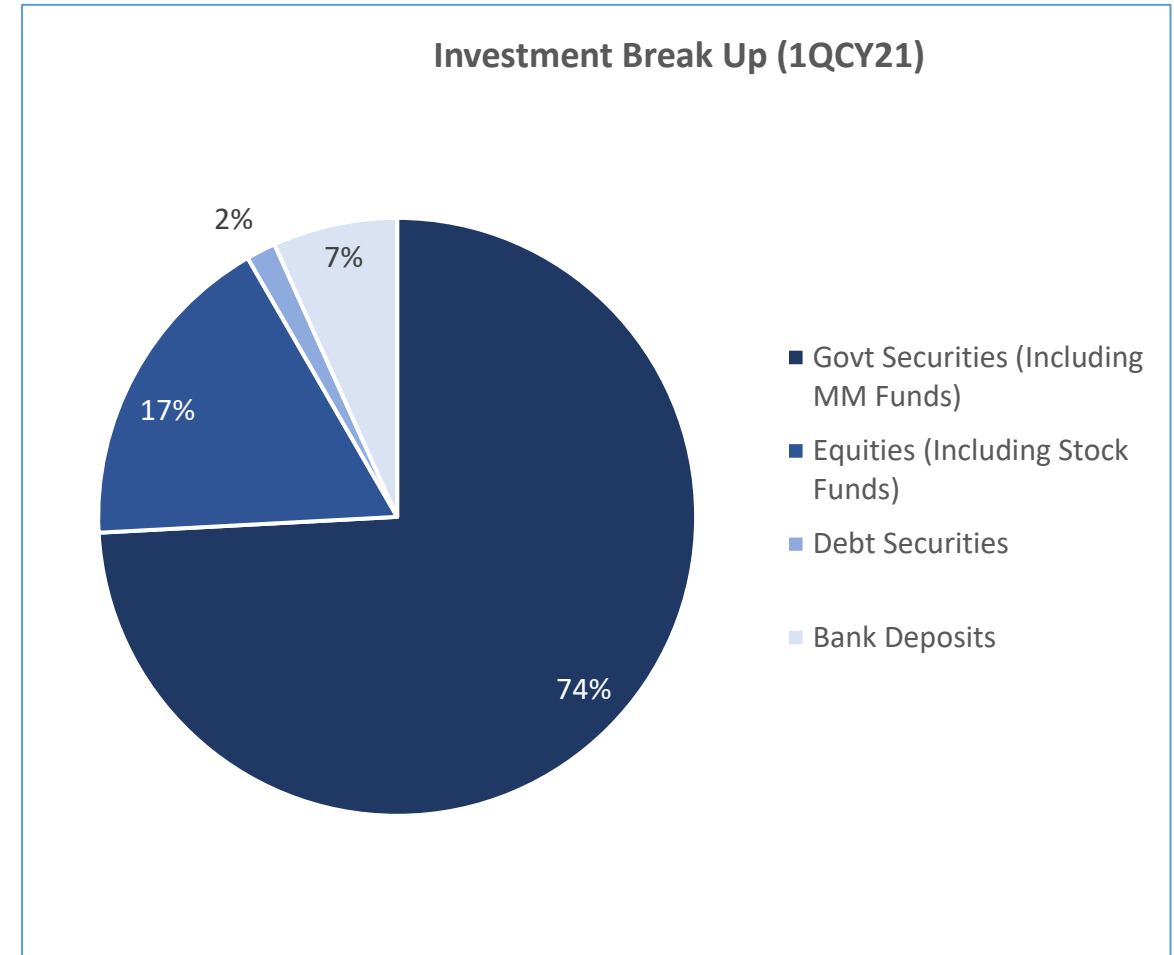




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Investment Portfolio

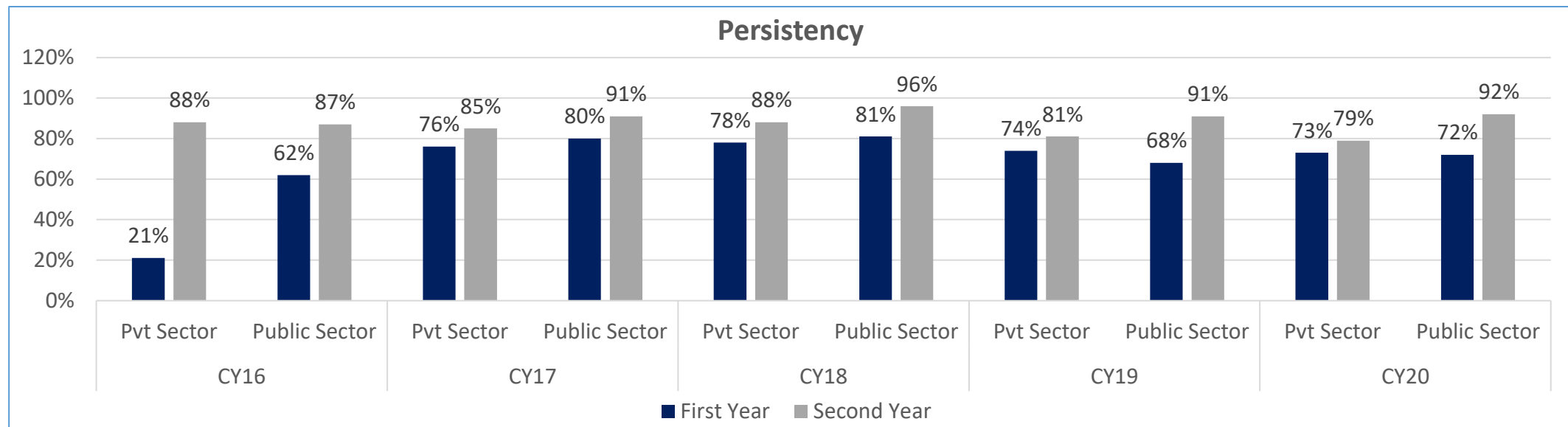
- The life insurance industry's investments are largely concentrated in government securities, which currently constitute ~74% of total investments.
- Investments in equities also constitute a significant ~17% of the total investments. Meanwhile, debt securities and bank deposits have share of ~2% and ~7%, respectively in total investments.
- The industry's total investments stood at PKR~1,457bln at the end of 1QCY21 and exhibited a slight growth of ~3% from PKR~1,413bln at the end of CY20.



