

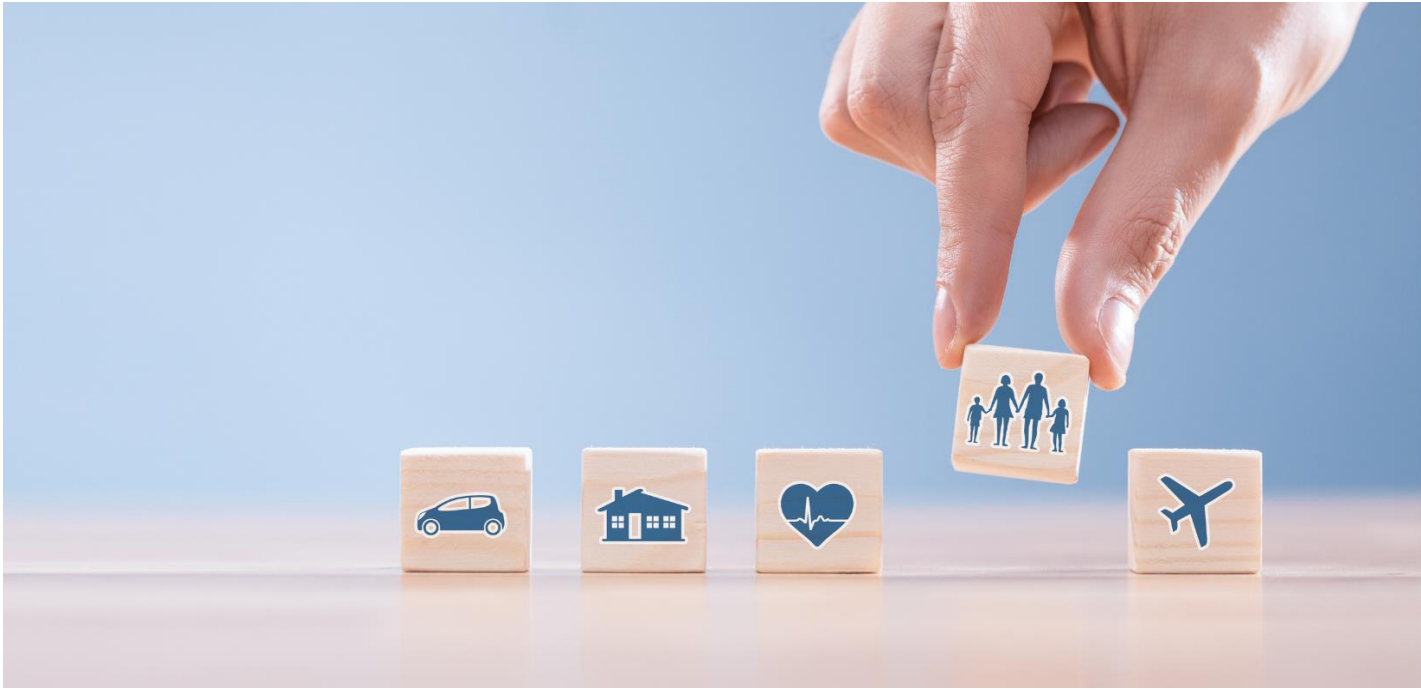


Life Insurance

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Life Insurance

Global | Overview

- 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.
- Globally, top 50 life insurance companies recorded cumulative claim reserves amounting to USD~13.8trn as of Mar'23. Of these, the adjacent table depicts the top 10 companies operating globally, with these forming ~56.2% of the top 50 companies' recorded reserve levels during the period.

Global Top 10 Companies (CY23)			
Rank	Company	Country	Reserves (USD bln)
1	Allianz SE.	Germany	750.2
2	China Life Insurance Co. Ltd.	China	616.9
3	Nippon Life Insurance Co.	Japan	536.8
4	Life Insurance Corp. of India	India	503.1
5	Ping An Insurance (Group) Co. of China Ltd.	China	485.9
6	Legal & General Group PLC	UK	430.4
7	MetLife Inc.	USA	427.4
8	Prudential Financial Inc.	USA	420.8
9	Assicurazioni Generali SpA	Italy	415.1
10	Japan Post Insurance Co. Ltd	Japan	414.5

Note: Companies are ranked by CY22 life and accident & health reserves. Life and accident & health reserves generally represent a liability to provide for future commitments under outstanding policies.

