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GENERAL INSURANCE

Overview

- By definition, Insurance is an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium.
- Generally it is classified under the broad categories of life insurance and non-life insurance. Life insurance is the promise of a certain predetermined amount after the death of the insured to his dependents or registered beneficiaries. Whereas, non-life insurance covers the damage as specified in the insurance contract and has categories like; Motor, Fire and Property, and Marine insurance, to name a few.
- The USD~5trn global insurance market is in the midst of a game-changing course correction that will re-define business. It is going through a digital transformation focusing on personalized premiums and usage based coverage using the advance analytics, machine learning and artificial intelligence.
- The table on the right list top ten countries operating in motor insurance around the globe, United States (U.S.) being the leader. This reflects the overview of the insurance trend globally.

Top 10 Insurance Companies - CY22	
Company Name	Market Capitalization (USD bln)
Berkshire Hathaway (U.S.)	714
Ping An Insurance (China)	141
AIA Group (Hong Kong)	123
China Life Insurance (China)	106
Allianz (Germany)	89
Cigna (US)	76
Zurich Insurance (Switzerland)	67
AXA (France)	65
Humana (U.S.)	55
Munich (Germany)	39

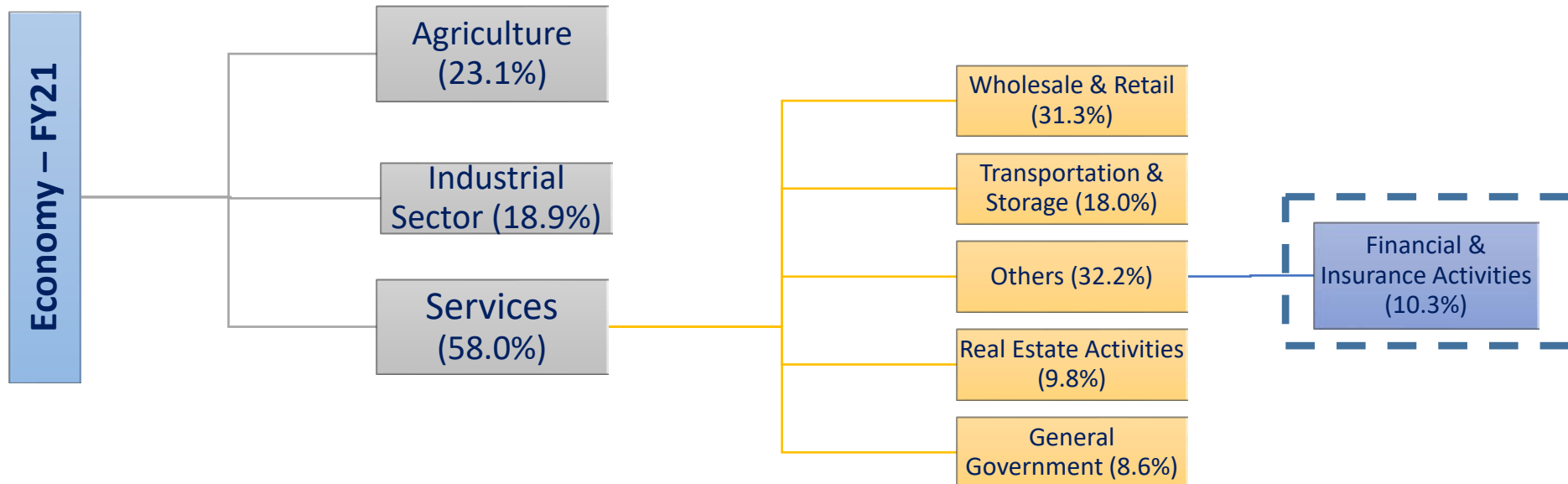
Overview: Global

- The United States recorded a combined net premium written of worth USD~1.28trn (CY20) from a total of 5,929 companies registered within the country; wherein, the life insurance premium increased significantly by ~49% YoY while non-life insurance also elevated by ~51% YoY.
- As the numbers of entities insured increased, the claims that the companies had to pay also rose because of the COVID-19 pandemic during which the death toll sharply rose around the globe. During CY21, the amount of the insured losses reached as high as USD~130bln, up by 18% YoY.
- India, right next to Pakistan's border, has almost twice as much insurance companies as in Pakistan. The number of insurance companies in India stands at ~58 with INR~213bln gross premium written in non-life insurance.
- Bangladesh has nearly ~44 insurance companies registered in both life and non-life segments. The segments' gross premium written stands around BDT~30bln.
- Pakistan comparatively lacks behind in the sector than the Asian economies in the region. The Insurance penetration and density in Pakistan has remained very modest as compared to other regional competitors.

GENERAL INSURANCE

Overview: Local

- The General Insurance sector of Pakistan, operating with approximately ~28 insurance companies, falls under the services sector of the economy.
- The Financial & Insurance activities contributed ~3.3% (FY21) to the overall service sector of the economy. This makes nearly 1.9% of the total GDP of the country (FY21).
- The sector experienced ~7% growth YoY basis rising to PKR~703bln (FY21) from PKR~656bln (FY20).



GENERAL INSURANCE

Overview: Local

- The General Insurance sector of Pakistan is currently worth PKR~114bln (CY21); up by 11% YoY from PKR~95bln (CY20) on the basis of Gross Premium Written (GPW).
- For the purpose of analysis, this study has classified the sector into three broad categories; Large Market Players with a market share greater than 5%, Medium Market Players with a market share greater than 2% but less than 5%, and Small Market Players with a market share less than 2%.
- The number of total registered general insurance companies in Pakistan is ~28. And as per the criteria of classification stated above, for CY21, only ~5 companies fall under the large category, reflecting a significant market influence that these companies possess.
- ~8 companies that capture more than ~2% of the market, remain in the medium category while ~15 entities capture less than ~2% of the market.
- The combined market share of the large insurance companies is as high as ~63.8% (CY21); however down by almost ~4% in CY21 (CY20: ~68%).
- Medium sized insurance companies have expanded by ~5% (CY21: 28%; CY20: 23%); whereas, the small companies lost almost ~2% of the market share collectively.

INDUSTRY OVERVIEW			
	CY19	CY20	CY21
No. of Companies	27	28	28
Gross Premium Written (PKR mln)	94,651	102,273	113,642
Net Premium Revenue Growth	8%	12%	16%
Large Market Players (>5% Market share)			
Total Companies	5	6	5
Market Share	65%	68%	63.8%
Medium Market Players (> 2% Market Share)			
Total Companies	8	7	8
Market Share	26%	23%	28.1%
Small Market Players (< 2% Market Share)			
Total Companies	14	15	15
Market Share	9%	10%	8.1%
Regulator	SECP		
Association	IAP		

GENERAL INSURANCE

Industry Dynamics – Overall (CY21)

- GPW for large companies was recorded at PKR~70bln by Dec'21; whereas, for the medium and small companies, the GPW recorded was around PKR~30bln and PKR~13bln respectively.
- Investment Income for the large companies (CY21: PKR~6bln) almost remained double than that of medium market players (CY21: PKR~3bln).
- However, medium sized insurance companies have nearly three times investment income as of the small insurance companies (CY21: PKR~1bln).
- Underwriting(U/W) result for the sector drastically grew up by ~75% YoY in CY21 (CY21: PKR~7bln; CY20: PKR~4bln).
- Highest chunk of the sector's profit before tax (PBT) also goes to large companies and is more than combined profit produced by both medium and small sized companies. The combined PBT for the sector was PKR~19bln; up by ~38% YoY (CY20: PKR~14bln).
- A reasonable increase of ~5% YoY was witnessed in equity of the sector as well (CY21: PKR~107bln; CY20: PKR~102bln).
- Combined Liquid Assets (Investment, cash and balance) were recorded as high as PKR~138bln (CY21); Large companies possess more than ~1.5times of the collective liquid assets of medium and small insurance companies.