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Persistency

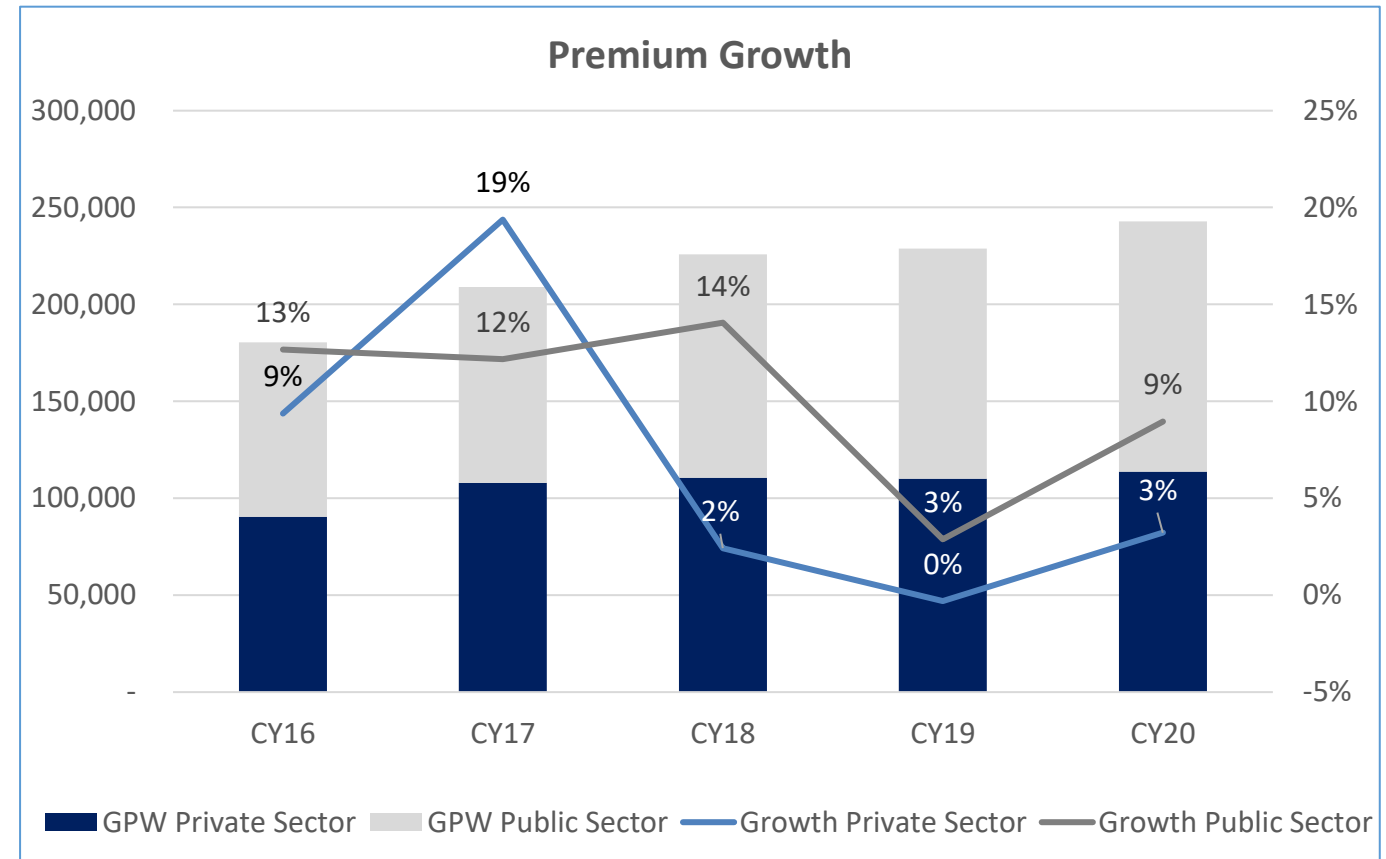
- The persistency of public sector is consistently higher than the private sector. Furthermore, subsequent year persistency is higher than first year in both private and public sectors.
- During CY20, overall persistency remained relatively stable. For the private sector first year persistency fell slightly to ~73% from ~74% in CY19 while second year persistency declined slightly to ~79% in CY20 from ~81% in CY19. Meanwhile, for the public sector, first year persistency improved from ~68% in CY19 to ~72% in CY20 and second year persistency improved from ~91% in CY19 to ~92% in CY20.