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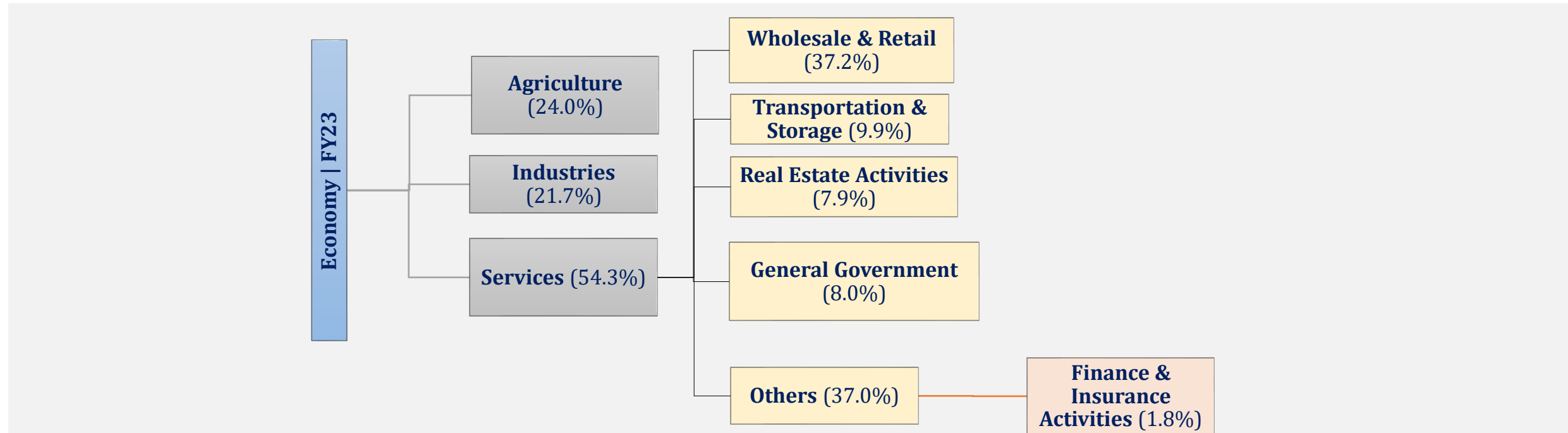
Global | Outlook

- The global insurance sector grew by ~7.5% YoY in CY23, recording CAGR of ~4.9% during CY13-23. Globally, insurers collected EUR~6.2trn in premiums during the year, with life insurance premiums amounting to EUR~2,620bn, property & casualty (p&c) recording at EUR~2,154bn and health at EUR~1,427bn. The three segments recorded YoY growth rates of ~8.4%, ~7.1% and ~6.6%, respectively, in terms of premiums collected. In contrast to CY22, when the global premium increase was primarily driven by the p&c segment, the life segment accounted for ~46.9% of the total increase in CY23, while p&c and health segments contributed ~32.7% and ~20.4%, respectively.
- In CY23, the recovery in life insurance segment was largely driven by Asia, with global market share of ~39.0%, with the region recording ~14.9% YoY growth in terms of premiums. The second biggest life insurance market was Western Europe, with total life premium pool amounting to EUR~775bn in CY23, or global market share of ~29.6%. North America was the third biggest life insurance market (EUR~710bn or ~27.1% of global life insurance sector), growing by ~5.3% YoY (SPLY: ~9.3% YoY growth).
- All other insurance markets with global market share of ~4.3% in CY23 recorded ~9.9% YoY growth in CY23), mainly driven by Latin America. Over the next decade, the global insurance sector is expected to exhibit CAGR of ~5.5%, growing to EUR~5.0t with p&c, health and life segments growing by ~4.7%, ~7.3% and ~5.1% per annum, respectively, owing mainly to higher interest rates.
- Life insurance forms an important part of the social compact in most countries across the globe. However, increasing inequality, demographic changes and migration pose comprise a few major challenges facing the sector. Moreover, new technologies like AI are likely to have a tremendous impact on the business model, transforming the entire value chain from underwriting to claims handling.

Life Insurance

Local | Overview

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~54.3% share in GDP during the year. However, the country’s nominal GDP during FY24 is projected to clock in at PKR~106.0trn with ~2.4% YoY growth in real GDP, depicting an improved economic activity compared with SPLY. The SBP estimates real GDP growth at ~2-3% for FY24, while IMF’s forecast for the same stands at ~2.0%. Meanwhile, the Service segment is expected to contribute ~53.3% to the GDP in FY24.
- During FY23, ‘Financial and Insurance Activities’ contributed ~1.7% to the country’s GDP (nominal) (SPLY: ~1.8%), while in 9MFY24, the share clocked in at ~1.5% (SPLY: ~1.7%).



