

# **General Insurance Sector Update**

**Nov 2015**

**GPW Growth**

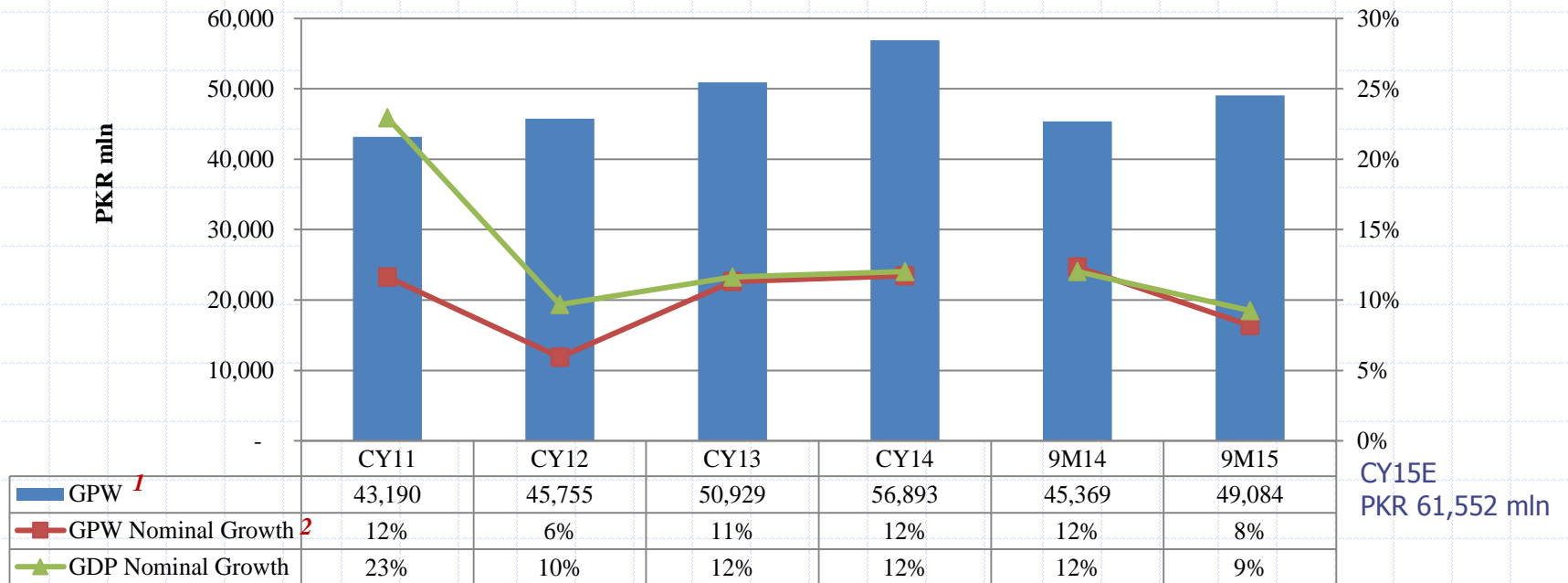
**Market |  
Segmental Mix**

**Performance**

**Strengths**

**Challenges**

# GPW Growth



- Growth in economy impacts directly the business prospects of general insurance industry in Pakistan.
- Private sector GPW CAGR 11% for four years
- General Insurance Penetration declined to 0.22% in CY15E from 0.24% in CY11.