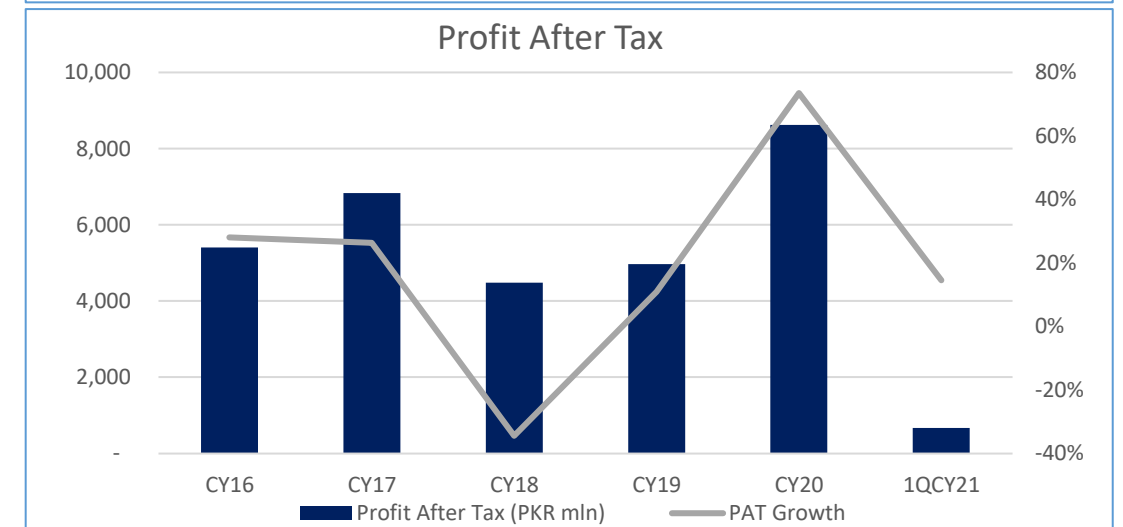
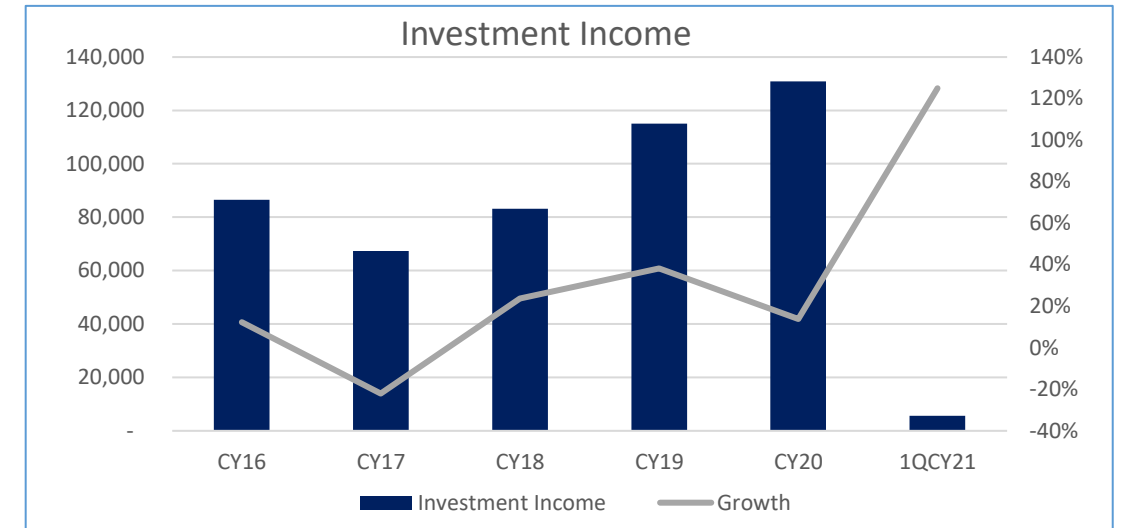
Premium Growth

