



Life Insurance

Sector Study

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LIFE INSURANCE

Overview | Global Industry

- Insurance is a legally binding contract as part of a policy, in which an individual or entity receives financial protection or reimbursement against aforementioned losses from an insurance company.
- Life insurance is a contract between a policy holder and an insurance company where in exchange for premium payments, the insurance company will pay a lump sum known as a death benefit to the beneficiaries after the death of the insured.
- There are two primary types of life insurance: term and permanent life. Permanent life insurance can provide lifetime coverage, while term life insurance provides protection for a certain period.
- Post pandemic, almost ~31% of individuals in the USA have showed interest to avail life insurance.
- As a result financial concern rose by ~20% during last two years including ~4% increase in CY21.
- Despite interest of the masses to avail life Insurance plan in the USA, the life insurance segment marginally declined by ~2% in CY21 to around ~52% of the total population (CY20: ~54%).
- The table on the right list top ten life insurance companies around the globe on the basis of market capitalization. It can be deduced that the people of China and Hong Kong have highest penetration in terms of life insurance.

Top 10 Companies CY22		
Rank	Country	Market Value (USD bln)
1	United Health Group (U.S.)	490
2	Ping An Insurance (China)	122
3	AIA Group Limited (Hong Kong)	120
4	Allianz (Germany)	96
5	Chubb Limited (Switzerland)	87
6	Cigna Corporation (U.S.)	81
7	Zurich Insurance Group	69
8	AXA SA (France)	66
9	MetLife, Inc. (U.S.)	57
10	American International Group, Inc. (U.S.)	49

Overview | Local Industry

- Market size of the Life Insurance industry with respect to the Gross Premiums Written (GPW) was PKR~291bln in CY21; up by ~25% YoY as compared to the last year's GPW of PKR~233bln in CY20.
- Gross Premium Written (GPW) of PKR~97bln in 1QCY22 witnessed a decrease of ~27% YoY with the base year's GPW of PKR~133bln in 1QCY21.
- The sector has in total nine (9) operational companies. 8 amongst these 9 are private sector companies while 1 is a public sector company which is State Life Insurance Corporation (SLIC) possessing a sizeable market share of ~61% alone.
- Although, all of the private companies have Window Takaful Operations; 2 of them are dedicated Family Takafuls, while 6 operate as conventional insurance companies.
- Life Insurance industry of Pakistan is underserved; primarily, because of the religious sentiment attached to the concept of death and insurance policies. There is a significant potential of penetration by the industry in terms of shariah compliant offerings.

Industry Overview	CY19	CY20	CY21	1QCY21	1QCY22
Gross Premium Written (GPW) (PKR mln)	228,689	233,151	290,542	132,711	97,441
Growth (YoY)	9%	2%	25%	-	-27%
Conventional - Private	6				
Takaful - Private	2				
Total Private Sector	8				
Conventional - Public	1				
Total Life Insurance Companies	9				
Market Share (%)					
Public Sector	54%	52%	56%	53%	69%
Private Sector	46%	48%	44%	47%	31%
Regulator	Securities & Exchange Commission of Pakistan (SECP)				
Industry Association	The Insurance Association of Pakistan (IAP)				

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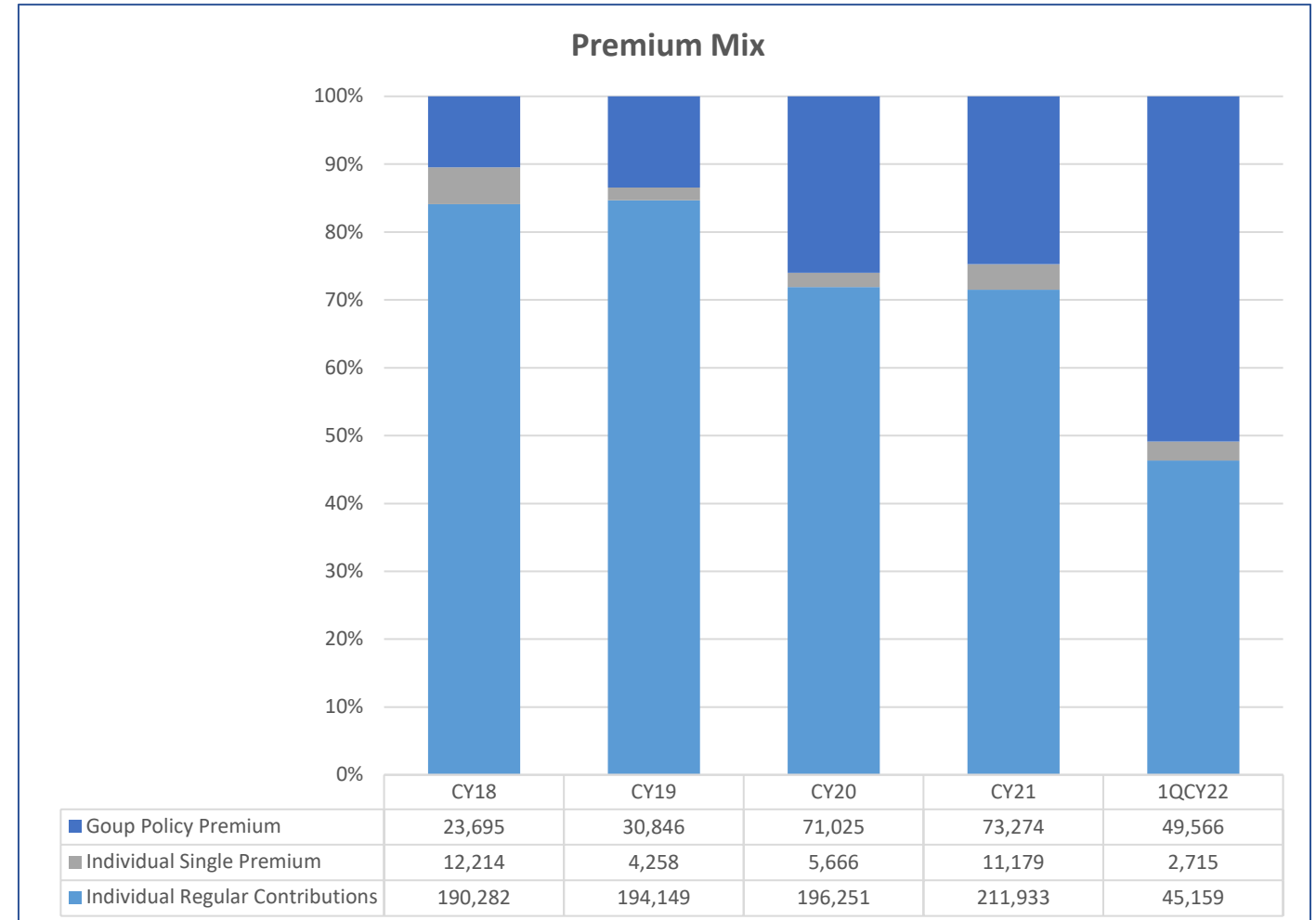
Industry Dynamics