GPW Growth

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# Industry Fragmentation<sup>1</sup>

	Small	Medium	Large	Total
CAGR (4 Years)	7%	21%	8%	11%

	9M15			
	Small	Medium	Large	Total
GPW (PKR mln)	7,282	14,487	27,315	49,084
Market Share	15%	30%	56%	100%
No. of companies	15	12	3	30
Mean GPW	485	1,207	9,105	1,636



	9M14			
	Small	Medium	Large	Total
GPW (PKR mln)	6,663	13,109	25,597	45,369
Market Share	15%	29%	56%	100%
No. of companies	15	10	3	28
Mean GPW	444	1,311	8,532	1,620

Large Sized Companies: above 5% market share  
 Medium Sized Companies: 2% - 5% market share  
 Small Sized Companies: less than 2% market share

	CY14			
	Small	Medium	Large	Total
GPW (PKR mln)	8,566	16,925	31,402	56,893
Market Share	15%	30%	55%	100%
No. of companies	14	12	3	29
Mean GPW	612	1,410	10,467	1,962



	CY13			
	Small	Medium	Large	Total
GPW (PKR mln)	7,655	14,917	28,357	50,929
Market Share	15%	29%	56%	100%
No. of companies	15	10	3	28
Mean GPW	510	1,492	9,452	1,819



	CY12			
	Small	Medium	Large	Total
GPW (PKR mln)	7,729	11,470	26,556	45,755
Market Share	17%	25%	58%	100%
No. of companies	16	9	3	28
Mean GPW	483	1,274	8,852	1,634

GPW Growth

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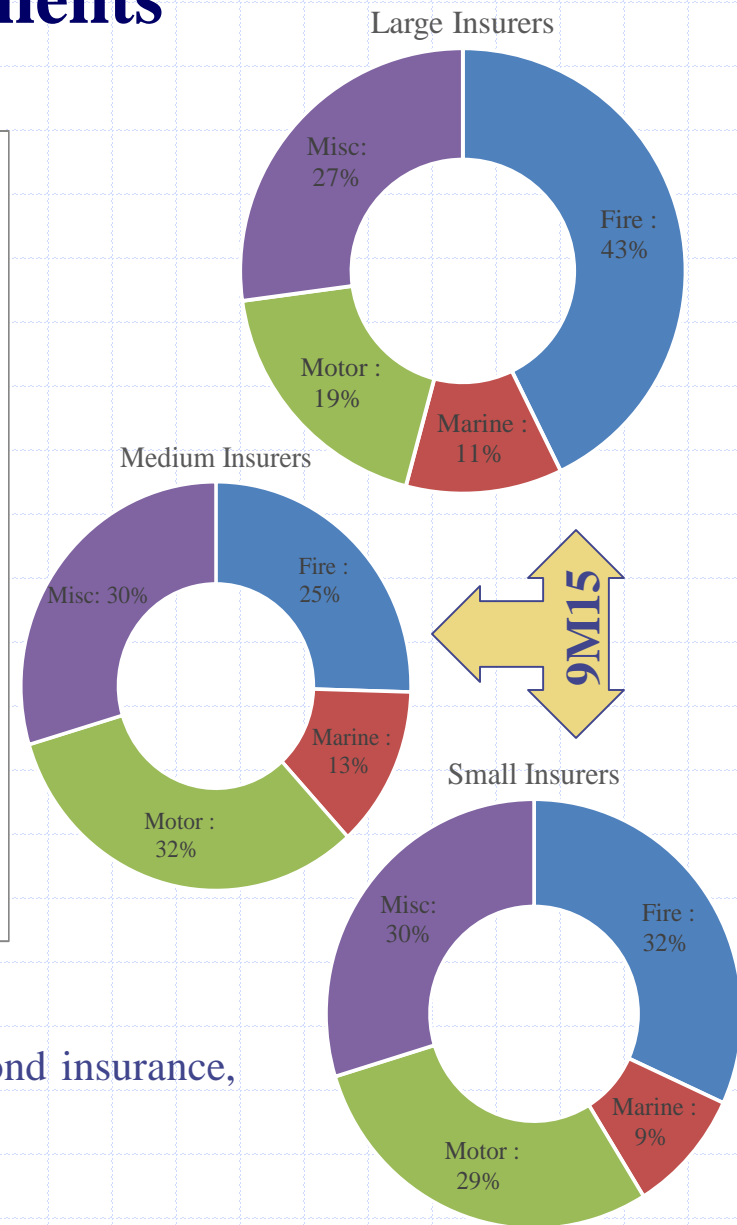
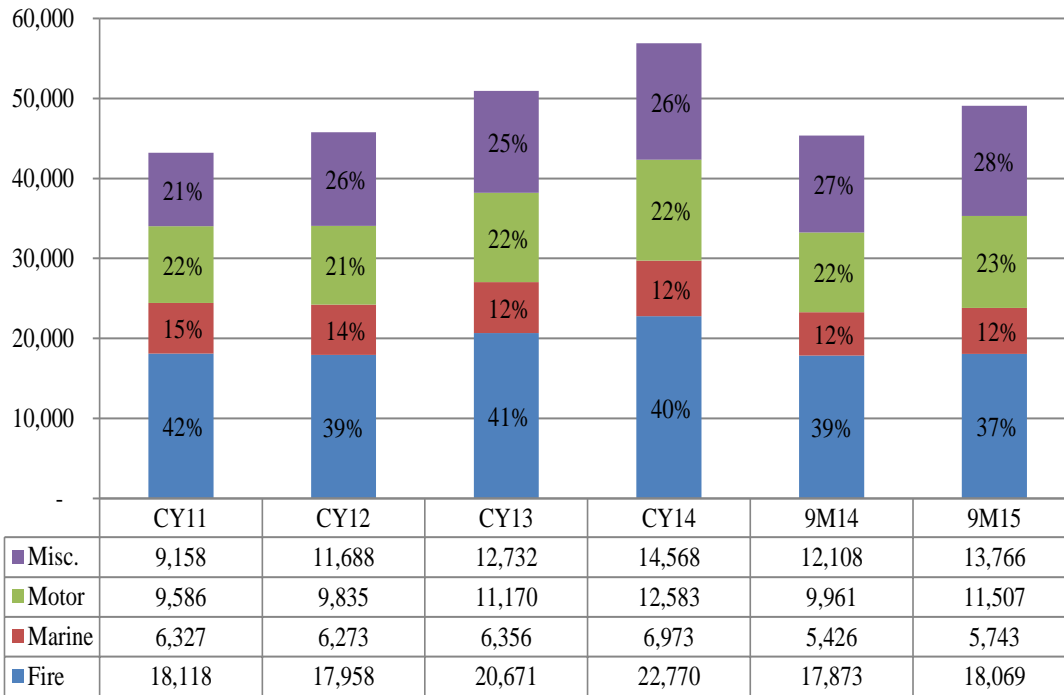
Performance