Particulars	Total	Large	Medium	Small
PKR (mln)				
No. of Companies (number)	28	5	8	15
Market Share	100%	63.8%	28.1%	8.1 %
Gross Premium Written (GPW)	113,642	70,255	30,303	13,084
Investment Income	10,569	6,326	3,084	1,158
U/W Results-Conventional	7,112	3,995	1,817	1,300
Profit Before Tax	18,787	12,569	4,733	1,485
Equity	107,289	61,713	30,584	14,992
Investment+ Cash & Balance	138,648	83,690	38,038	16,921

GENERAL INSURANCE

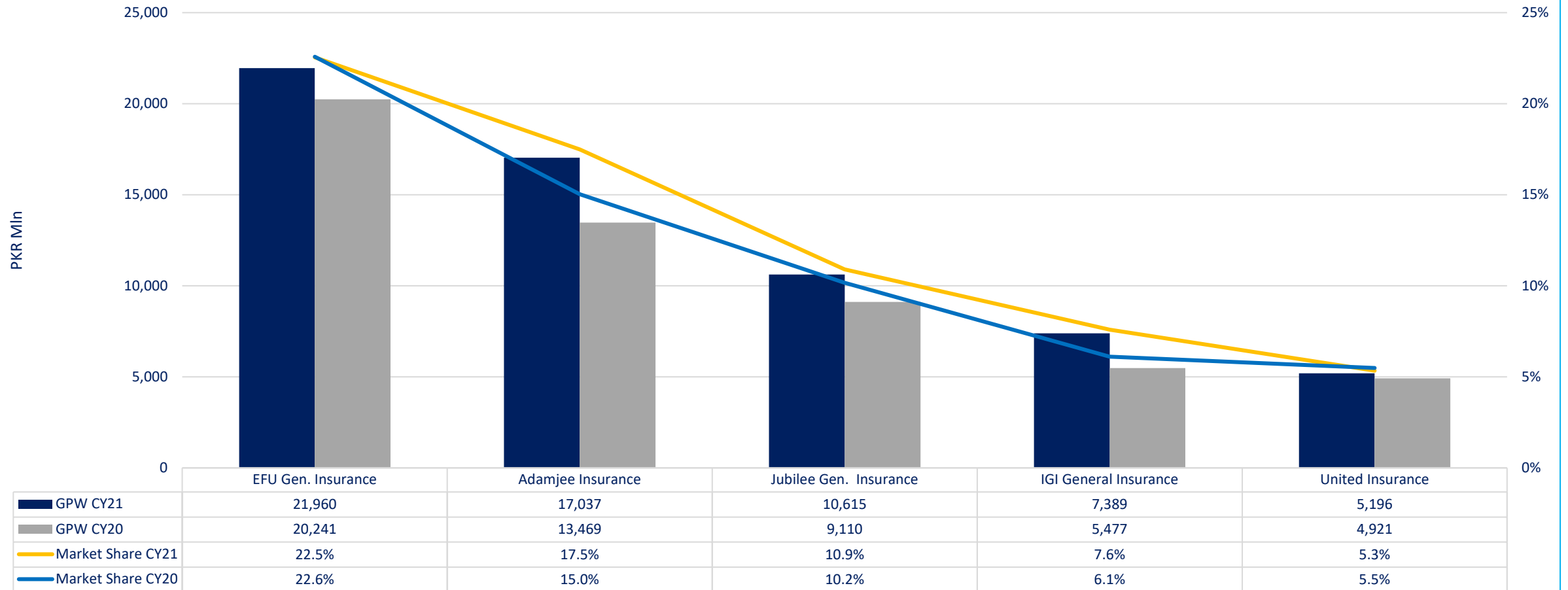
Industry Dynamics – Large Companies (CY21)



Companies	Market Share	GPW	Investment Income	U/W Results-Conventional	Equity	Investment + Cash & Bank	Profit Before Tax
EFU Gen. Insurance	22.5%	21,960	2,040	1,552	19,274	27,224	4,173
Adamjee Insurance	17.5%	17,037	2,485	672	25,390	33,243	4,405
Jubilee Gen. Insurance	10.9%	10,615	1,532	512	10,190	17,134	2,330
IGI General Insurance	7.6%	7,389	177	309	2,542	3,576	603
United Insurance	5.3%	5,196	92	950	4,318	2,513	1,057
TOTAL	63.8%	62,197	6,326	3,995	61,713	83,690	12,569



Gross Premium Written - Large Market Players



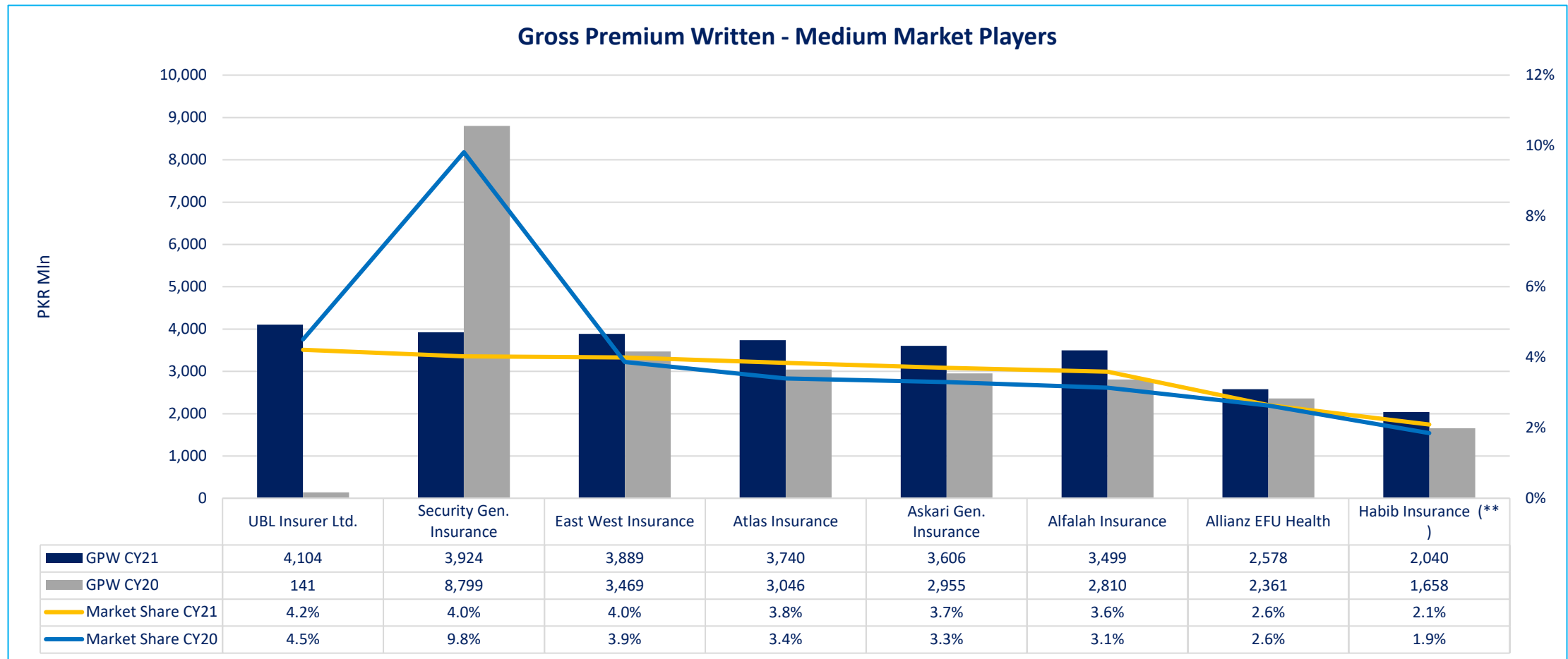
GENERAL INSURANCE

Industry Dynamics – Medium Companies (CY21)