S. No	Insurance Companies	CY19			CY20			CY21		
		Gross Premium (PKR mln)	Growth (%)	Market Share (%)	Gross Premium (PKR mln)	Growth (%)	Market Share (%)	Gross Premium (PKR mln)	Growth (%)	Market Share (%)
Conventional-Private										
1	Jubilee Life	49,627	3%	22%	46,507	-6%	20%	49,356	21%	7.1%
2	EFU Life	31,750	3%	14%	32,546	3%	14%	37,407	86%	0.3%
3	Adamjee Life	12,969	36%	6%	17,148	32%	7%	20,734	15%	12.9%
4	IGI Life	4,815	101%	2%	6,161	28%	3%	7,057	15%	2.4%
5	Askari Life	300	585%	0%	449	50%	0%	835	6%	17.0%
6	TPL Life	753	73%	0%	1,130	50%	0%	640	-43%	0.2%
	TOTAL	100,215	9%	44%	103,941	4%	45%	116,028	12%	40%
Conventional-Public										
7	SLIC	118,551	8%	52%	119,415	1%	51%	162,480	36%	56%
	TOTAL	118,551	8%	52%	119,415	1%	51%	162,480	36%	56%
Takaful										
8	Pak Qatar Family	8,287	6%	4%	7,961	-4%	3%	9,986	25%	3%
9	Dawood Family	1,636	11%	1%	1,834	12%	1%	2,047	12%	1%
	TOTAL	9,923	7%	4%	9,795	-1%	4%	12,033	23%	4%
GRAND TOTAL		228,689	9%	100%	233,151	2%	100%	290,542	25%	100%

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Premium Mix

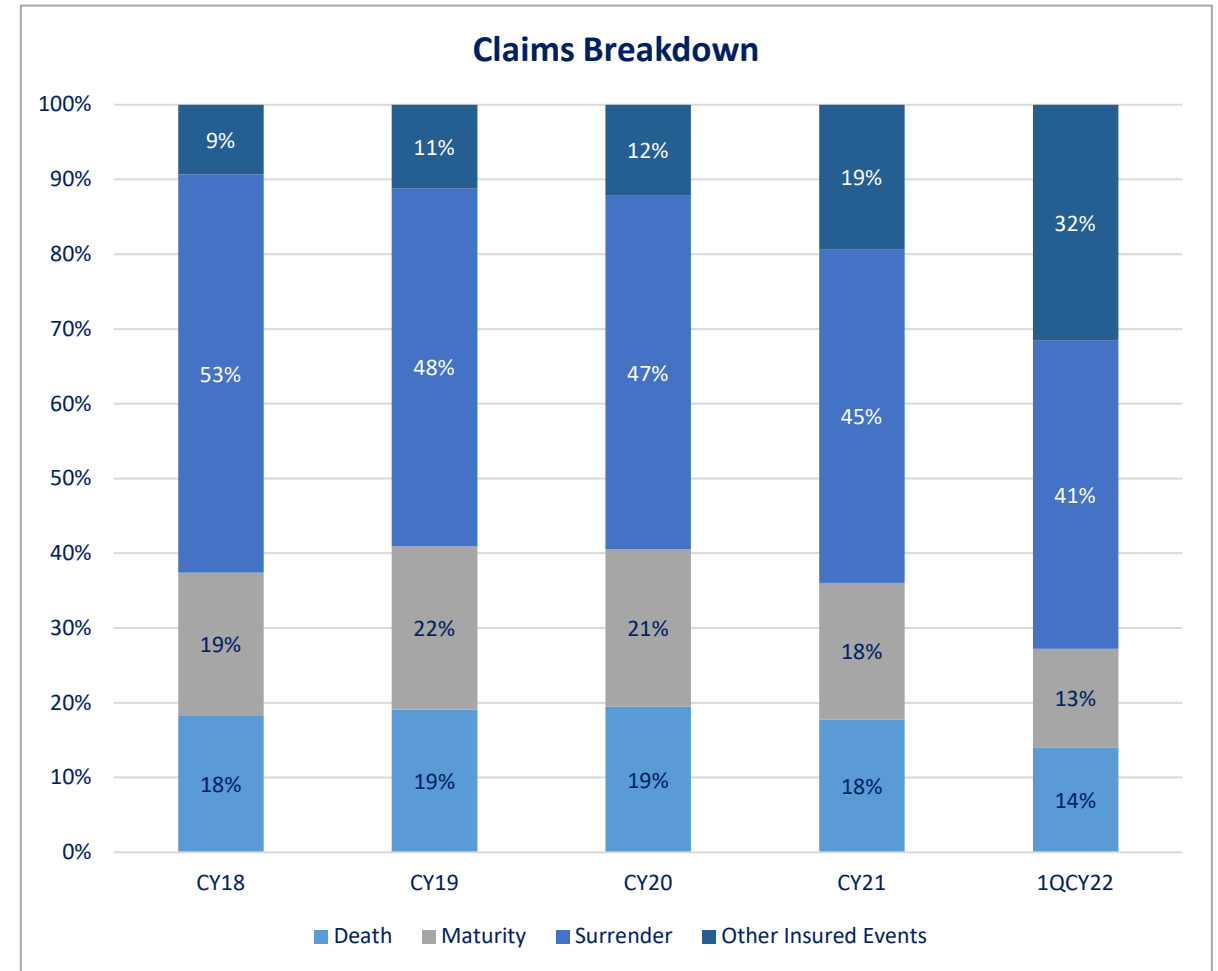
- Historically, individual regular premium has captured the highest chunk of the total premiums.
- For CY21, individual regular contributions made up ~72% (PKR~212bln) of the total premium maintaining its share at the previous year's (CY20) level.
- Individual single premiums have increased by ~2% in CY21 to a total of ~4% in the premium mix.
- Meanwhile, the proportional share of group policy premiums dropped by ~1% in CY21 to ~25% of the total premiums. However, during 1QCY22, the Group Policy Premiums have grown tremendously as compared to the previous years, most likely attributed to the growth of national-level Sehat Sahulat Program. Resultantly, the share of Group Policy premiums in the total premiums penetrated to almost ~51% of the pie grabbing the share of Individual regular contributions. The pace of growth is, however, expected to slow down in the next quarters of CY22.



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Claims Break Up

- After a huge increase of ~62% in CY20, net claims declined by ~0.4% in CY21, owing to decreased death rate which had accelerated during the last two years because of the pandemic.
- The total net claims for CY21 stood at PKR~182bln approximately.
- Surrender claims have made up the highest share of the claims historically. Their share for CY21 stood at ~45%; down by ~2% from ~47% in CY20. For 1QCY22, the share has declined even further to ~41%.
- The share of both death and maturity claims were around ~18% for CY21; with a decline of ~1% and ~2% respectively as compared to CY20. Proportion of death claims declined to only ~14% while maturity claims declined to ~13% in 1QCY22.
- The chunk of claims due to other insured events has been on a rise with current portion of ~19% in CY21 up by ~7% in comparison to CY20. The proportion has significantly risen to ~32% for 1QCY22; primarily because of a significant decline in claims by death, maturity and surrender.