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# GPW Mix by Segments <sup>1 & 4</sup>

## Segment Mix



- Fire segment continued to remain the dominated segment
- Misc segment size is now more than motor's, due to health, bond insurance, and agriculture & livestock insurance.
- Medium sized companies are fairly diversified in all segments

GPW Growth

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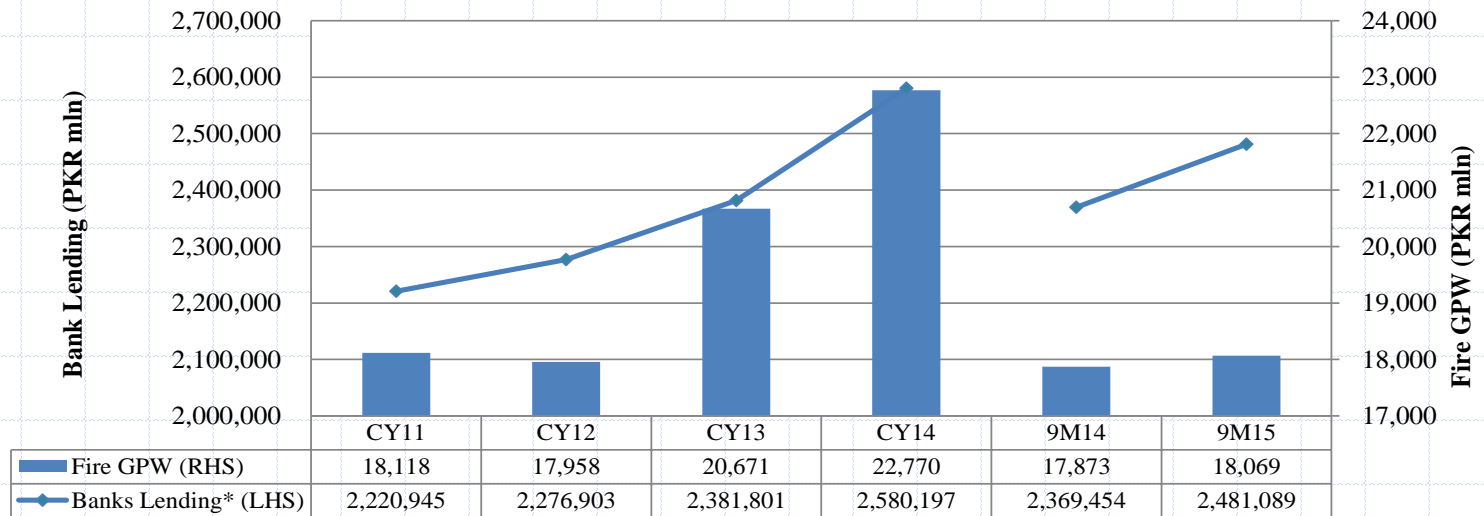
Performance

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# Fire Insurance <sup>I&5</sup>

## Fire Segment Analysis



*\*Credit to private sector / Excluding Agri, import & export, finance, and personal loans*

- Fire segment growth is attributable to uptick in banks' private sector credit offtake, revival in economic activity.
- Private sector lending increased in CY13 by PKR 105bln, out of this a fresh investment was made majorly in the food industry (PKR 48bln) and Chemical industry (PKR 15bln)
- In CY14 by PKR 198bln, out of this a fresh investment was made majorly in the food industry (PKR 54bln), Chemical industry (PKR 14bln), and the power sector (PKR 32bln)

GPW Growth

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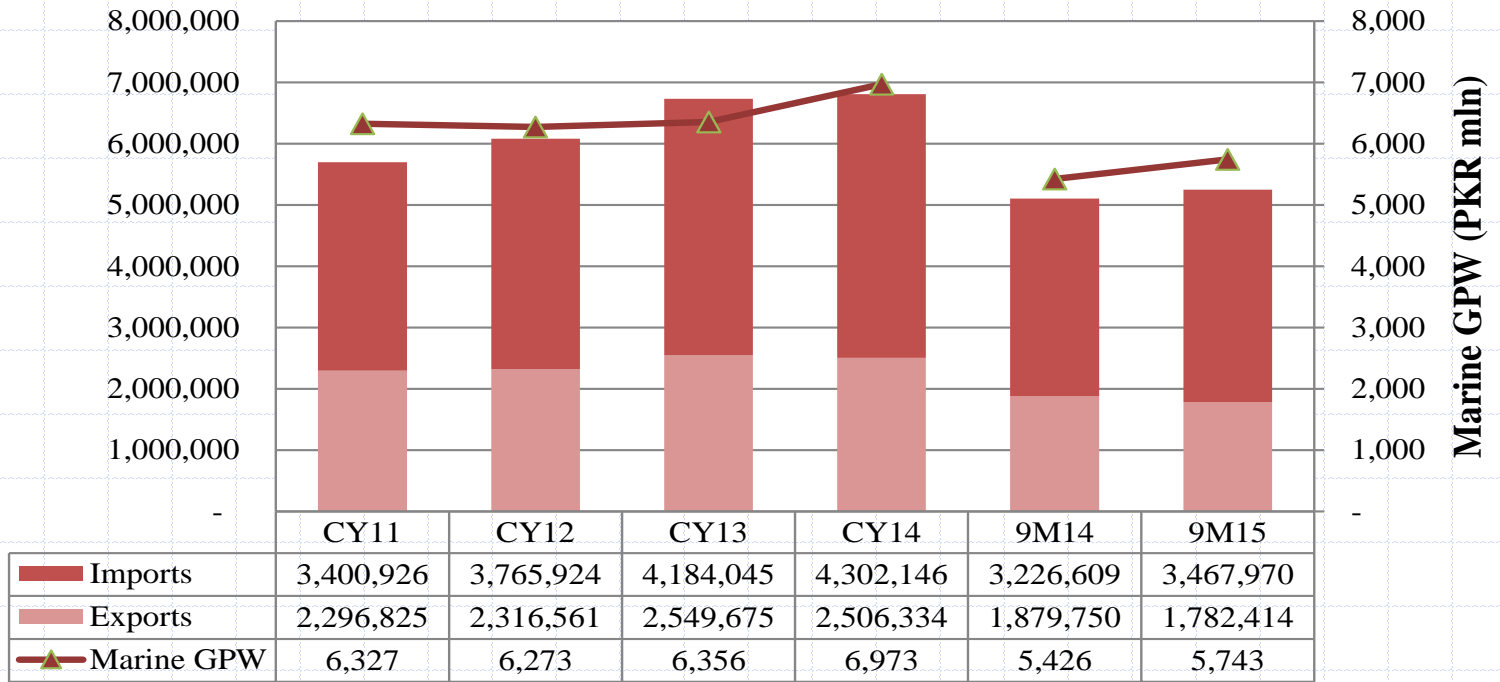
Performance