Companies	Market Share	GPW	Investment Income	U/W Results-Conventional	Equity	Investment + Cash & Bank	Profit Before Tax
UBL Insurer Ltd.	4.2%	4,104	128	81	1,743	1,313	102
Security Gen. Insurance	4.0%	3,924	1,831	391	16,766	20,071	2,104
East West Insurance	4.0%	3,889	92	377	1,961	1,900	358
Atlas Insurance	3.8%	3,740	346	773	4,176	6,836	1,182
Askari Gen. Insurance	3.7%	3,606	265	194	2,316	3,009	462
Alfalah Insurance	3.6%	3,499	194	118	1,834	2,480	370
Allianz EFU Health	2.6%	2,578	88	-88	532	946	7
Habib Insurance	2.1%	2,040	141	-29	1,255	1,481	148
TOTAL	28.1%	27,381	3,084	1,817	30,584	38,038	4,733









Medium Sector Performance



*Security General Insurance was amongst the large companies last year. The prime reason behind this significant decline is drastic fall of ~90% in their Marine Insurance which contributes to only ~15% of their total portfolio in CY21 (CY20: ~64%).








GENERAL INSURANCE

Industry Dynamics – Small Companies (CY21)

Companies	Market Share	GPW	Investment Income	U/W Results-Conventional	Equity	Investment + Cash & Bank	Profit Before Tax
 TPL Insurance Ltd.	1.8%	1,794	51	200	1,527	2,437	91
 Century Insurance	1.6%	1,601	122	207	2,265	2,594	389
 Chubb Insurance	1.0%	928	53	160	909	903	205
 Asia Insurance	0.9%	923	19	6	951	780	37
 Sindh Insurance	0.7%	715	378	30	50	3,745	405
 Reliance Insurance	0.7%	651	80	32	1,048	932	65
 Premier Insurance	0.6%	602	190	-211	827	1,567	2
 Shaheen Insurance	0.2%	231	71	-38	687	632	26

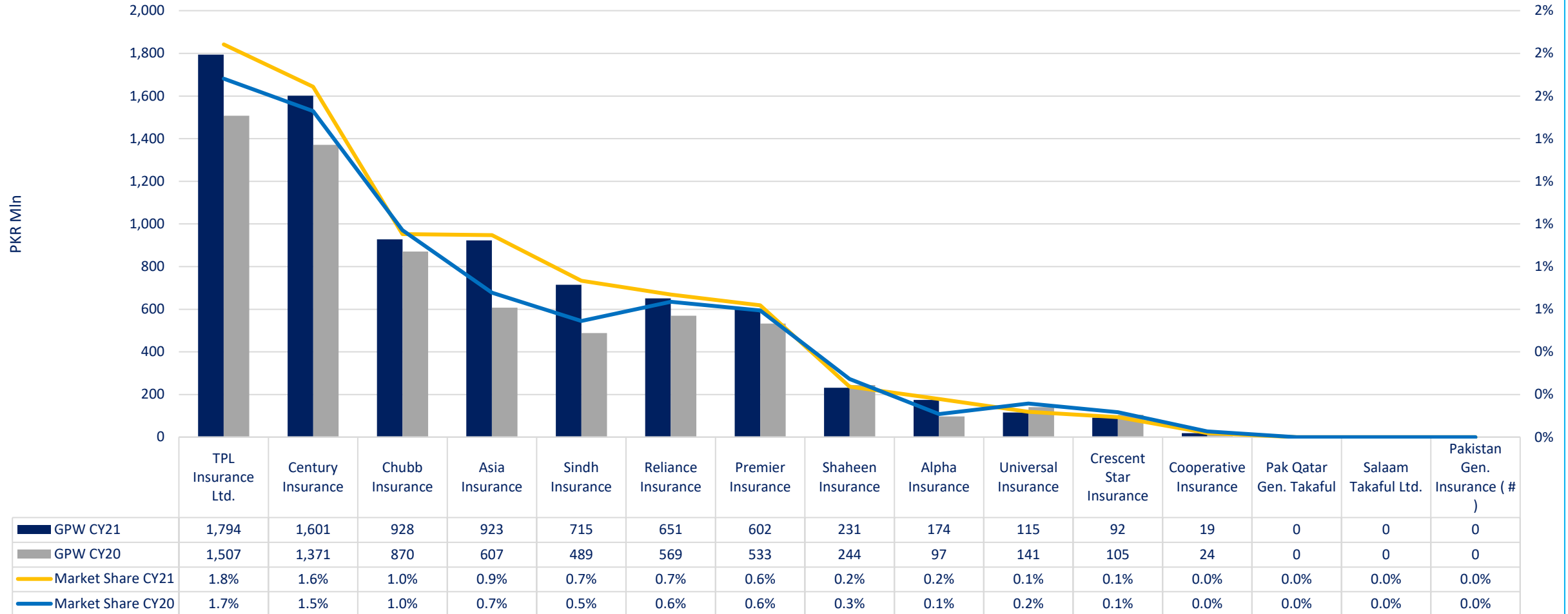
GENERAL INSURANCE

Industry Dynamics – Small Companies (CY21)

Companies	Market Share	GPW	Investment Income	U/W Results-Conventional	Equity	Investment + Cash & Bank	Profit Before Tax
 Alpha Insurance	0.2%	174	55	-36	713	734	28
 Universal Insurance	0.1%	115	14	-60	840	537	-41
 Crescent Star Insurance	0.1%	92	6	0	1,079	261	52
 Cooperative Insurance	0.0%	19	2	26	2,850	13	-20
 Pak Qatar Gen. Takaful	0.0%	0	64	9	493	886	68
 Salaam Takaful Ltd.	0.0%	0	55	975	753	899	179
 Pakistan Gen. Insurance	0.0%	0	0	0	0	0	0
TOTAL	8.1%	7,845	1,158	1,300	14,992	16,921	1,485