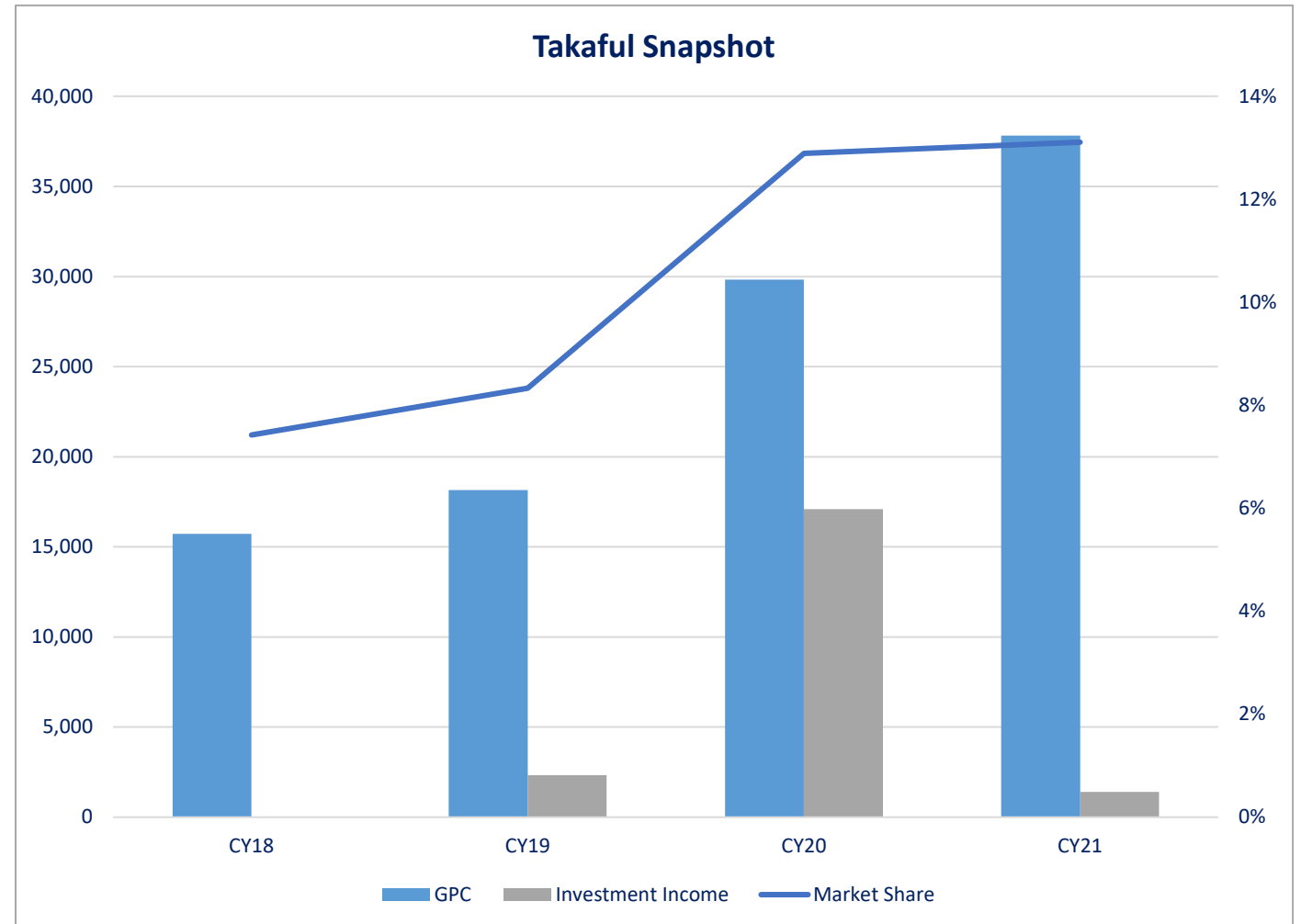




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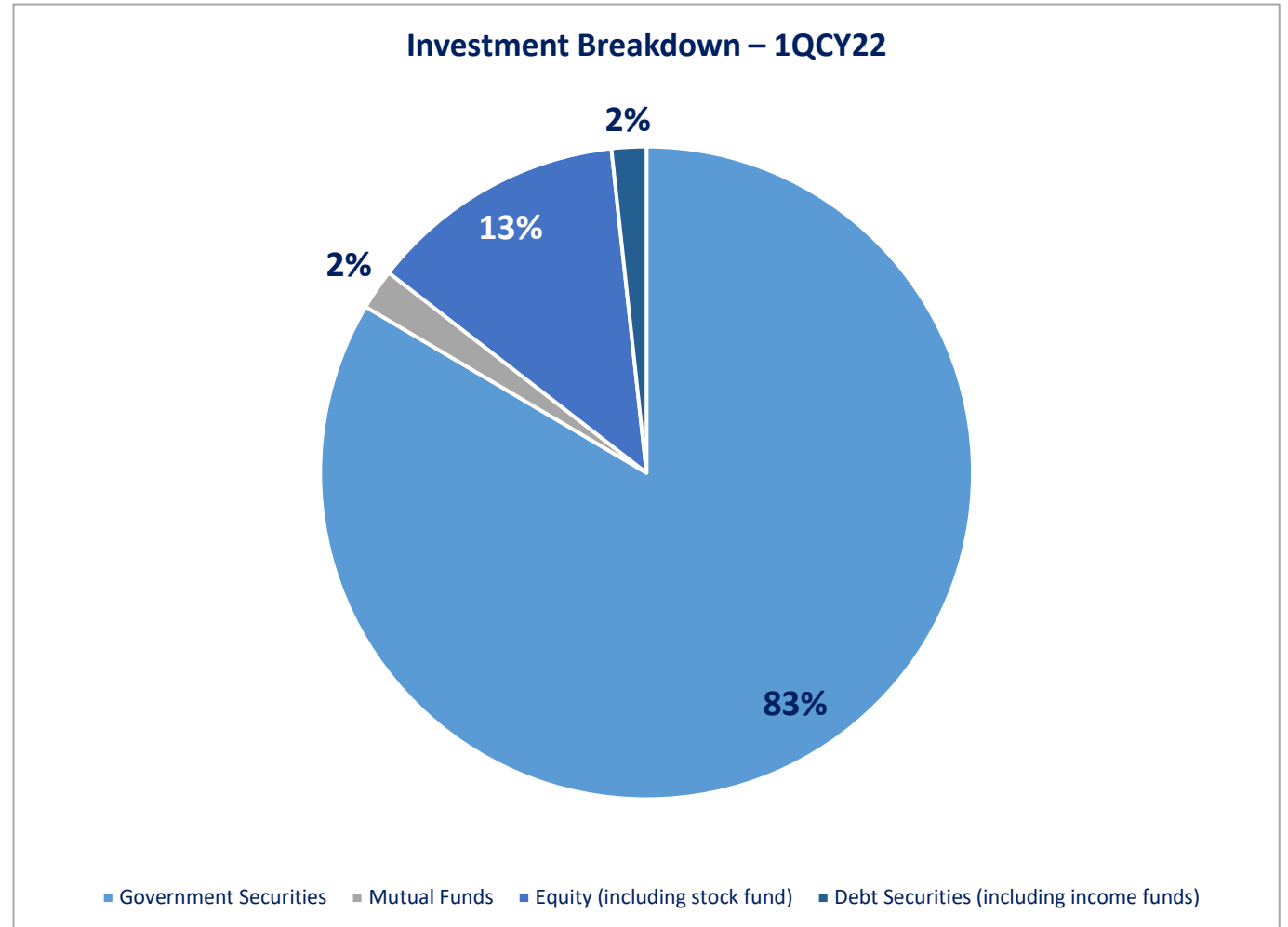
Takaful Snapshot

- While all of the companies have Window Takaful Operations, there are two dedicated Takaful companies in Pakistan. These two companies contribute nearly ~25% to the Takaful business.
- The overall share of the Takaful business has been rising since last few years and stood at ~13% in CY21 with a marginal increase as compared to CY20, as illustrated in the bar chart on the right.
- The overall Gross Premium Contribution (GPC equivalent to GPW) grew by ~27% in CY21 taking the GPC to PKR~38bln (CY20: PKR~30bln). The increase was even higher in CY20 during which the GPC increased by ~64% from CY19 YoY.
- The Investment Income including other comprehensive income, on the other hand, declined by ~92% in CY21 as compared to CY20. The Investment Income in CY21 stood at PKR~1.4bln while it was as high as PKR~17.1BlN in CY20. This steep decline can be attributed to low interest rate environment for most of the CY21 while the insurers sought high returns. Moreover, it was also due to the net fair value losses.