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## Marine Segment Analysis

Import & Export (PKR mln)



GPW Growth

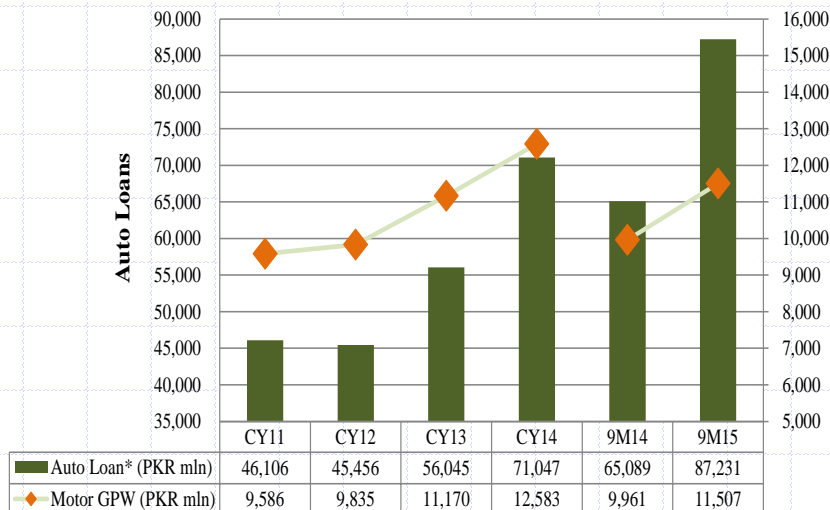
Market |  
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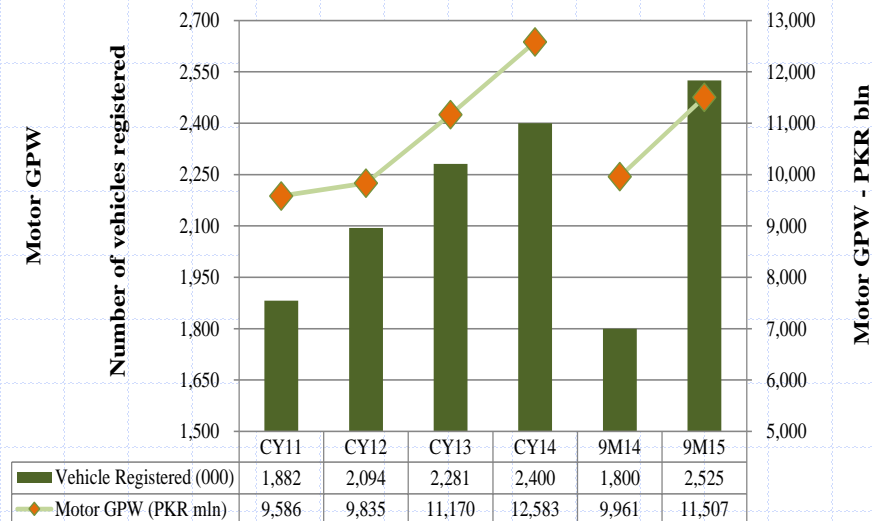
Challenges