- The life insurance industry's premiums exhibited improved growth during CY20 in both the private and public sectors.
- During CY20, public sector growth improved to ~9% as compared to growth of ~3% in CY19. Meanwhile, the private sectors premiums grew by ~3% as compared to a slight decline of -0.3% in the previous period.
- The public sector is slightly larger than the private sector and contributed ~53% to total industry GPW in CY20. In comparison, the private sector had a share of ~47% of total industry premiums in CY20.
- In addition, growth in the public sector has generally outpaced the private sector, with the exception of CY17.



Business Risk | Margins

- The industry’s investment income experienced steady increase in recent years and stood at PKR~130,831mIn for CY20, an increase of ~14% as compared to investment income of PKR~114,982mIn in CY19. The growth in investment income is partially attributable to positive trends in the stock market, with KSE-100 index exhibiting return of ~39% in 11MFY21.
- During 1QCY21, investment income stood at PKR~5,682mIn and exhibited a large growth of ~125% from 1QCY20 when the industry had incurred an investment loss of PKR~22,847mIn.
- Meanwhile, profit after tax (PAT) has also exhibited significant growth of ~74% during CY20 resulting in PAT of PKR~8,619mIn as compared to PAT of PKR~4,967mIn in CY19.
- During 1QCY21, PAT stood at PKR~666mIn as compared to PKR~581mIn in 1QCY20, an increase of ~15%.

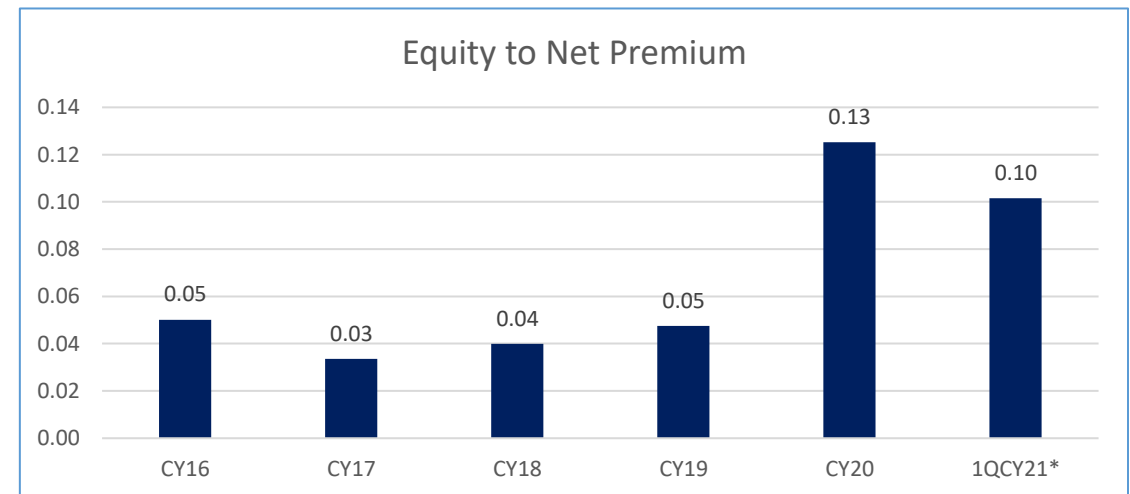
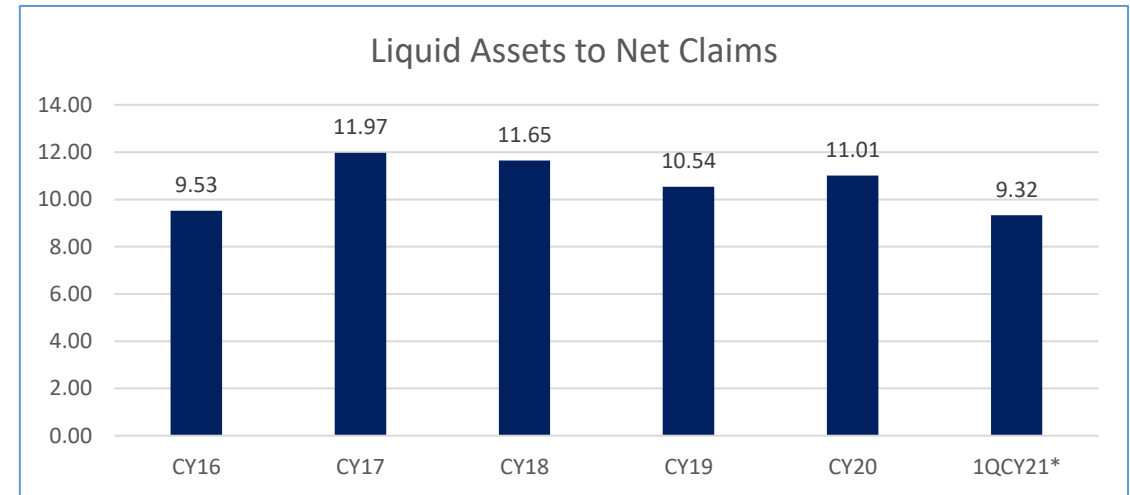