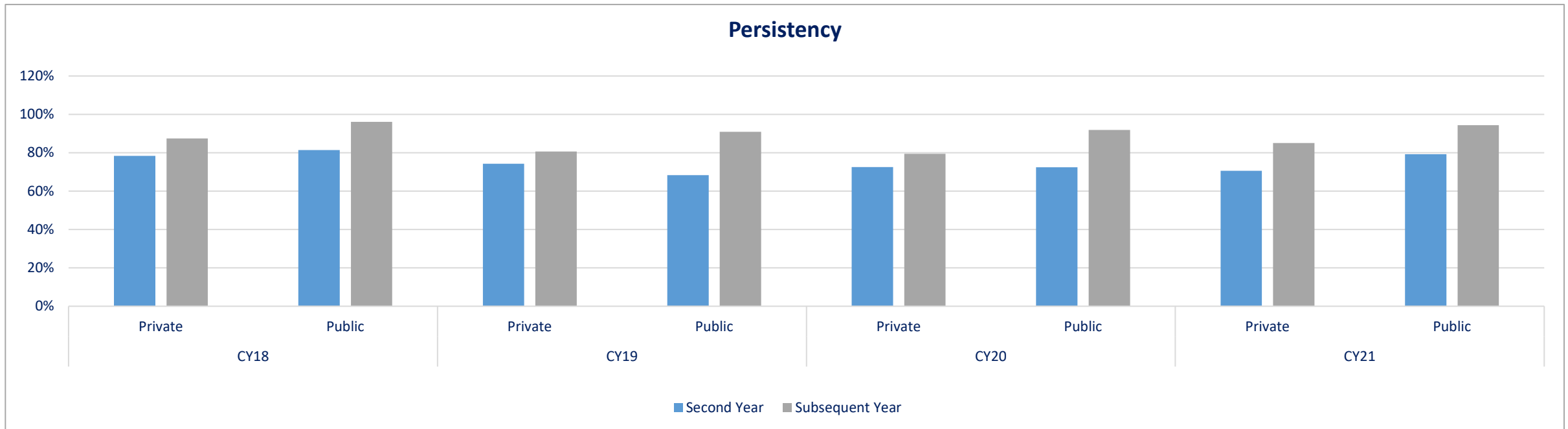
Investment Portfolio

- The industry’s investments went up by ~12% in CY21. For CY21, the Investments clocked in around PKR~1,534bln. For 1QCY22, the total investments of the industry stood at PKR~1,555bln approximately.
- The industry’s investments are largely concentrated in government securities which currently constitute ~83% of the total investments. This share reflects both long-term and short-term investment avenues including investment in Treasury bills, Pakistan Investment Bonds (PIBs) and Sukuks.
- Share of investment in Government Securities has grown over the years because of the secure nature of these investments. Investment in Government Securities has risen by almost ~10% YoY in 1QCY22 (1QCY21: ~74%).
- The second highest chunk of investments lies in equity market securities which contributed ~13% for the Industry’s Investment book in 1QCY22.
- Meanwhile, investment in mutual funds and debt securities both contribute ~2% to the total investments of the life insurance industry.



Persistency

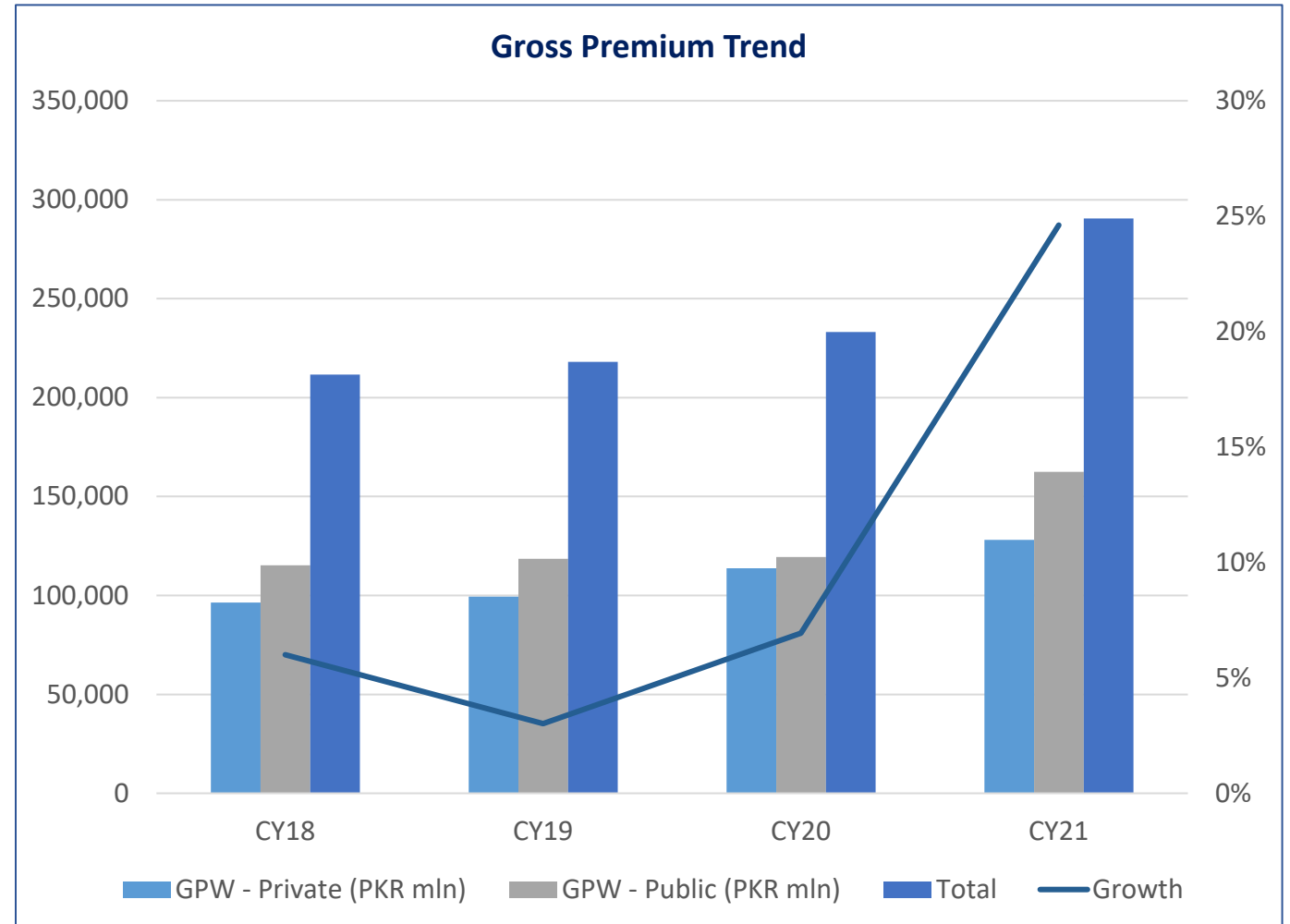
- It can be seen that the public sector has had higher persistency than the private sector historically. It can also be witnessed through the graph below that the subsequent year persistency is usually higher than the second year persistency.
- Private sector persistency for the second year declined by ~2% to ~71% in CY21 whereas, the subsequent year persistency increased by ~6% to ~85% for the same period as compared to CY20.
- The public sector persistency for the second year increased by ~7% to ~79% in CY21 as compared to CY20. Meanwhile, the subsequent year persistency was ~94% in CY21 up by ~2% from CY20.