Motor Segment Growth | Auto Loan



\*Auto loan by commercial banks; outstanding balance at year end

Motor Segment Growth | no. of Vehicles



- Government sponsored schemes is helping the motor segment
  - CY12: Yellow cab scheme 20,000 taxis – GoPb
  - CY13: Green tractor scheme 20,000 tractors for farmers by GoPb
- CY14: Banks financing picked up amidst low interest rate environment and overall improvement in the economy.
- CY15E: GoPb's Apna Rozgar Taxi scheme – 50,000 taxis, is providing another boost to the motor segment.

GPW Growth

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# Performance

GPW Growth

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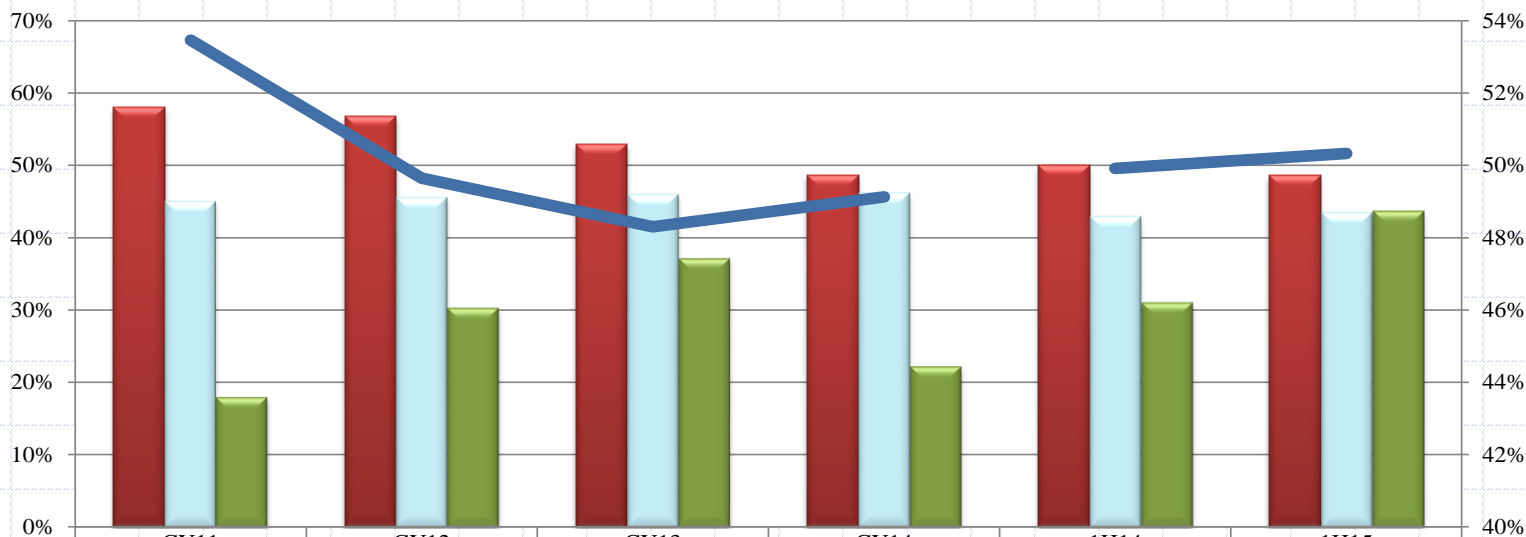
Strengths

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The sector, for the very first time reached underwriting break even in CY13 (combined ratio: 99%). The trend maintained. The combined ratio improved in CY15E to 95%. The business profile of the sector has been enhanced. However, the industry needs to focus bringing operational efficiency; expense ratio – the controllable cost – remained stagnant.