Small Sector Performance

Gross Premium Written - Small Market Players



GENERAL INSURANCE

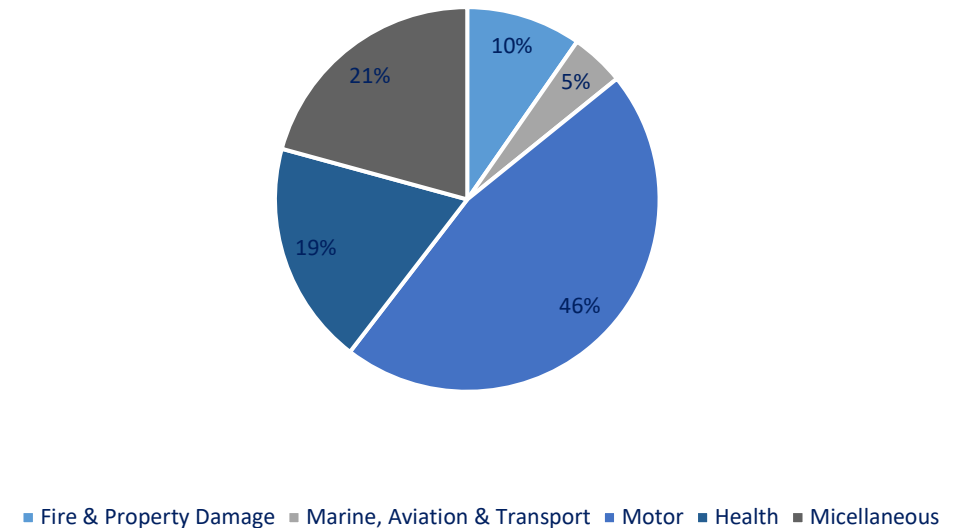
Takaful Snapshot

- Out of the ~28 insurance companies in the country, ~23 also operate Window Takaful (Shariah compliant services in the sector). But only ~8 companies out of these ~23 capture almost ~80% of the market share. The List of the top ten companies with Window Takaful operations is given below.
- The Window Takaful’s combined GPW (Contribution Underwritten) equates to PKR~16bln (CY21) experiencing a substantial increase of ~28% (CY20: PKR~13bln).
- The greatest proportion of ~46% of the Window Takaful can be attributed to the motor insurance while ~19% of it is health insurance. ~10% of fire and property damage; while only ~5% goes to the marine insurance.

TOP TEN TAKAFUL PLAYERS – PAKISTAN (PKR mln)

Sr. No.	Companies	GPW	Investment Income	Market Share
1	EFU Gen. Insurance	2,697	110	16.6%
2	Salaam Takaful Ltd.	2,220	0	13.7%
3	TPL Insurance Ltd.	1,490	32	9.2%
4	Adamjee Insurance	1,465	16	9.0%
5	Jubilee Gen. Insurance	1,391	147	8.6%
6	United Insurance	1,384	35	8.5%
7	IGI General Insurance	1,122	2	6.9%
8	Pak Qatar Gen. Takaful	1,032	-1	6.4%
9	UBL Insurer Ltd.	653	30	4.0%
10	Alfalsh Insurance	505	5	3.1%

TAKAFUL - Segment Breakdown

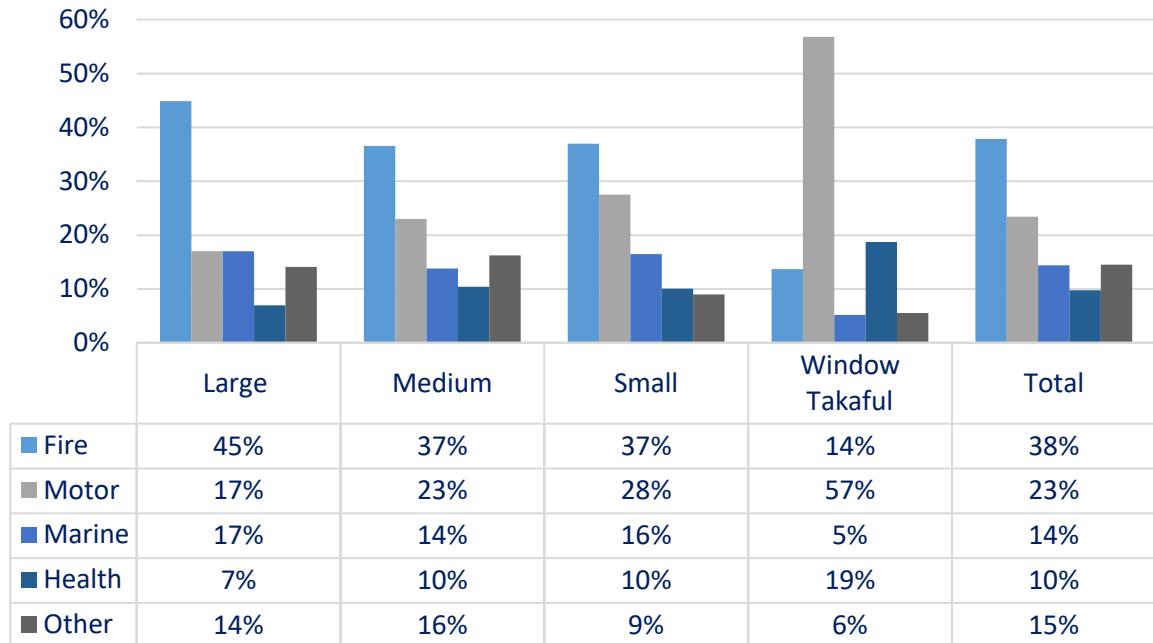


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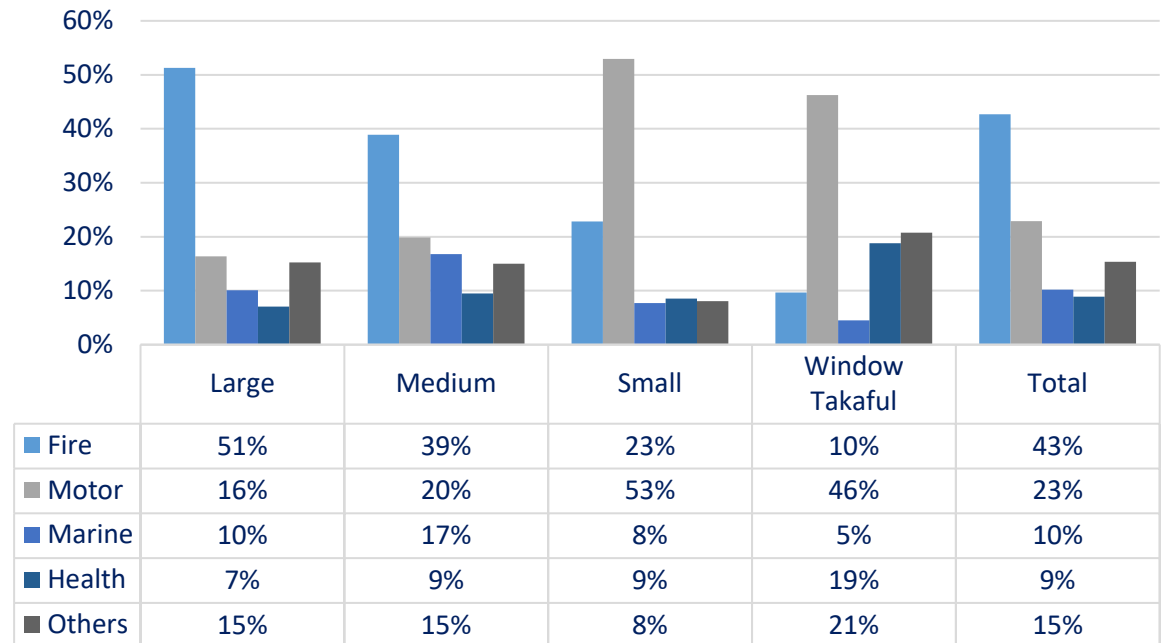
Segment Dynamics

- During CY21, the proportion of the different business segments has almost remained the similar overall, with minor changes.
- The Fire and Property damage insurance leads the way with a share of ~43% in CY21 (CY20: ~38%). Share of the Motor insurance maintained its position at second with stable proportion of ~23% in both years.
- However, the Marine Insurance has declined by ~4% (CY21: ~10%; CY20: ~14%). Health insurance also reduced its share marginally by ~1%.