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Premium Growth

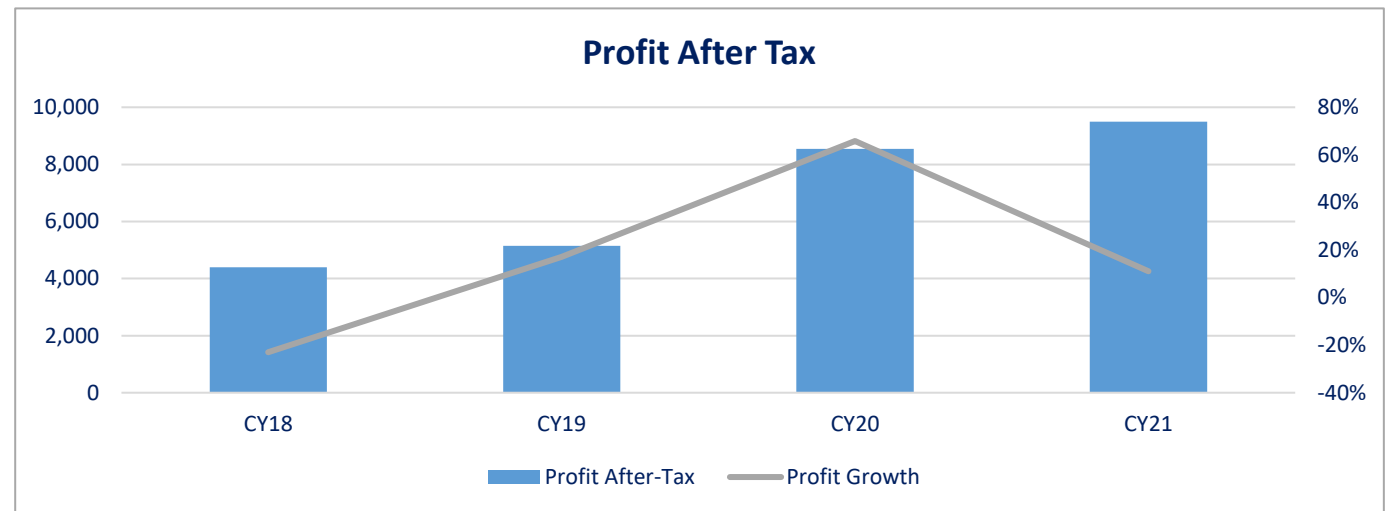
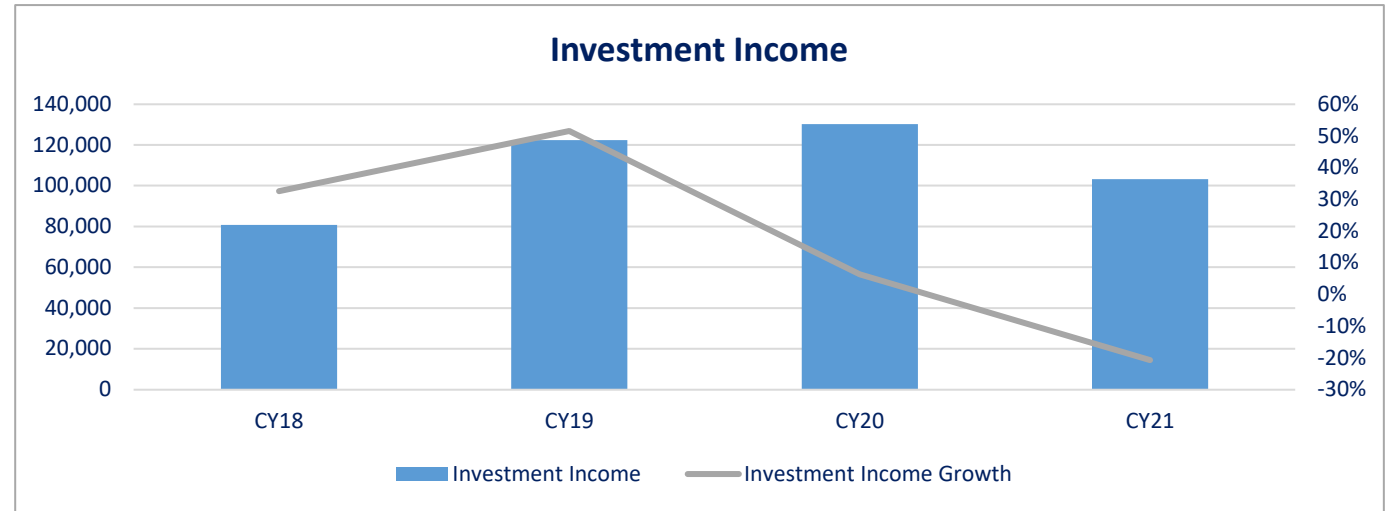
- The life insurance industry premiums exhibited a healthy growth of ~25% YoY in the overall Gross Premiums Written (GPW) for CY21.
- A major increase was experienced by the public sector in CY21. GPW for the public sector soared by ~36% YoY in CY21. While the GPW for the private sector grew by ~13% YoY for the same tenure.
- The total GPW for CY21 of the industry was equivalent to PKR~291bn.
- Public sector's GPW for CY21 was PKR~162bn as compared to PKR~119bn in CY20.
- Private sector's GPW for CY21 was PKR~126bn as opposed to PKR~112bn in CY20.
- Generally, the trend of the GPWs is upwards for the last few years as shown by the bar chart on the right.