## Performance - Analytical analysis



Loss Ratio	CY11	CY12	CY13	CY14	1H14	1H15
Expense Ratio	58%	57%	53%	49%	50%	49%
Investment Income Ratio	45%	46%	46%	46%	43%	43%
NPR/GPW (RHS)	18%	30%	37%	22%	31%	44%
	53%	50%	48%	49%	50%	50%

Investment income increased to PKR 6bln from PKR 4bln | Return on investments improved to 16% from 10%  
 Total increase in investment income 33%  
 Reason: Dividend (26% increase), Gain on disposal (116% increase), Profit from associate (60%)

GPW Growth

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# Strengths and Risks Analysis

GPW Growth

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Segmental Mix

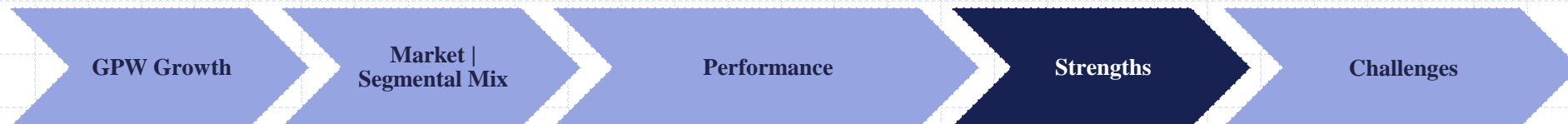
Performance

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# Strengths/ improvements

- ◆ Uptick in economic activity is enabling the general insurance GPW growth
- ◆ Allowance of takaful window operation to conventional insurers shall positively impact the overall industry
- ◆ Growth in the miscellaneous segment indicates focus towards diversification; fresh interest in retail and micro insurance.
- ◆ Improving investment income, supports bottom-line.
- ◆ Automation in systems and controls – improving MIS and risk management framework
- ◆ Focus towards professional HR hiring
- ◆ Improving governance by the regulator, though lags behind regional peers



# Challenges

1. Industry depends predominantly upon banking sector for business growth (traditional model). Retail penetration is low.  
**Moderate Risk - maintain**
2. Improved Underwriting performance is driven by reduced loss ratio, the benefit was limited due to high expense ratio – comparatively more controllable factor.  
**Moderate Risk - maintain**
3. Change in treaty terms – tilt from proportional to non-proportional – leading to higher risk retention or facultative arrangements. Profitable premium retention should be used in building higher reserves.  
**Moderate Risk - maintain**
4. Catastrophic risk – strong treaty arrangements required  
**Low Risk - maintain**
5. Regulatory Risk – very basic solvency requirements. Absence of risk based capital adequacy model.  
**Low Risk - maintain**
6. Small players exposed to regulatory non-compliance  
**High risk - maintain**



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# Challenges

## Proposed minimum paid up capital requirement (MCR)

PKR mln	Existing	Jun16	Dec16	Jun17	Dec17
MCR	300	350	400	450	500

Following companies shall be requiring right issue to meet the requirement

Equity (PKR mln) at end-Jun15

PICIC	96 (paid up capital PKR 350mln)
Takaful Pakistan	173 (paid up capital PKR 300mln)
SPI Insurance	362 (paid up capital PKR 325mln)