Life Insurance

Local | Overview

- Market size of the local life insurance sector, with respect to Gross Premium Written (GPW), was recorded at PKR~404.1bln in CY23 (CY22: PKR~374.0bln), up ~8.0% YoY (CY22: ~28.3% YoY growth).
- Market share of the public sector, in terms of Gross Premium Written (GPW) during CY23 clocked in at ~66.6%, with GPW amounting to PKR~268.8bln, a YoY growth of ~9.4%. Meanwhile, private sector share (Including Takaful) clocked in at PKR~135.3bln with a ~33.4% market share and a YoY growth of ~5.4% during CY23.
- The sector presently comprises eleven (~11) operational companies, nine (~09) of which cater the private sector while two are public sector companies (covered later).
- Although all private companies also offer Window Takaful Operations, three (~03) of these are dedicated Family Takafuls, while six (~06) operate as conventional life insurance companies, with Takaful windows.
- The sector is currently underserved, primarily because of the religious sentiment attached to the concept of death and insurance policies. There is significant potential of penetration by the industry in terms of Shariah-compliant offerings.

Figures in PKR mln

Sector Overview	CY22	CY23
Gross Premium Written (GPW)	374,008	404,191
Growth (YoY)	28.3%	8.0%
Public Sector (Share in GPW)	65.9%	66.6%
Private Sector (Share in GPW)	34.1%	33.4%

No. of Firms | By Type

Private - Conventional	06	06
Private - Takaful	03	03
Private - Total	09	09
Public - Conventional	02	02

Total No. of Companies **11**

Regulator	Securities & Exchange Commission Of Pakistan (SECP)
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Sector Association The Insurance Association of Pakistan (IAP)

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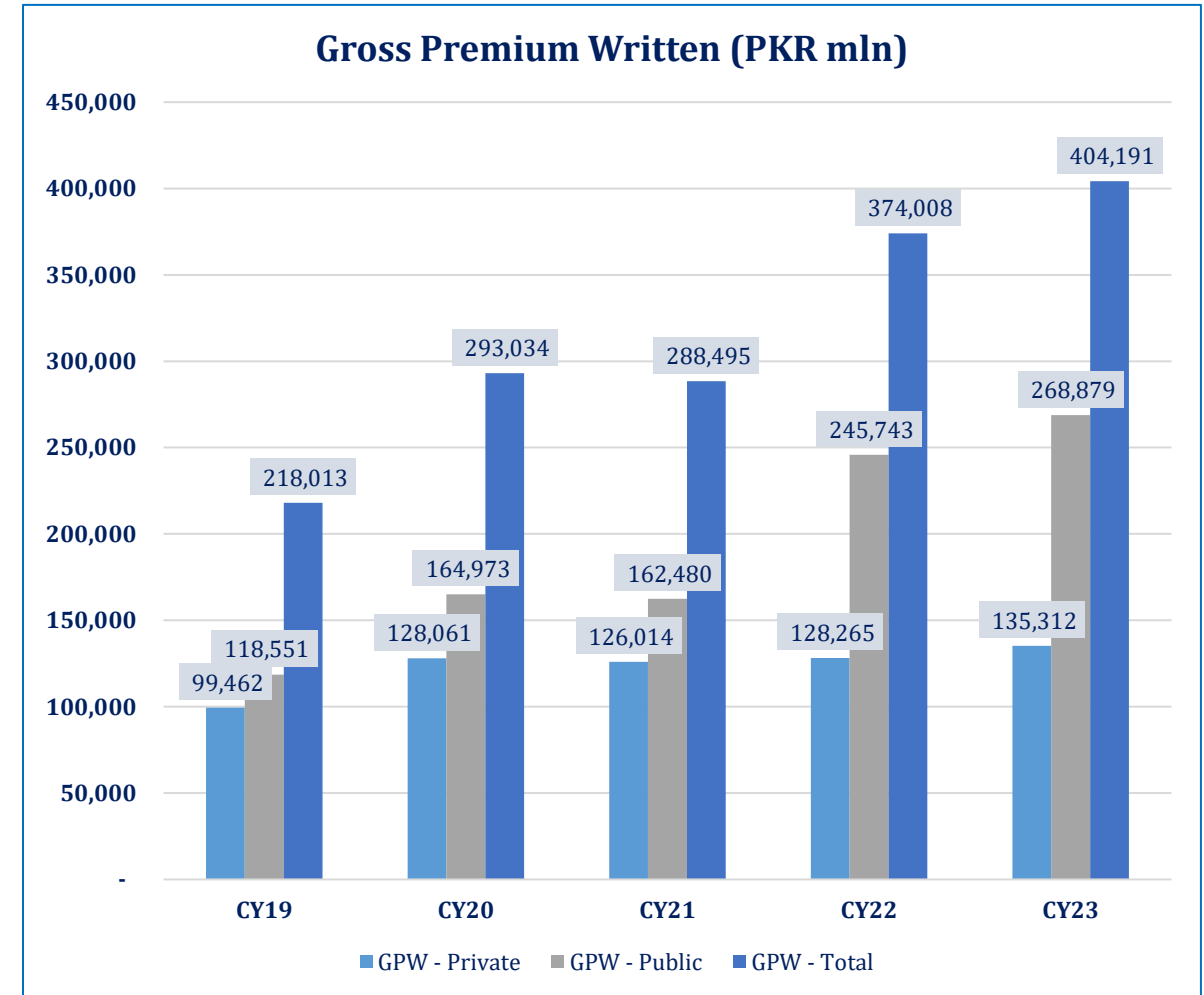
Sector Dynamics | Overview