Segment Wise Business | CY20



Segment Wise Business | CY21

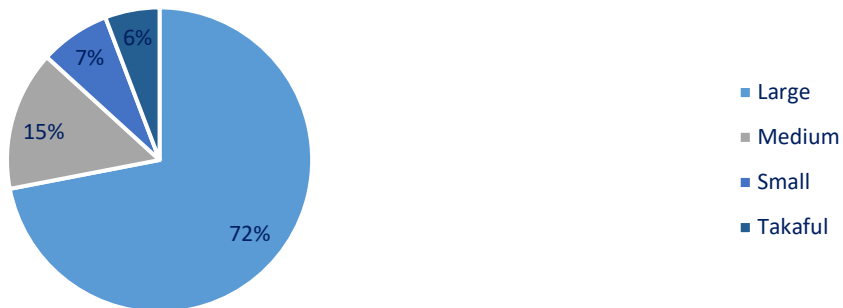


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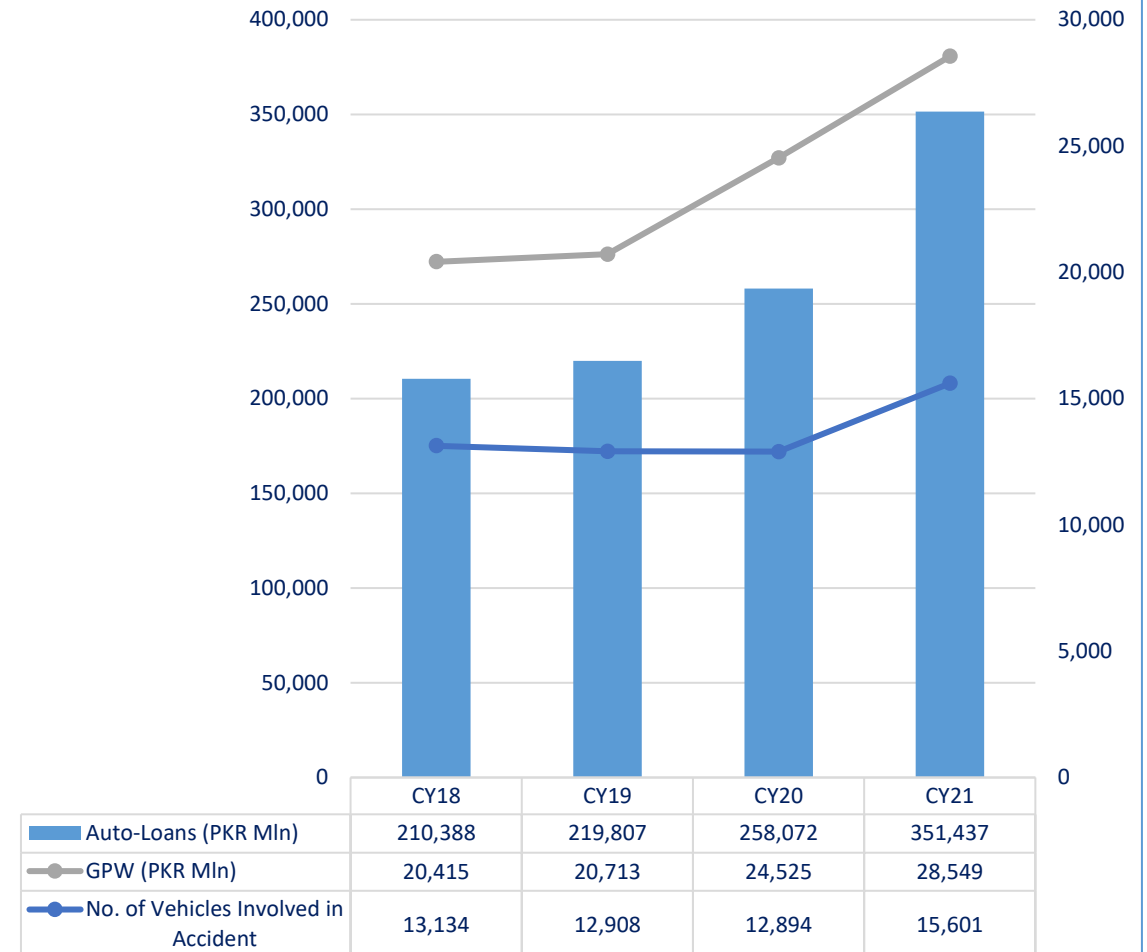
Segment Dynamics | Motor Segment

- GPW of the motor segment has historically risen alongside increases in auto loans and number of vehicles involved in traffic accidents. As insurance usually is mandatory to take car out on loan.
- Despite the high interest rates during the last year, auto loans have substantially boosted by ~36% YoY (CY21). While car accidents rose by ~21% YoY (CY21).
- Going forward, the further rise in the interest rate coupled with the reduced tenure of the auto loans as per the new SBP directives, is likely to squeeze the demand for motor insurance.
- As given in the pie chart below, large insurance company are responsible for more than ~72% of the auto-insurance.

Motor Segment | CY21



Motor Segment - Auto Loans & Vehicle Accidents

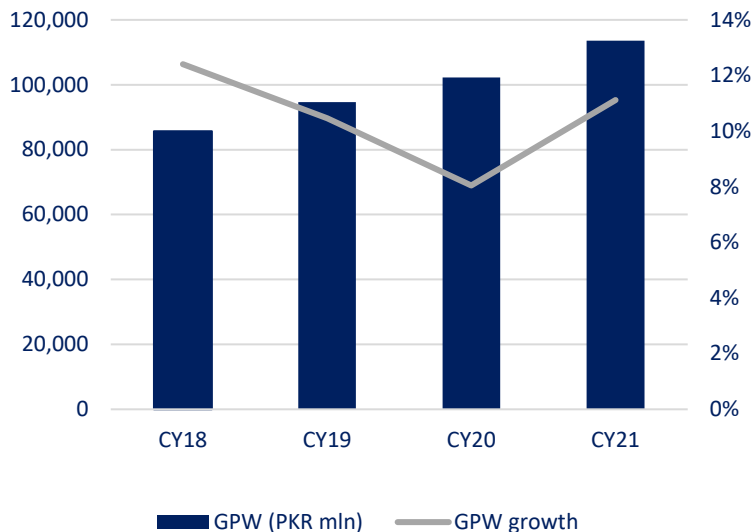


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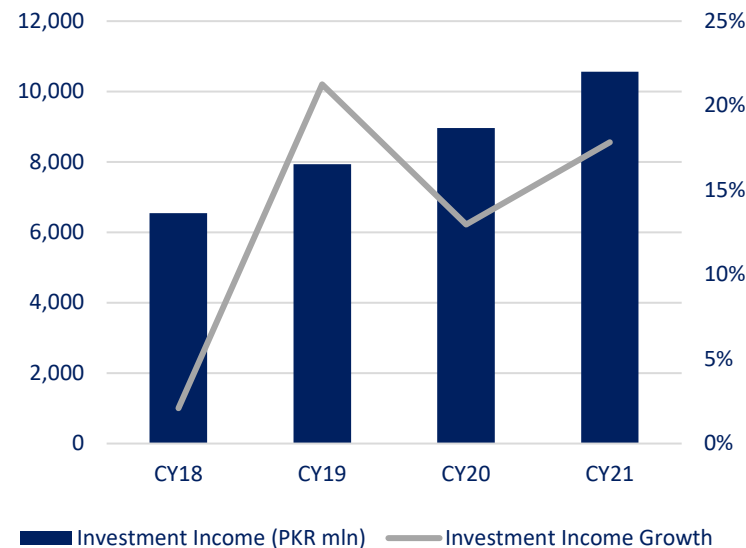
Business Risk | Margins

- The Gross Premium Written (GPW) witnessed a growth of ~11% YoY basis; currently standing at PKR~114bln (CY21) up from PKR~103bln (CY20). GPW has historically seen increasing numbers since last few years.
- Moreover, the sector's investment income for CY21 stood at PKR~11bln, a growth of ~18% YoY. This was comparatively higher than investment income growth in CY20 which clocked in at ~13% YoY.
- The profitability depicts an upwards trend overall. The Return on Equity (ROE) rose by ~12.5% YoY in CY21 compared to last year (CY20: ~10% YoY). Stability in ROE since CY18 is attributable to GPW and NPR which experienced a CAGR of ~11% and ~8%, respectively since CY18.
- The margins and the profitability have been on the rising trend suggesting the positive inflows that the sector can drive.