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Business Risk | Margins

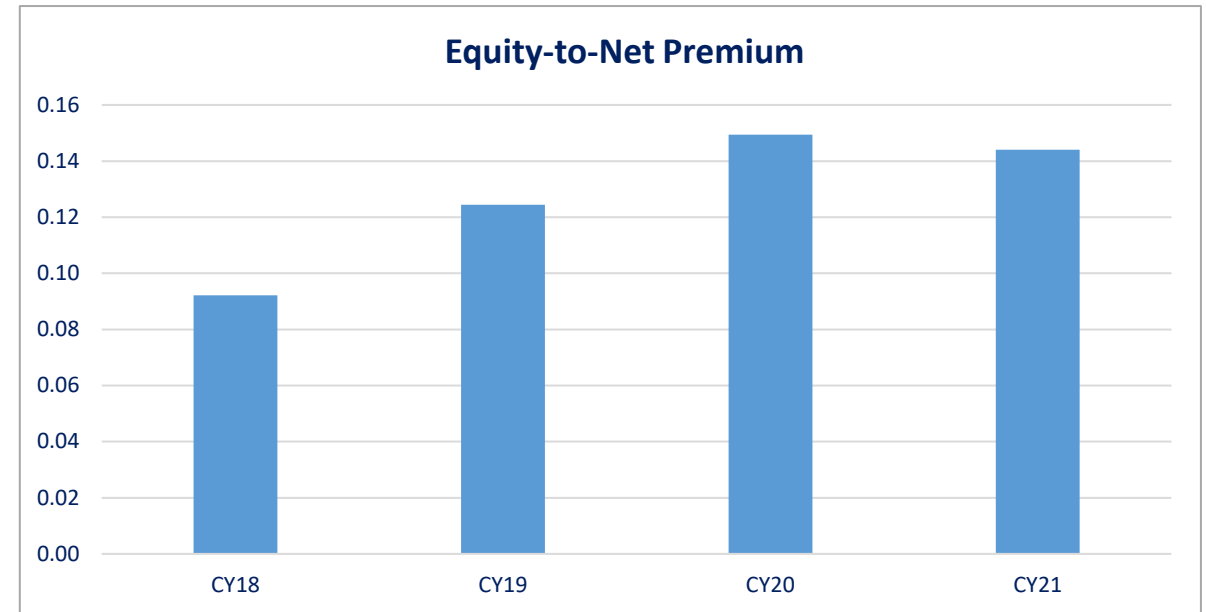
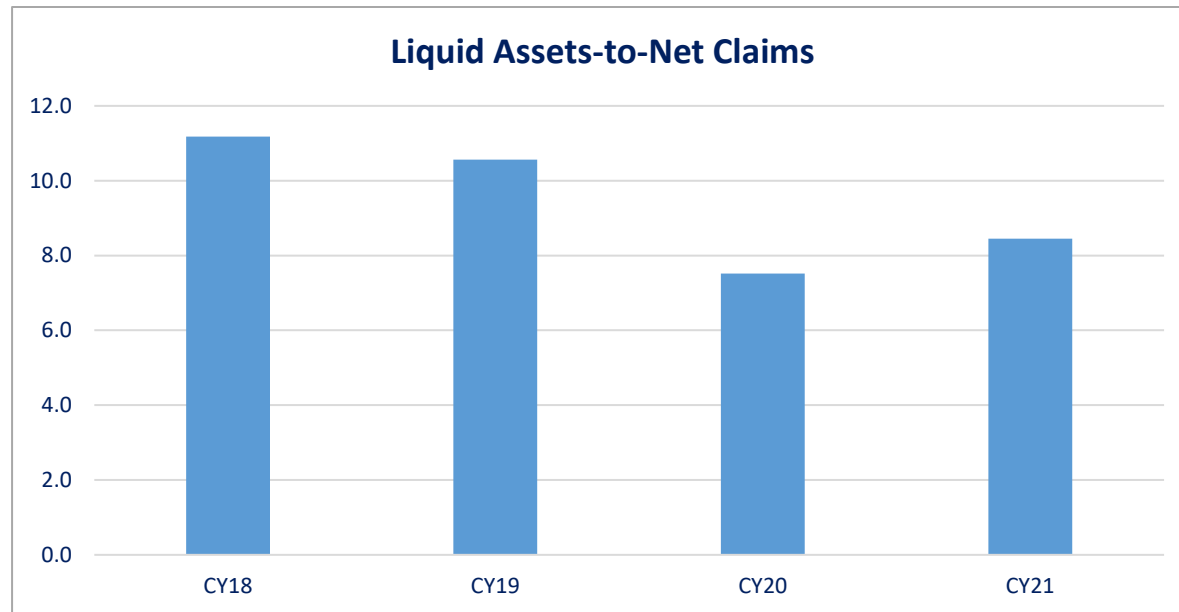
- The industry's investment income had the highest growth of ~52% in CY19. Since then the growth rate has been declining.
- Investment income for the industry plummeted by ~21% YoY in CY21 due to net fair value losses and comparatively lower returns.
- The total investment income of the industry stood at PKR~103bln in CY21 down by ~21% from PKR~130bln in CY20.
- On the other hand, Profit after tax for the industry increased by ~11% YoY in CY21 because of the sharp rise in gross premiums which ultimately contributed to the net profit.
- Cumulative Profit after tax (PAT) for the industry stood at PKR~9,493mln in CY21 (PKR~8,543mln in CY20).
- The general trend shows that the growth rates have declined after CY19 for Investment Income and after CY20 for Profit after tax.



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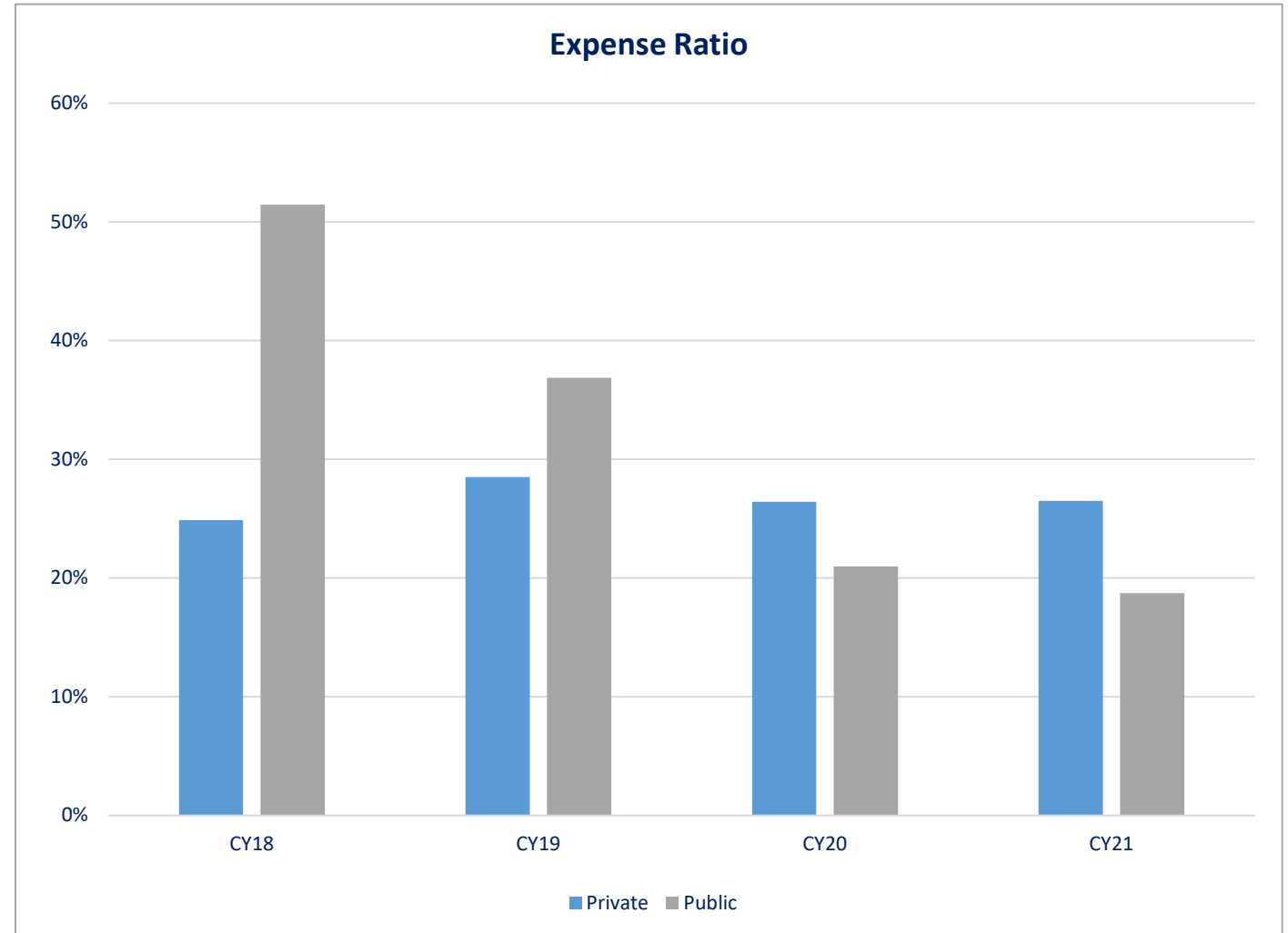
Financial Risk