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Financial Risk

- During CY20, liquid assets increased ~14%, from PKR~1,241bln in CY19 to PKR~1,414bln in CY20. Meanwhile, net claims also increased, although at a slower rate of ~9%, from PKR~117,724mln in CY19 to PKR~128,406mln in CY20.
- As a result, the liquid assets coverage of net claims increased to 11.01 times in CY20 as compared to 10.54 times in CY19. During 1QCY21, the liquid assets to net claims ratio stood at 9.32.
- The life insurance industry's equity base exhibited a large increase of ~30% from PKR~27,181mln in CY19 to PKR~35,455mln in CY20. The increase was due to greater retained earnings as well as increase in reserves and issuance of share capital by some players.
- Meanwhile, net premiums grew at a much slower rate of ~2% during CY20 due to which the equity to net premiums ratio improved to 0.13 in CY20 as compared to 0.05 in CY19.

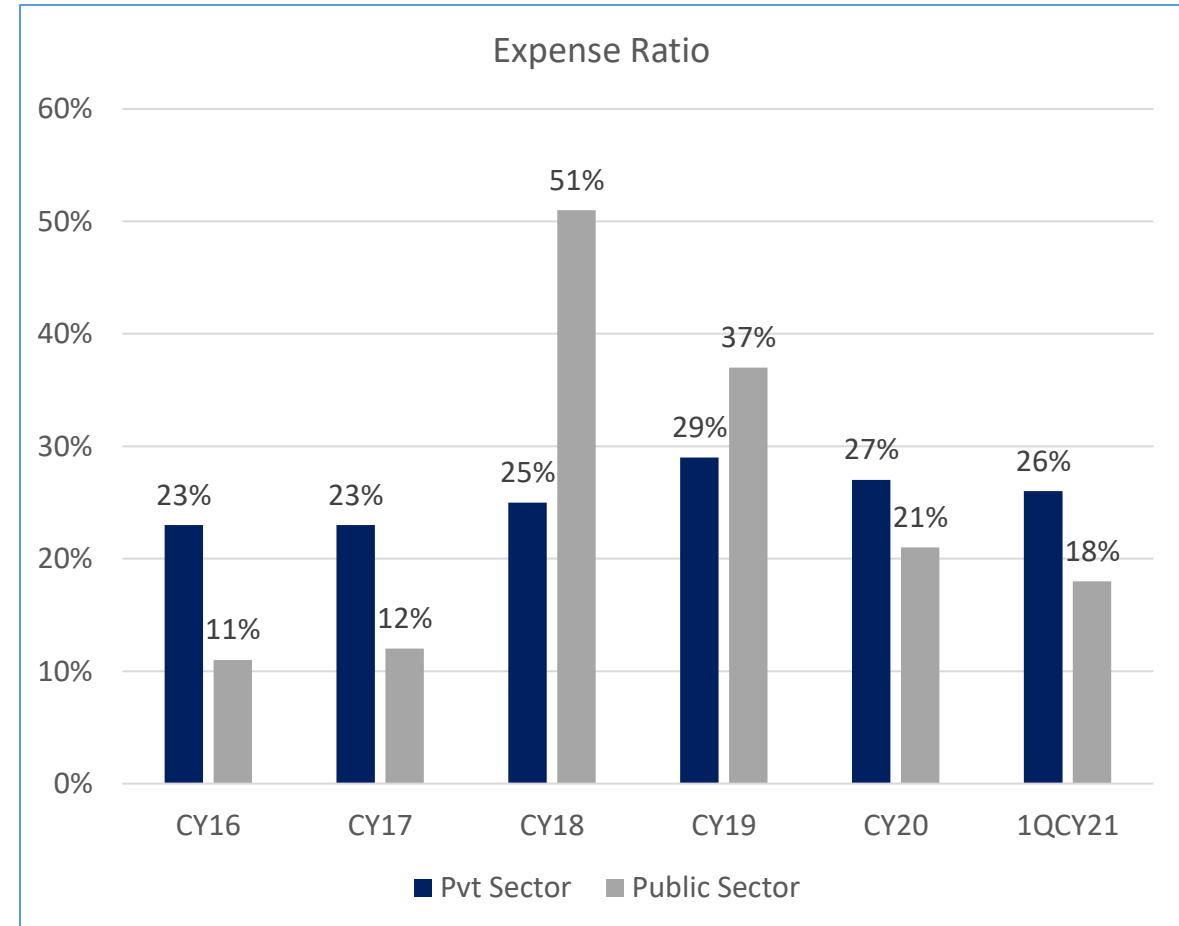




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Financial Risk | Expense Ratio

- Overall, expense ratio had a declining trend during CY20 indicating better cost control by both the public and private sectors.
- The private sector's expense ratio fell from ~29% in CY19 to ~27% in CY20 due to a slight decline in expenses from PKR~30,360mln in CY19 to PKR~29,032 in CY20. The expense ratio further declined to ~26% in 1QCY21.
- Moreover, the expense ratio for the public sector fell significantly from ~37% in CY19 to ~21% in CY20. This was largely due to reduction in administrative expenses. During 1QCY21, the expense ratio further declined to ~18%.