Sr.	Insurance Companies	CY21			CY22			CY23		
		GPW (PKR mln)	YoY Growth (%)	Market Share (%)	GPW (PKR mln)	YoY Growth (%)	Market Share (%)	GPW (PKR mln)	YoY Growth (%)	Market Share (%)
Private - Conventional										
1	Jubilee Life	49,356	6.1%	17.0%	47,343	-4.1%	12.7%	46,113	-2.6%	11.5%
2	EFU Life	37,407	14.9%	12.9%	39,883	6.6%	10.7%	37,443	-6.1%	9.3%
3	Adamjee Life	20,734	20.9%	7.1%	20,970	1.1%	5.6%	23,351	11.4%	5.8%
4	IGI Life	7,057	14.5%	2.4%	6,072	-14.0%	1.6%	7,992	31.6%	2.0%
5	Askari Life	835	85.8%	0.3%	1,302	55.9%	0.3%	1,614	24.0%	0.4%
6	TPL Life	640	-43.3%	0.2%	337	-47.3%	0.1%	436	29.4%	0.1%
	Sub-total	116,028	11.6%	39.4%	115,907	-0.1%	31.0%	116,948	0.9%	28.9%
Public - Conventional										
7	State Life	162,480	36.0%	55.9%	244,150	50.3%	65.3%	268,879	10.1%	66.9%
8	Postal Life	2,493	0.0%	0.8%	1,593	-36.1%	0.4%		NIL	
	Sub-total	164,973	38.20%	56.3%	245,743	49.00%	65.7%	268,879	9.4%	66.6%
Private - Takaful										
9	Pak Qatar Family	9,986	25.0%	3.4%	10,236	2.5%	2.7%	16,297	59.2%	4.1%
10	Dawood Family	2,047	12.0%	0.7%	2,070	1.1%	0.6%	1,887	-8.8%	0.0%
11	5th Pillar Takaful		NIL		52	0.0%	0.0%	180	246.0%	0.0%
	Sub-total	12,033	23.0%	4.3%	12,358	2.7%	3.3%	18,364	48.6%	4.5%
	Grand Total	293,035	25.7%	100.0%	374,008	27.6%	100.0%	404,191	7.5%	100.0%