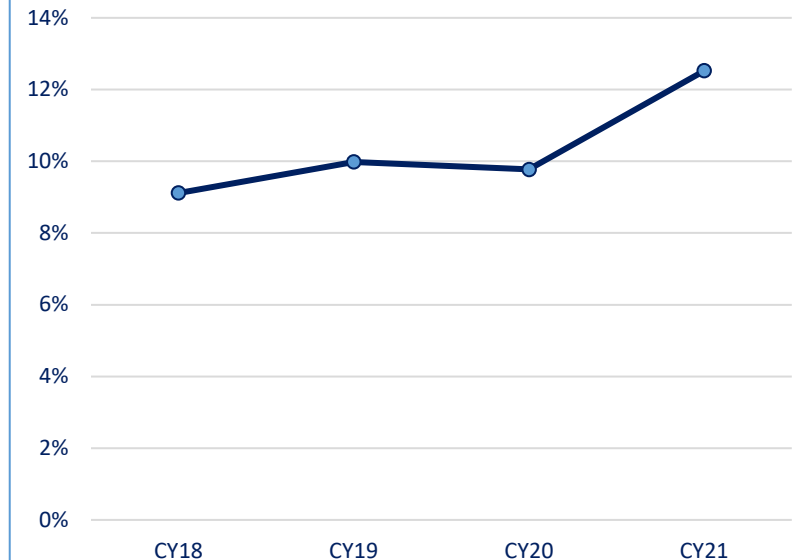
Gross Premium Written (GPW)



Investment Income



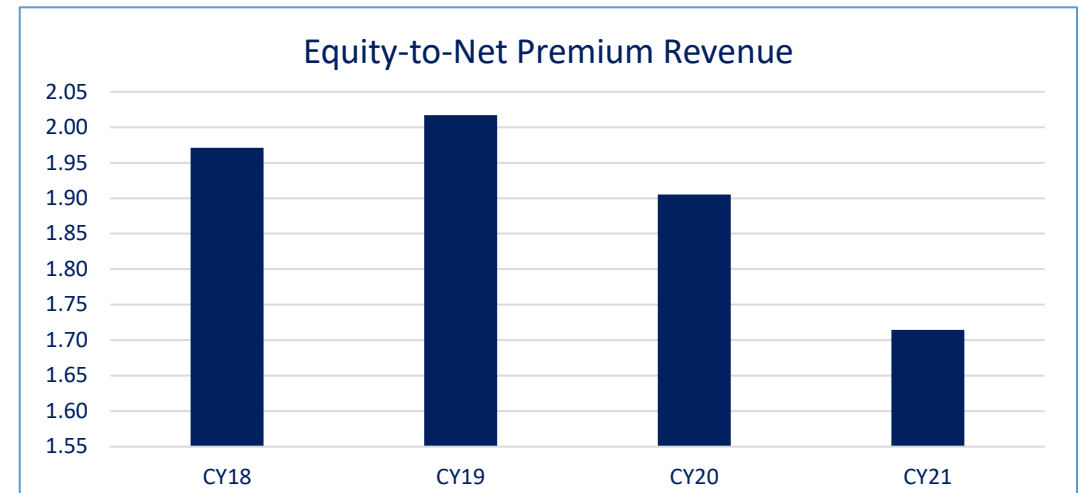
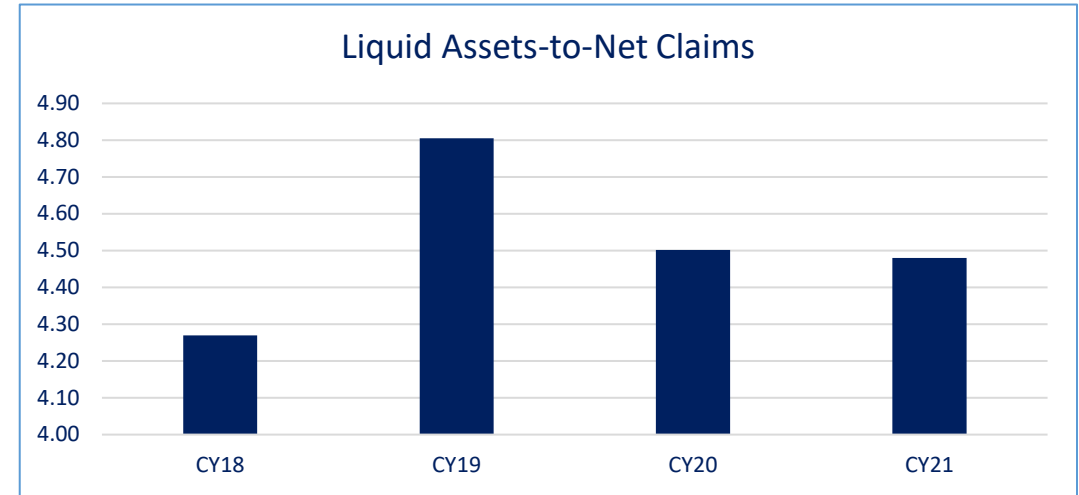
Return on Equity