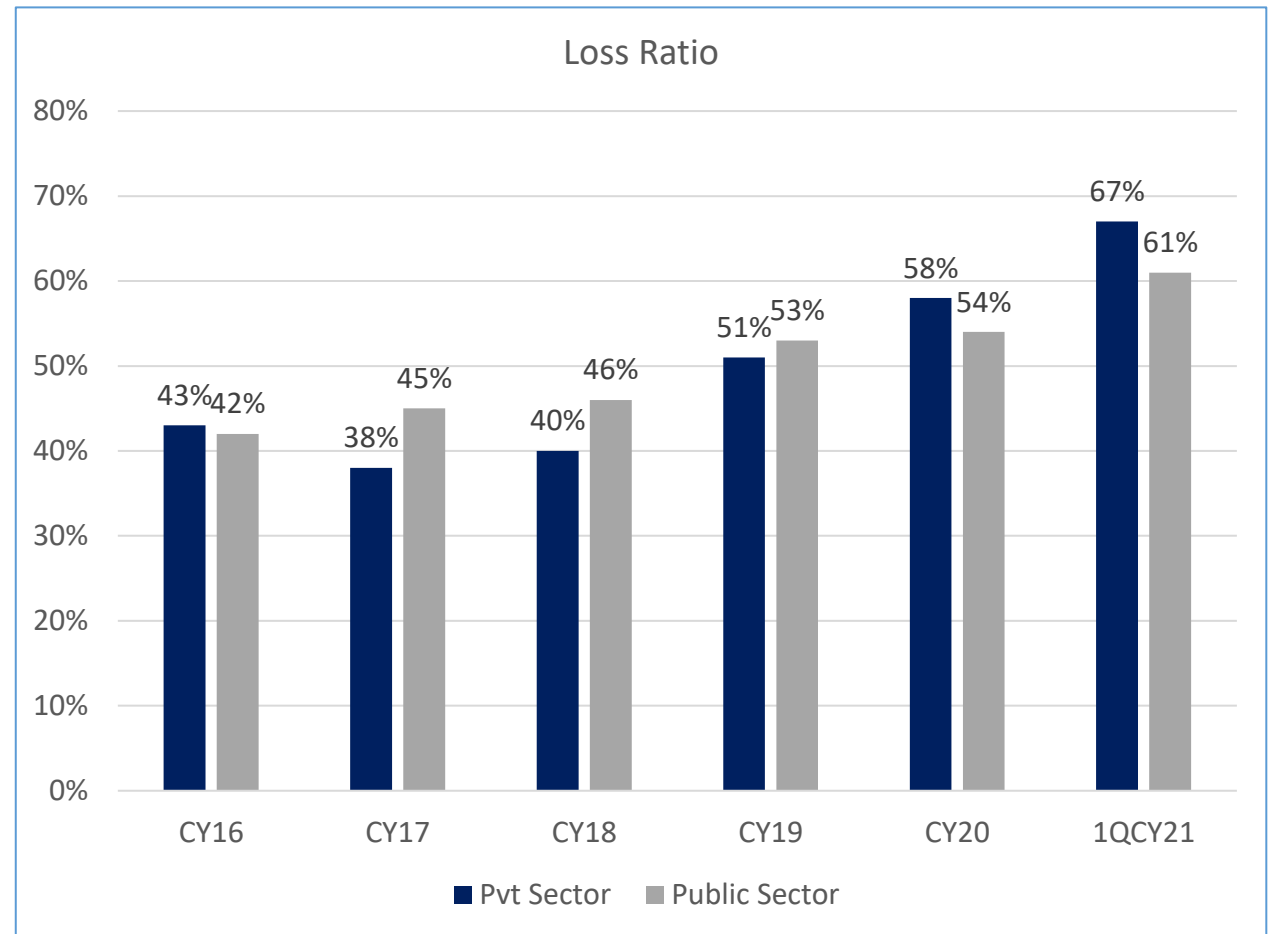




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Financial Risk | Loss Ratio

- The life insurance industry's loss ratio has steadily increased in recent years as net claims for the industry have grown at a faster pace as compared to net premiums.
- The loss ratio for the private sector has steadily increased in recent years. During CY20, the ratio increased to ~58% as compared to ~51% in CY19, indicating a larger number of claims paid out. The loss ratio further increased to ~67% in 1QCY21.
- Meanwhile, the public sector's loss ratio increased slightly from ~53% in CY19 to ~54% in CY20. During 1QCY21, the loss ratio increased further to ~61%.



Regulatory Framework

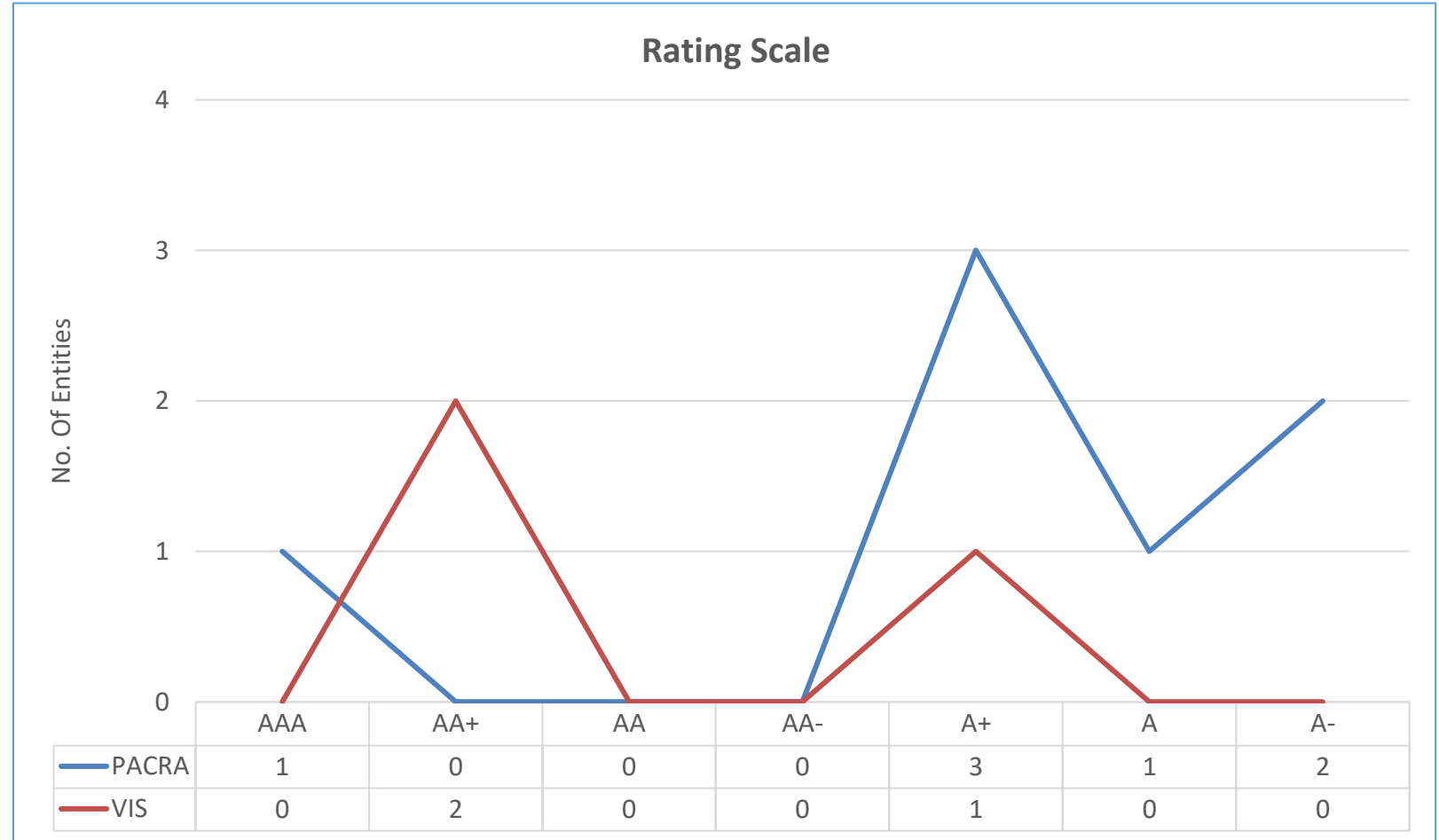
- The insurance industry is regulated by the Securities & Exchange Commission of Pakistan (SECP) which has promulgated several regulations or rules to govern the industry. These include:
 - Insurance Ordinance, 2000 (amended up to Nov 2011)
 - Insurance Rules, 2017
 - Corporate Insurance Agents Regulations, 2020
- As per these regulations, the Minimum Capital Requirement for Life Insurers stands at PKR 700mln alongside which insurance companies are required to maintain a deposit with the State Bank of Pakistan (SBP) with a minimum amount being 10% of the insurer's paid up capital or any amount that may be specified by the SECP.
- In addition, insurance companies carrying out life insurance business are also required at all times to maintain minimum net admissible assets of PKR~165mln in the Shareholder's Fund. Furthermore, the Insurance Ordinance specifies requirements and procedures for establishment of statutory and other funds specific to life insurance companies.
- The Corporate Insurance Agents Regulations, 2020 were notified by the SECP on Dec-2020 and are aimed at strengthening the regulatory regime for distribution of insurance through corporate insurance agents. They include a code of conduct for agents to clearly define their responsibilities while dealing with policyholders. The regulations are also aimed at curtailing the issue of mis-selling and ensure provision of maximum and clear information regarding company's term and conditions of an insurance policy.