Life Insurance

Local | Premium Growth

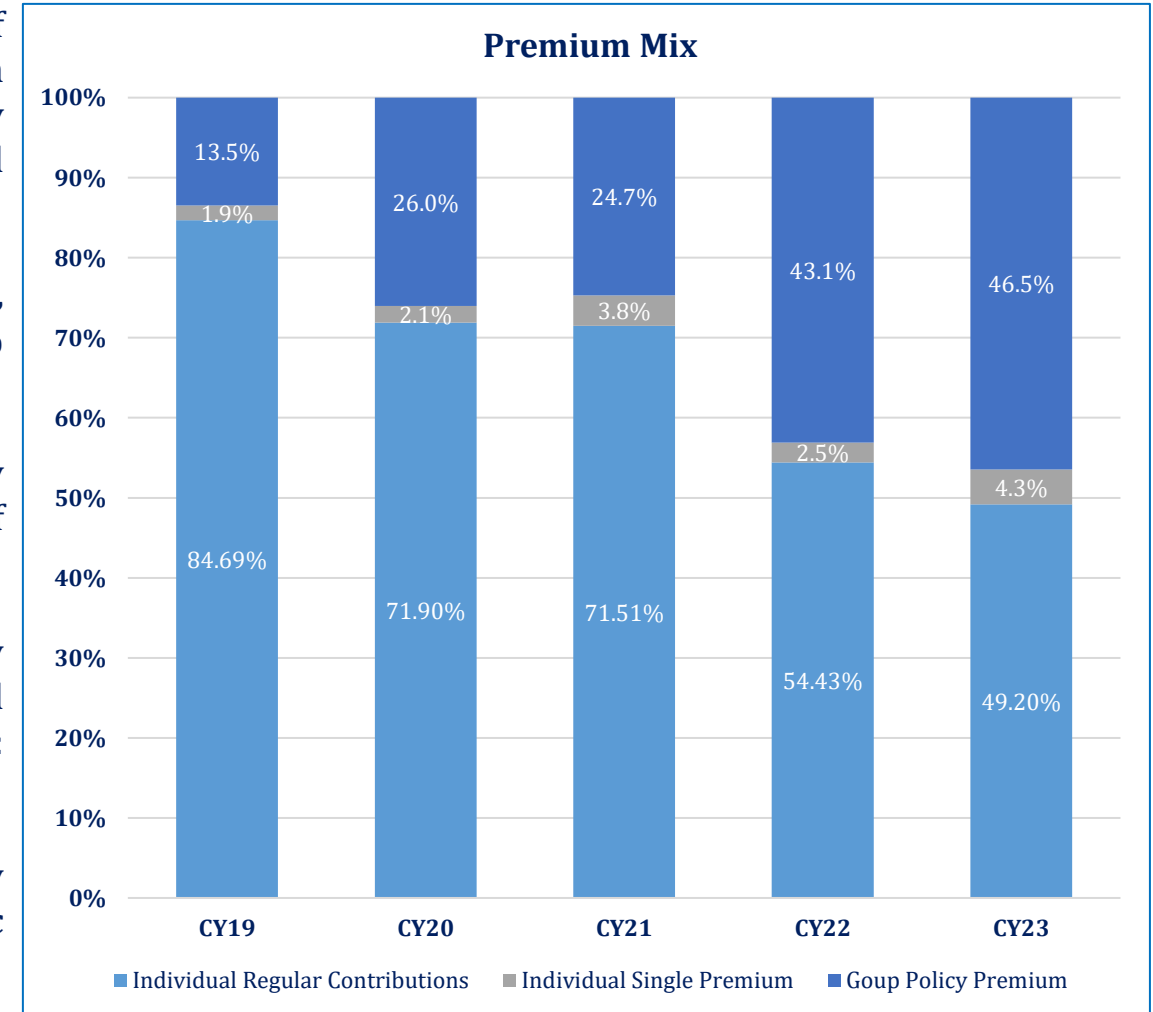
- The sector's overall GPW exhibited a YoY growth of ~8.0% in CY23 (CY22: ~28.3%) and was recorded at PKR~404.1bln during the year.
- GPW for the public sector increased by ~9.4% YoY during the CY23 (CY22: ~48.9% YoY growth). Meanwhile, the GPW for the private sector grew by ~3.9% YoY (~0.1% growth during SPLY).
- The public segment's GPW for CY23 stood at PKR~268.8bln (CY22: PKR~245.7bln), whereas the private segment's GPW for CY23 increased to PKR~135.3bln (CY22: 128.2bln).
- Over the course of past five years (CY19-23), the upward trend in the sector's GPW has been mainly driven by increase in public segment's GPW .The public segment's GPW comprised ~66.6% of the sector's overall GPW in CY23, whereas private segment's formed ~33.4%.