GENERAL INSURANCE

Financial Risk

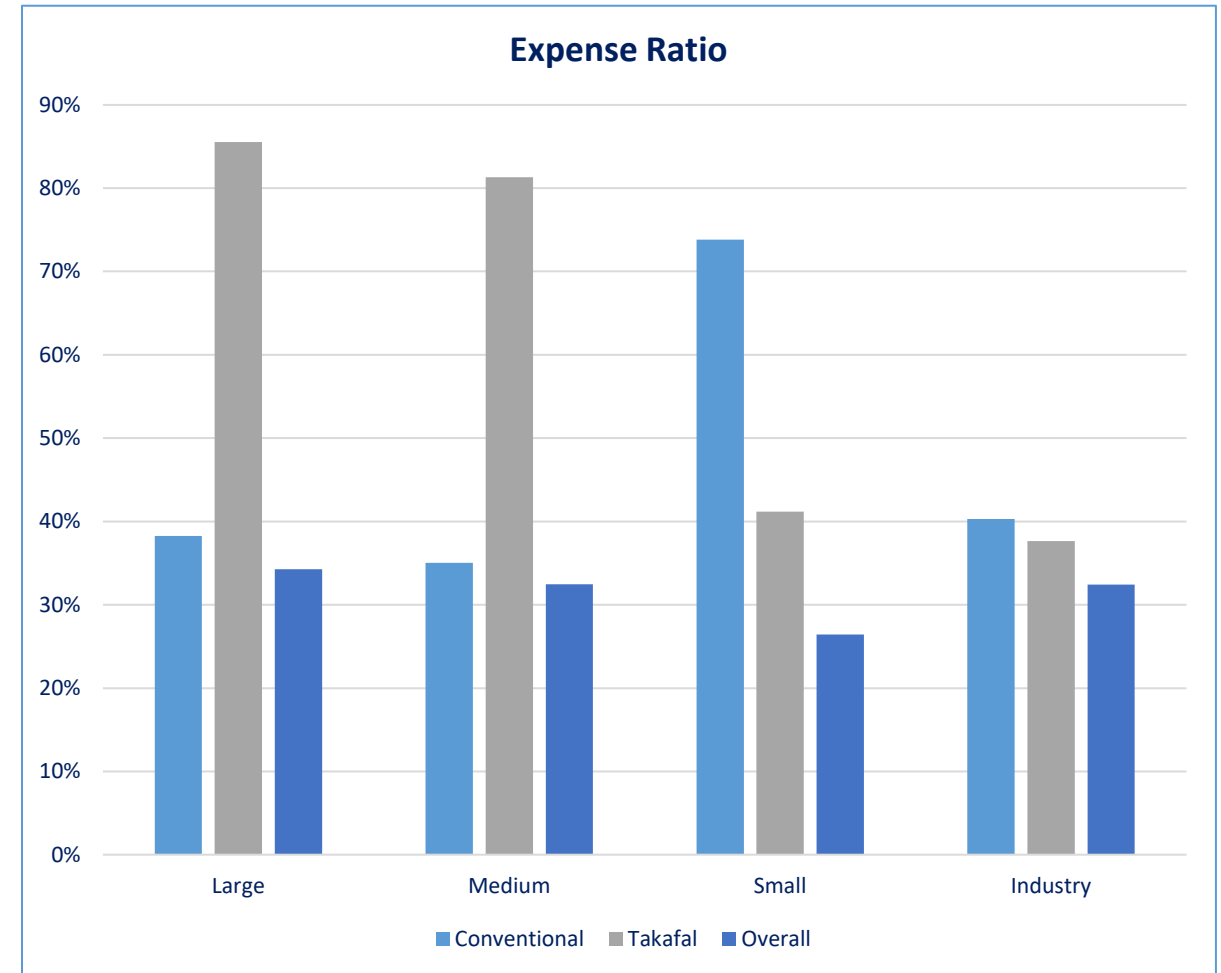
- The ratio between the Liquid Assets and Net claims has been fluctuating during the last four years between ~4 and ~5.
- Net claims increased by ~5% YoY in CY21. The increase, however, is far less than ~19% YoY increase in CY20. The Net claims rose to PKR~31bln (CY21) from PKR~29bln (CY20).
- However, still the coverage of net claims from the liquid assets is nearly ~4.5times (CY21); maintained since the last year, although, lower than CY19.
- The industry's underwriting strength also depicted slight improvement in CY21 since it recorded an increase of ~5% in its equity base YoY basis.
- However, the Equity to NPR ratio stood at 1.71 in CY21 as compared to 1.91 in CY20, following the downward trend since CY19. The trend is primarily attributed to a higher proportionate increase in the Net Premium Revenue than the Equity.



GENERAL INSURANCE

Financial Risk | Expense Ratio

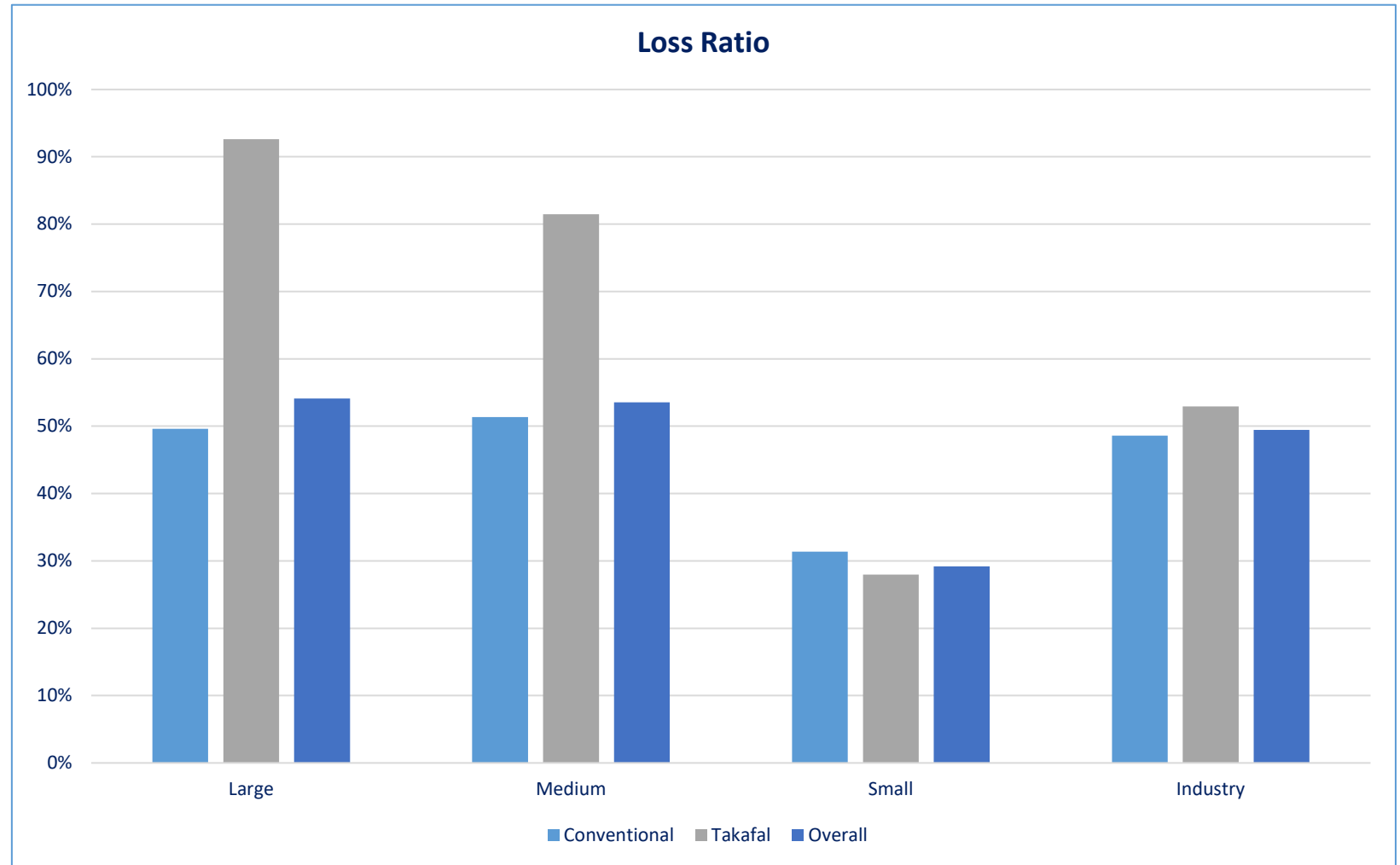
- The relatively lower expense ratio for large and medium scale companies, except for their Window Takaful Operations, indicate a better control of the large and medium companies at managing their expenses.
- This may be attributable to economies of scale alongside a better quality of resources being employed by large sized companies as compared to small companies.
- The high expense ratio for smaller companies leads to underwriting losses or negligible profitability through core operations.
- Large and Medium sized companies in Takaful (CY21:~85%) have significantly high expense ratio than the conventional (CY21:~38%) as represented by the graph on the write.
- The industry’s expense ratio for Takaful operations stood at ~38% in CY21 while the expense ratio for conventional operations stood at ~40% during the period.