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Rating Scale

- PACRA provides ratings to 7 life insurance companies while VIS provides ratings to 3 life insurance companies.
- Pak Qatar Family Takaful has dual rating from both CRAs.
- There was no change in ratings from previous year. However, Askari Life Assurance Company obtained initial rating in July 2020.



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SWOT Analysis



- Strong regulatory oversight from Securities & Exchange Commission of Pakistan (SECP)
- The industry is organized and has strong representation in the form of the Insurance Association of Pakistan (IAP)

- Low awareness about insurance policies among large segments of the population.
- Very low penetration
- Strong competition from others (mutual funds) in saving plan segment

- Uncertainty due to third wave of COVID-19 and delay in availability of vaccination could hamper economic recovery.
- Technology driven players entering this domain

- Sufficient room for growth.
- Expected increase in private sector credit by the banking sector.
- Positive trend in stock market to boost investment income



Outlook: STABLE

- The domestic economy has started to gradually recover from the impact of the COVID-19 pandemic which slowed down industrial activities and brought various businesses to a halt. The third wave of the virus is subsiding and vaccinations are increasing steadily reducing the likelihood of another severe wave which could hinder economic activity.
- The pandemic is likely to have increased awareness regarding importance of life insurance among the public. On the other hand, the increase in net claims is also likely linked to the pandemic as a result of the significant number of deaths due to the virus.
- The investment income of the life insurance sector experienced a boost likely due to the positive trends in the KSE-100 index which had returns of ~39% in 11MFY21 as a result of which the investment income grew by ~14% to PKR~130,831mln for CY20 as compared to investment income of PKR~114,982mln in CY19.
- The life insurance industry's liquidity position remains stable due to maintenance of a large investment book (1QCY21: PKR~1,457bln, CY20: PKR~1,413bln) which is expected to provide cushion for any liquidity concerns arising due to the increase in net claims.
- With the revival of Industrial Activity, the private sector credit by banks and FIs is expected to rise going forward and would therefore simultaneously boost demand for the life insurance industry. The Insurance Sector is directly linked to the banking credit growth.
- The country's inflation has declined marginally, however, is expected to remain high due to higher commodity prices. The average inflation rate during 11MFY21 stood at ~8.83% as compared to an average inflation rate of ~10.7% during FY20. Moreover, the interest rate is also not expected to witness any major hike in the short-term.

- State Bank of Pakistan (SBP)
- PACRA Database
- Entities Financial Statements
- Insurance Association of Pakistan (IAP)
- Pakistan Bureau of Statistics (PBS)
- Insurance Information Institute (<https://www.iii.org/publications/insurance-handbook/economic-and-financial-data/world-insurance-marketplace>)
- <https://www.ibef.org/industry/insurance-sector-india.aspx>
- <https://www.investindia.gov.in/sector/bfsi-insurance>

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