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Local | Premium Mix

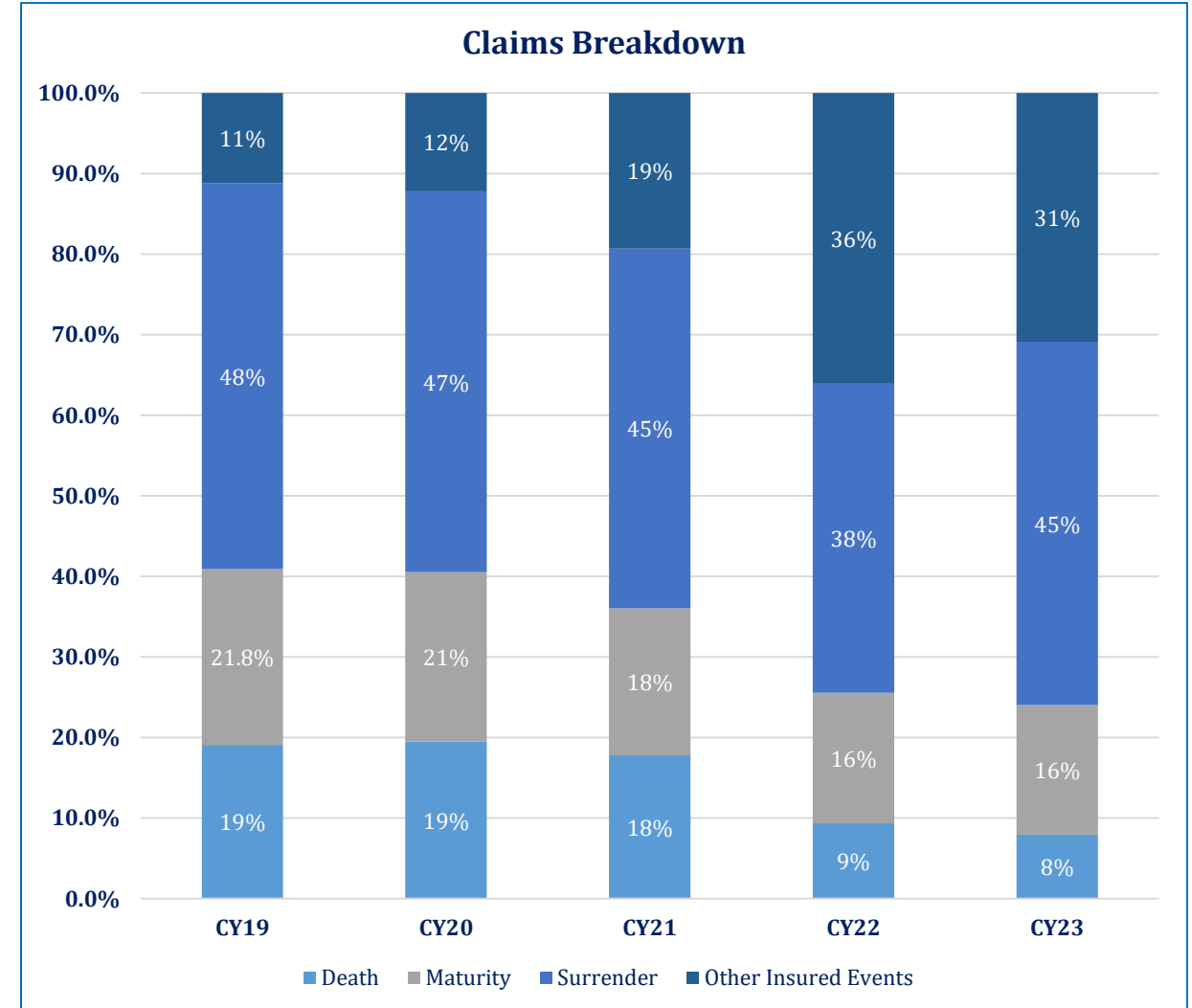
- Historically (CY19-23), individual regular premium formed the highest chunk of the total premiums, at an average of ~65.8%. However, these traced a downward trend during CY21-23, likely reflecting increasing inflationary pressures and resultant declining individual disposable income levels (National CPI in May'23 touched ~38%; May'22: ~13.8%).
- For CY23, Individual regular premium up ~49.2% of the total premium mix, clocking in at PKR~233.7bln (CY22: PKR~225.2bln) and registering ~3.7% increase YoY.
- Individual single premiums were up by ~100.0% YoY in CY23 (decreased by ~8.1% in CY22) This decline can be attributed to low purchasing power of consumers amid high inflation levels in the country.
- Meanwhile, the proportional share of group policy premiums decreased by ~5.2% in CY23 (fell by ~17.1% in CY22) to account for ~46.5% of the total premiums. In absolute terms, these stood at PKR~220.8bln (CY22: PKR~178.3bln).
- Segment-wise, the increase for private segment in terms of group policy premiums was ~12.3% (CY23: PKR~27.3bln), whereas that for the public segment, it was ~53.4% YoY (CY22: PKR~338.7bln).