- During CY21, liquid assets increased by ~12% from PKR~1,370bln in CY20 to PKR~1,534bln in CY21. Meanwhile, the Net Claims declined by ~0.4% in CY21.
- Consequently, the Liquid Assets to Net Claims ratio increased to ~8.5times in CY21 as compared to ~7.5times in CY20.
- The industry's equity base exhibited an increase of ~20% from PKR~33,953mln in CY20 to PKR~40,807mln in CY21. The increase was due to greater retained earnings as well as increase in reserves and issuance of share capital by some players. On the contrary, the Net Premium Revenue expanded by ~25%.
- Thus, the Equity to Net Premium Ratio marginally fell to ~0.14times in CY21 from ~0.15times in CY20.



Financial Risk | Expense Ratio

- Expense ratio compares the expenses incurred by an insurance company while underwriting an insurance policy against the net revenues it receives as a result.
- The Industry’s expense ratio has been declining since CY18 as illustrated by the bar chart on the right which depicts that the capacity to generate revenues against expenses incurred by the insurance companies has been improving.
- Moreover, the expense ratio for the public sector has become lower in the last two fiscal years than the private sector. This implies that the public sector (SLIC) performance has been comparatively improving than the private sectors in terms of managing expenses and generating net revenues.
- Expense Ratio for the public sector stood at ~19% in CY21 relatively better than the ~21% ratio in CY20.
- On the other hand, the ratio remained stable at ~26% in CY21 for the private sector companies as of the last year – CY20.

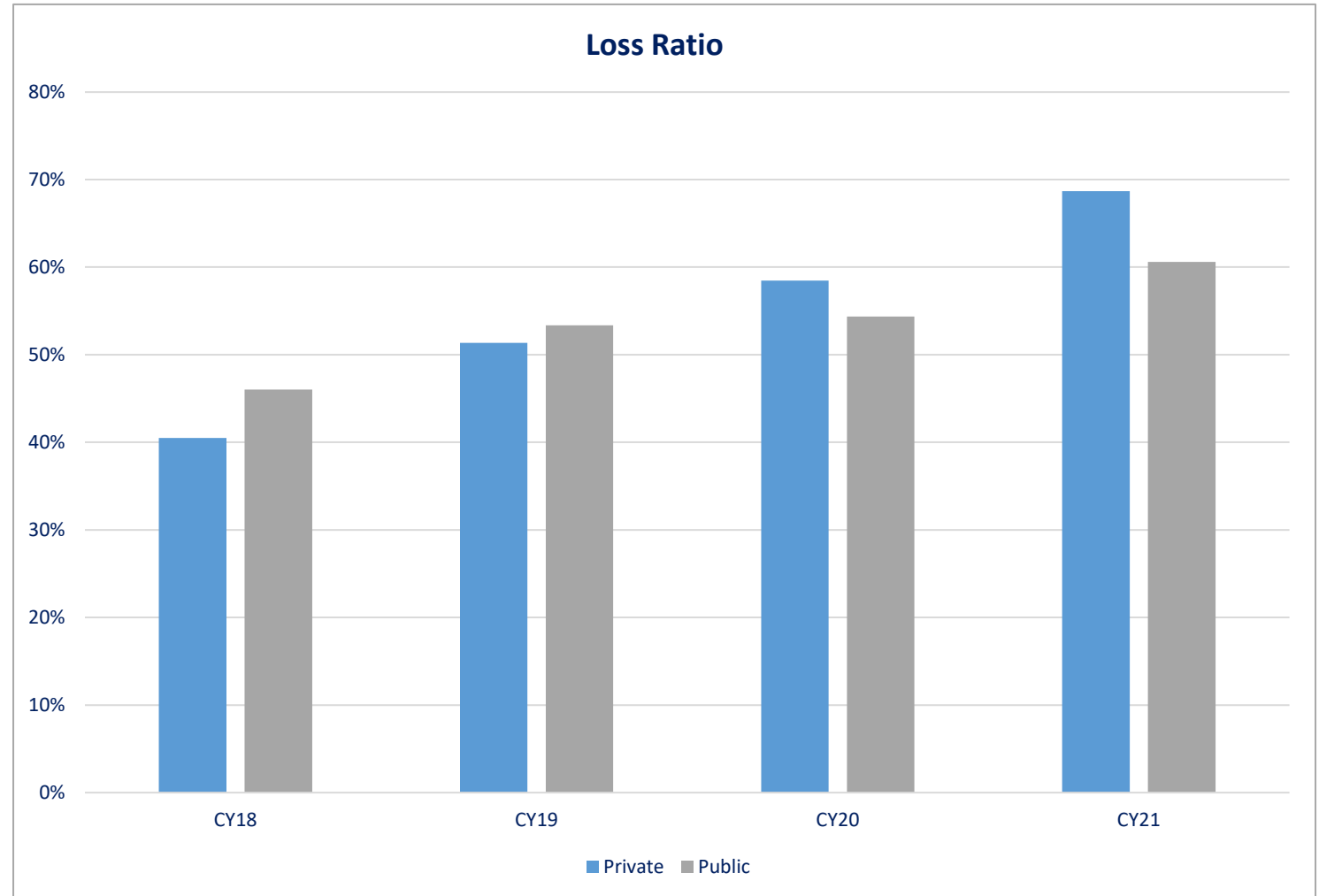




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Financial Risk | Loss Ratio

- The loss ratio of an insurance company measures the loss that the company incurred in paying off claims as a percentage of the net premium earned.
- The industry's loss ratio has been rising gradually as the net claims are growing more rapidly than the net revenue. However, the lower it is, the better.
- Additionally, the loss ratio for the private sector is usually higher than the loss ratio of the public sector.
- For the private sector, the loss ratio has reached as high as ~69% in CY21 as opposed to ~59% in CY20.
- Public sector on the contrary, has a slightly better loss ratio. The ratio stood at ~61% for CY21 as compared to ~54% in CY20. The increase is still less than the increase in the private sector.