GENERAL INSURANCE

Financial Risk | Loss Ratio

- On an overall basis, the takaful business has the highest loss ratio, depicting more net claims paid out against motor insurance through banking channels.
- Takaful operations of large sized companies suffered a high loss ratio of ~93% (CY21)
- For the entire industry, the loss ratio for Takaful operations stood at ~73% and loss ratio for conventional operations stood at ~53%.
- The conventional insurance has a loss ratio of almost ~49% (CY21) for the industry.



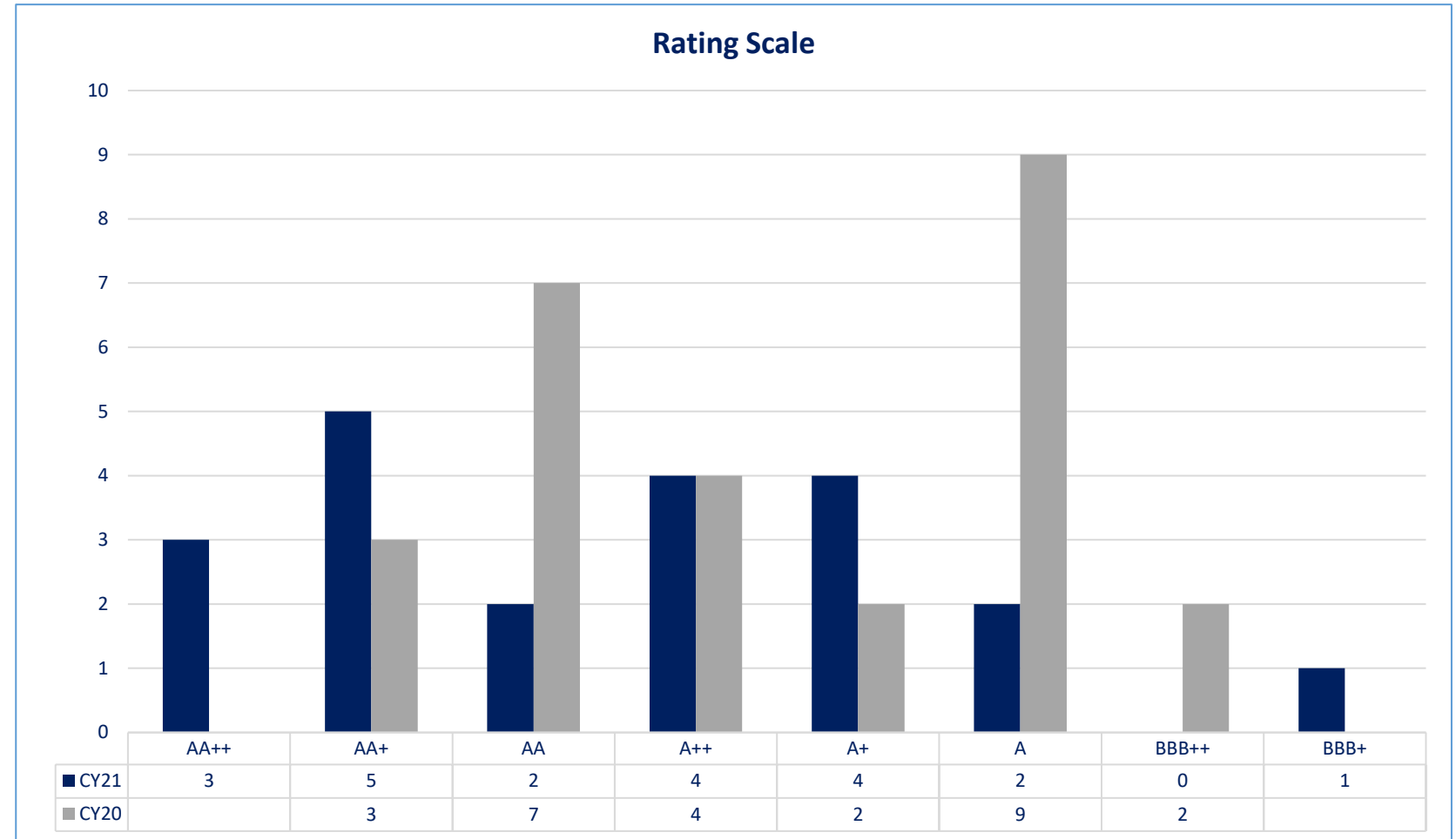
Regulatory Framework

- 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:
 1. Insurance Ordinance, 2000 (amended up to Nov 2011)
 2. Insurance Rules, 2017
 3. Corporate Insurance Agents Regulations, 2020
- As per these regulations, the Minimum Capital Requirement for Non-Life Insurers stands at PKR 500mln 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 non-life insurance business are also required at all times to have admissible assets in Pakistan in excess of its liabilities in Pakistan of an amount greater than or equal to the minimum solvency requirement.
- The minimum solvency requirement is the greatest of
 1. PKR 150mln;
 2. 20% of its earned premium revenue in the preceding 12 months, net of reinsurance expense subject to a maximum deduction for reinsurance of fifty per cent of the gross figure; or
 3. 20% of the sum of its liability for unexpired risk and its liability for outstanding claims, net of reinsurance subject to a maximum deduction for reinsurance in each case of fifty per cent of the gross figure.
- 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.

GENERAL INSURANCE

Rating Scale

- PACRA rates 21 General Insurance companies while VIS rates 13 General Insurance companies. 6 Companies have dual ratings from both CRAs.
- 3 entities received upgrades in their ratings to AA++; while 2 additional companies were added AA+ category. One company was also downgraded to BBB+.





GENERAL INSURANCE

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)



- Underdeveloped industry with GPW amounting to less than 2% of GDP whereby not being able to fulfil need of insurance in the economy.
- Inadequate awareness about insurance policies among some segments of the population.

- Uncertain economic condition with the ongoing political turmoil.
- The rising interest rate and reduced tenure for auto-loans might affect the motor insurance industry adversely.

- Sufficient room for growth.
- Significant potential to tap in shariah compliant insurance policy options in order to cater a greater market.

GENERAL INSURANCE

Outlook: STABLE

- Although the Gross Premium Written (GPW) for the conventional insurance increased modestly by almost ~9% YoY (CY20: ~7% YoY); the Takaful contribution underwritten witnessed a significant increase ~28% YoY (CY20: ~15% YoY) for CY21. This reflects the growing customer base on the window takaful operations given the people are particularly looking out for shariah compliant options in the market. This also highlights the immense potential that the widow takaful operations possess within the economy.
- In terms of the profitability, the underwriting results have also shown a significant growth of nearly ~75% YoY and reached PKR~7bln in CY21 as opposed to only PKR~4bln in CY20.
- An overall increase of ~18% YoY (CY21) in the total Investment Income of the sector, combined for both conventional and takaful, along with the raise of 38% YoY (CY21) in pre-tax profits, promises the positive numbers for the insurance sector.
- The sector liquidity performance to cover net claims also remains intact, with assets on hand being enough to cover the claims four times (CY21) at least.
- However, the tightening of monetary policy and rising interest rates might jeopardize the upward trajectory of the industrial activity, making it more difficult for them to avail loans and invest. Because the Insurance Sector is directly linked to the banking credit growth, the high positive turnouts might decline slightly.
- The sector contributes nearly ~2% (CY21) to the GDP. Although up from ~1% (CY20), it still calls for major reforms in the sector to encourage more firms to come in. This also calls for an awareness of the shariah compliant options available so that market can be further expanded.
- Despite all the risks that might hit the sector, the strong performance by key financial figures hints at the stable outlook for the sector.

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