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Local | Claims Breakdown

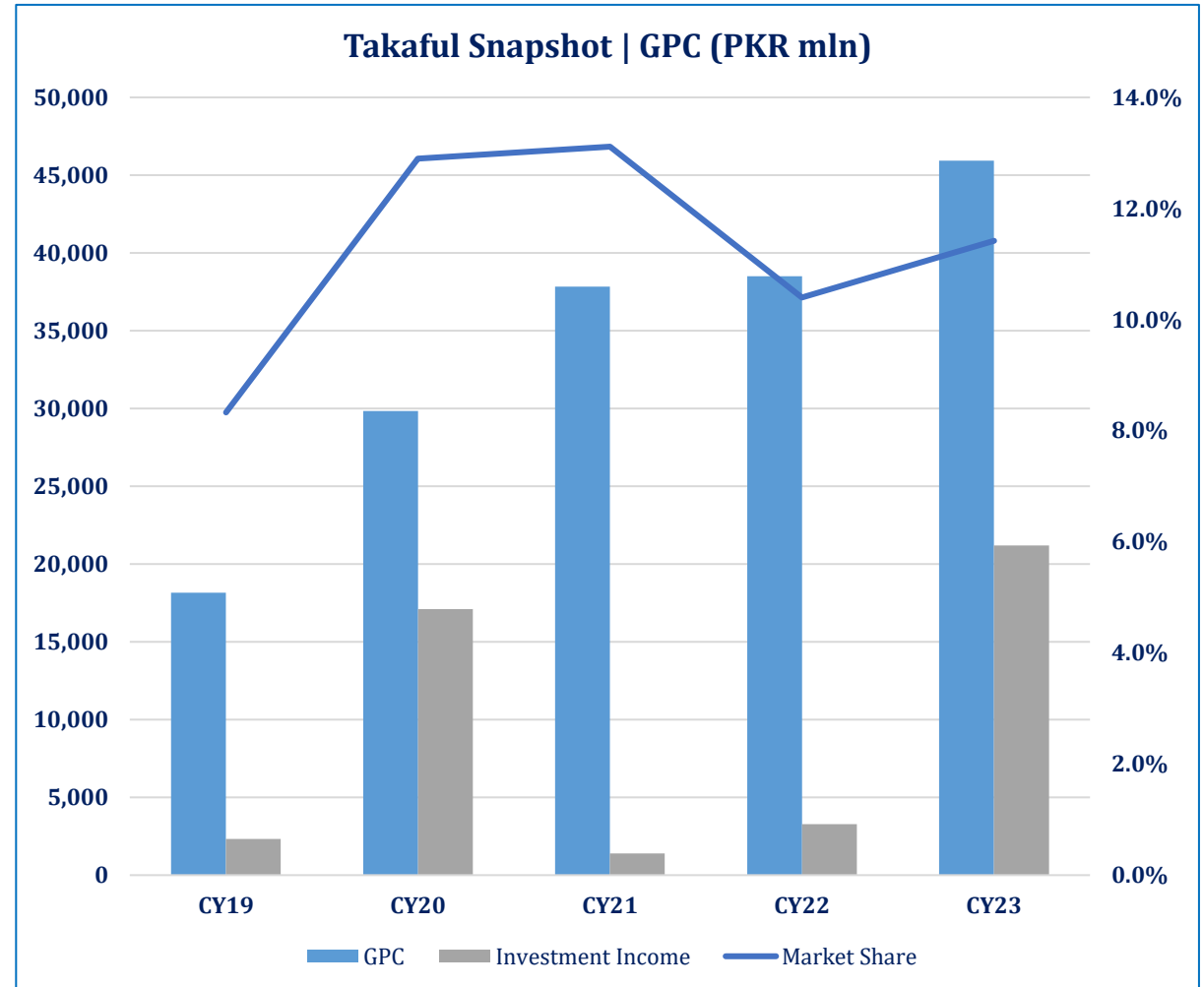
- Gross claims of the sector grew by ~20.2% YoY in CY23 (CY22: ~48.8% increase YoY) and amounted to PKR~324.7bln.
- During the year, surrender claims formed the highest share of total claims (as has been the case during CY19-22) at ~45.0% (CY22: ~38.0%), up ~7.0% YoY. In absolute terms, these stood at PKR~147.3bln (CY22: PKR~102.5bln).
- Private segment's surrender claims formed ~47.0% of total surrender claims during CY23 (CY22: ~57.1%), and registered ~34.8% YoY increase (CY22: ~78.8%). Meanwhile, surrender claims reported by public segment rose ~100.9% YoY (CY22: ~47.1%).
- The chunk of claims due to other insured events clocked in at ~31.2% in CY23 (CY22:~36.1), up ~31.6% YoY. In absolute terms, these stood at PKR~114.2bln during the year (CY22: PKR~87.1bln).
- The shares of both death and maturity claims remained stable at ~8.0% and ~16.2%, respectively, during CY23. In absolute terms, these amounted to PKR~29.4bln and PKR~59.8bln during the year, respectively.