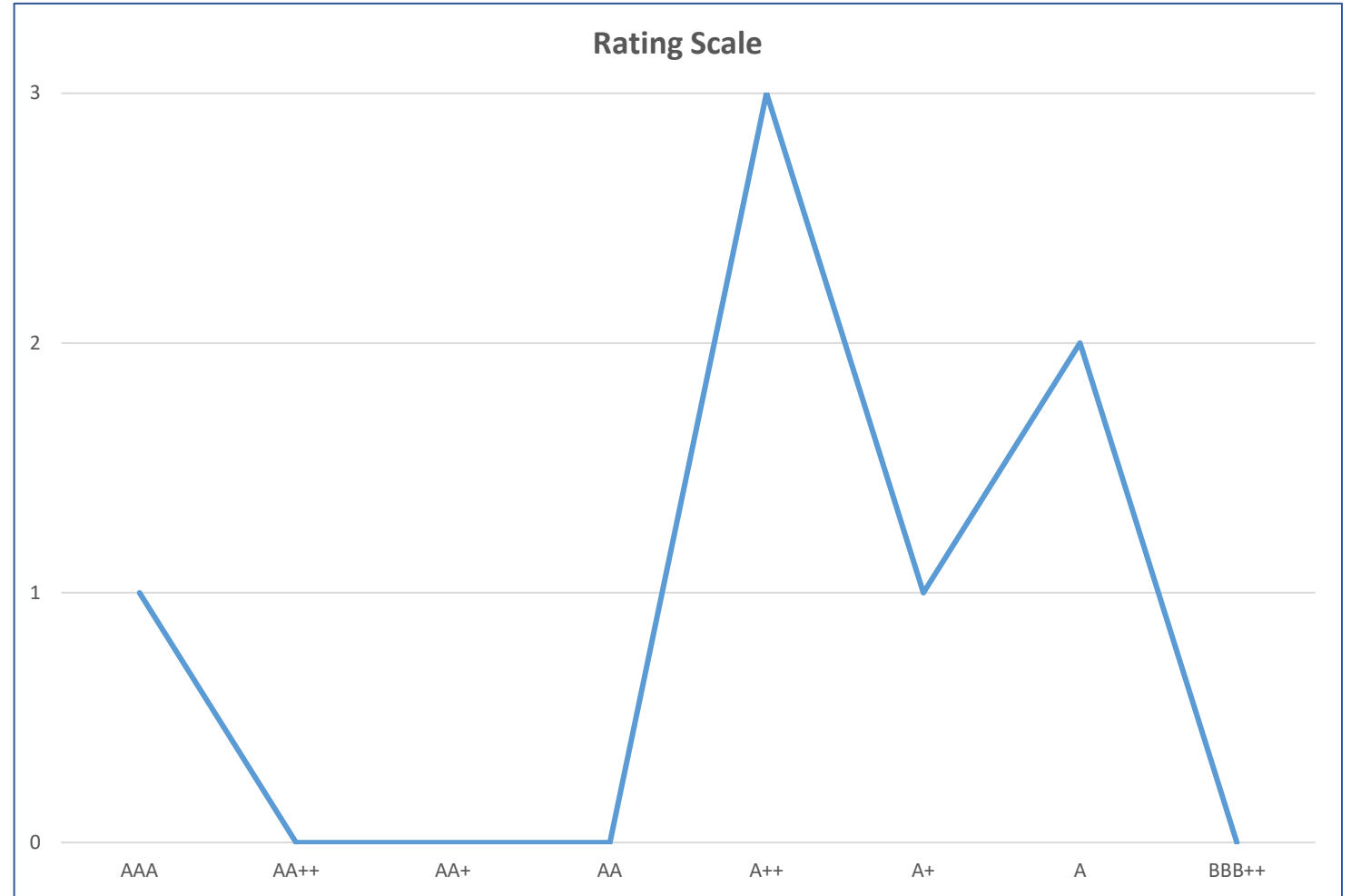


Regulatory Framework

- 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.
- According to the Finance Bill 2022, the insurance sector is liable to pay additional 2% poverty alleviation tax given the profitability exceeds PKR 300mln.

Rating Scale

- PACRA rates seven (7) clients from the Life Insurance Industry.
- The overall rating bandwidth lies between BBB++ and AAA.



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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).



- Inadequate awareness about insurance policies among various segments of the population.
- Very few companies offering life insurance.
- Lack of access to the target segments of the society where life insurance can benefit the most.
- Lack of adequate technological infrastructure and resources to tap the desired markets.

- Deteriorating macro-economic indicators and rising interest rates can hamper the growth of financial sector in the country.
- Political uncertainty.
- Resistance on conventional policies due to religious sentiments

- Sufficient room for growth.
- Growth potential in shariah compliant offerings

Outlook : STABLE

- Although the domestic economy performed well during the first half of CY21, the jolts of global economic uncertainty and commodity price spiral began to cast rippling effect on the local economy in the later half of the year. The impact still continues to take over with an all time high headline inflation, rising interest rates, plummeted PKR against dollar, sky-rocketing fuel prices and deteriorating fiscal discipline.
- All these issues are ultimately compromising consumers' purchasing power and reducing their real incomes which indirectly is expected to impact the volume of life insurance policies purchased by individuals because of the substantially reduced disposal incomes.
- During CY21, the top-line of the life insurance industry increased by ~25% YoY up from PKR~233bln in CY20 to PKR~291bln in CY21. However, the growth rate is expected to be lower in CY22 as compared to CY21 due to expected slowdown in the growth of the financial sector of the country.
- One of the core financial strength of the Sector players is their strategic investment book. In CY21, the strategic Investment of the sector stood at PKR~1,534bln up by ~12% YoY from PKR~1,370bln in CY20. For 1QCY22, the investment were recorded at PKR~1,555bln. Net claims on the contrary have marginally declined by ~0.4% YoY in CY21 after and jump of 62% YoY in CY20. This reflects the improved liquidity position of the life insurance industry.
- Investment Income, on the other hand, declined significantly by ~21% in CY21, whereas, the growth was equivalent to ~6% in CY20. During CY21, a total of PKR~103bln were generated against the PKR~130bln in CY20. In rising Interest rates environment, the sector is expected to reap benefits from short term investments in Government Securities.
- Profit after tax for the industry also grew by ~11% YoY in CY21; the profit increased from PKR~8.5bln in CY20 to PKR~9.5bln in CY21. As per the proposed Finance Bill 2022, the sector shall be liable to pay additional 2% poverty alleviation tax given the profitability exceeds PKR~300mln.
- With increased inflation and interest rates coupled with tight monetary and fiscal policies, the activity in the economy is likely to decline generally and likewise for the life insurance sector.
- However, in terms of the financial strength, the sector is expected to remain resilient and maintain its momentum towards growth. It is generally so because most of the clientele of life insurance companies belongs to that segment of the market which is comparatively less affected by hiked inflation and rising prices.

- State Bank of Pakistan (SBP)
- Insurance Association of Pakistan (IAP)
- PACRA Database
- Company Financial Statements
- Pakistan Bureau of Statistics (PBS)

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