GPW Growth

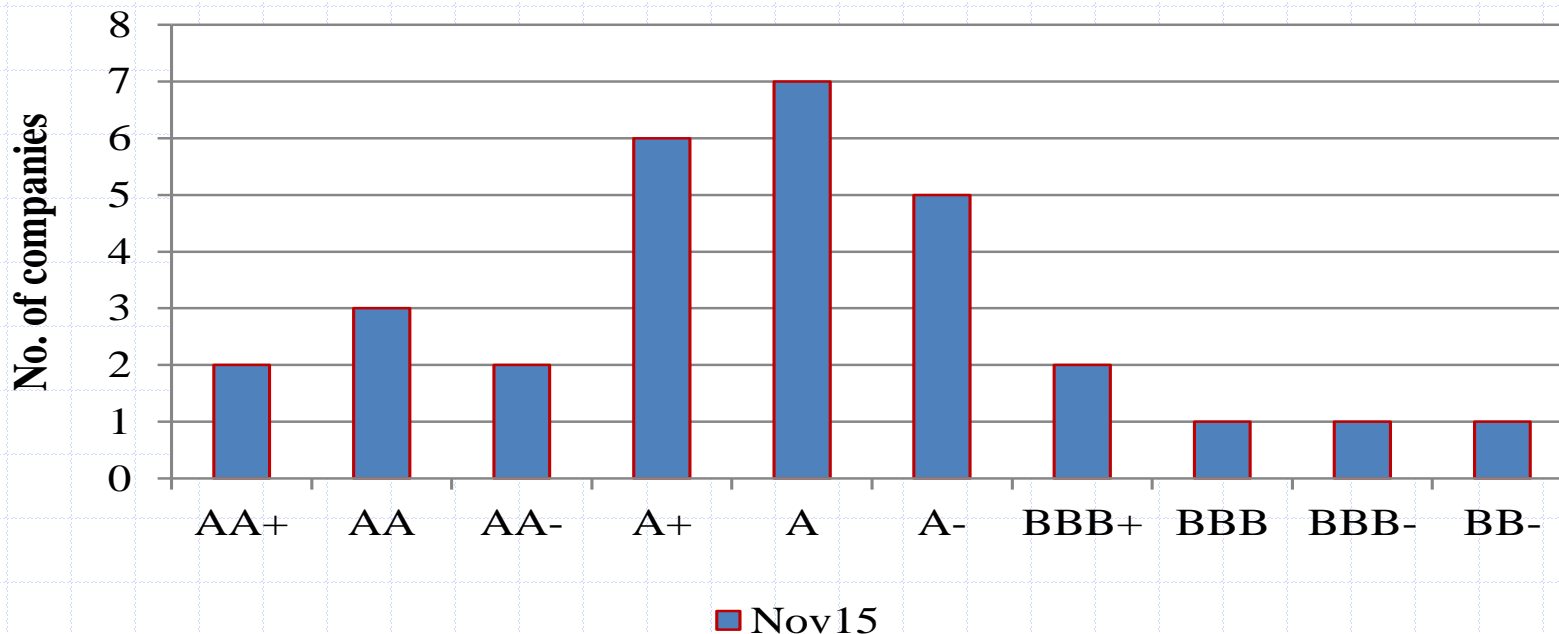
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## Insurer Financial Strength (IFS) Rating Paradigm



### Rating Action

Maintain	21	
Upgrade	5	Ace AA   Alfalah A+   UBL A+   TPL Direct A   Pak Qatar A
Downgrades	2	Pak Kuwait BBB   Universal BBB-
Initial	2	Sind   Cooperative
<b>TOTAL</b>	<b>30</b>	
Suspended	1	

### Outlook

Stable	24	
Positive	3	Adamjee   Habib   Premier
Negative	2	Reliance A   Universal BBB-
Rating Watch	1	Pak Kuwait BBB
<b>TOTAL</b>	<b>30</b>	

- Inter CRA client transfer has not been treated as initial
- In case of rating difference only PACRA rating has been taken

GPW Growth

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