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Takaful Snapshot

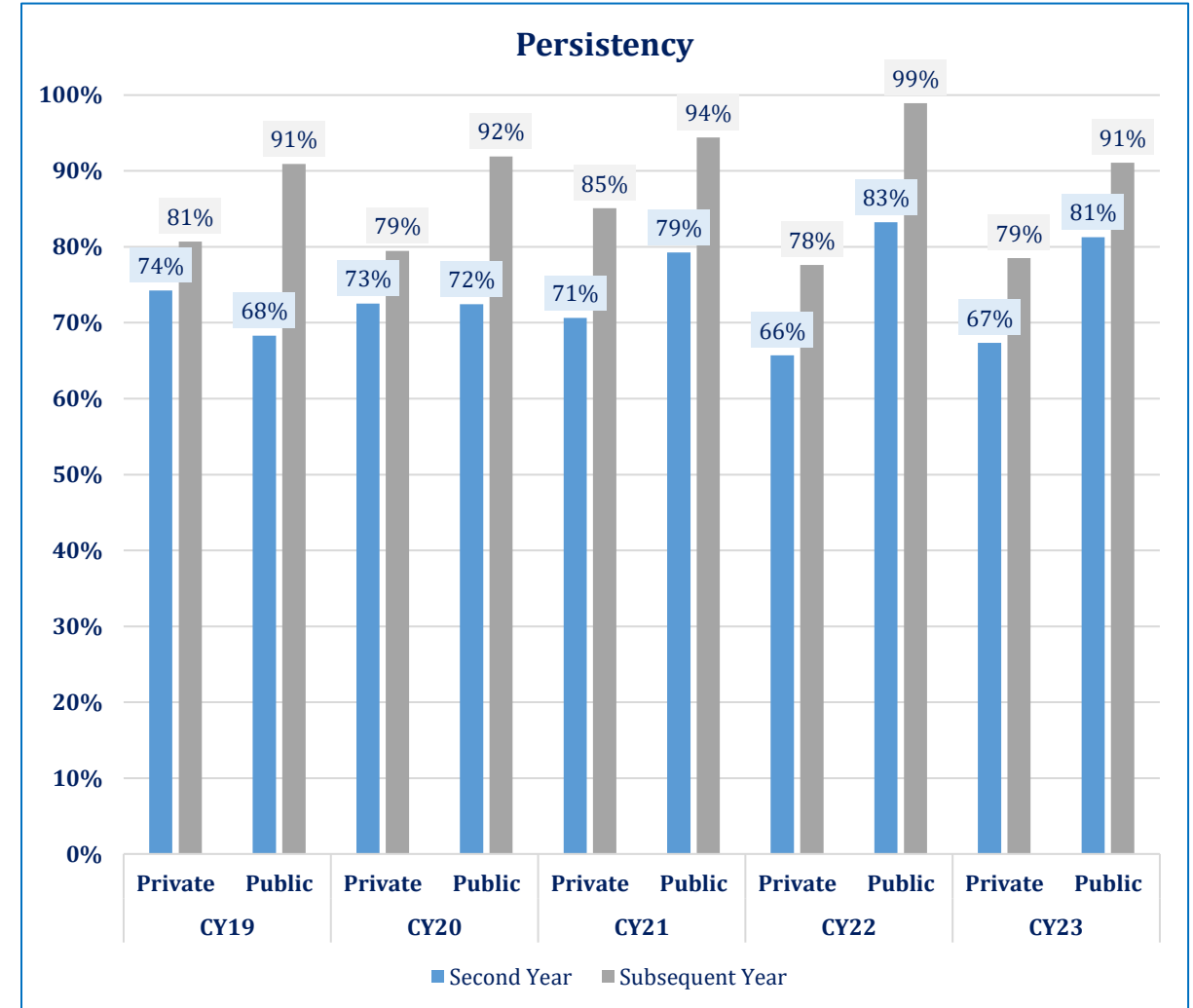
- While all sector players offer Window Takaful Operations, there are two dedicated Takaful life insurance companies in Pakistan, cumulatively contributing ~58.1% to the overall Takaful business during CY23 (CY22: ~30.0%).
- Overall, the Takaful segment formed ~11.4% of the sector's total GPW in CY23 (SPLY: ~10.4%), reflecting greater preference for Shariah-compliant products.
- The overall Gross Premium Contribution (GPC is equivalent to GPW) for the Takaful segment grew by ~19.2% YoY in CY23 (CY22: ~1.9% YoY) and stood at PKR~45.9bln (CY22: PKR~38.5bln).
- The Investment Income, including other comprehensive income, also increased by ~545.1% YoY during CY23 (CY22: ~134.9% growth) and recorded at PKR~21.1bln (CY22: PKR~3.2bln), highest during past five years (CY19-23). The increase in CY23 can be attributed to higher interest rates and increased investment in government securities.



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Local | Persistency

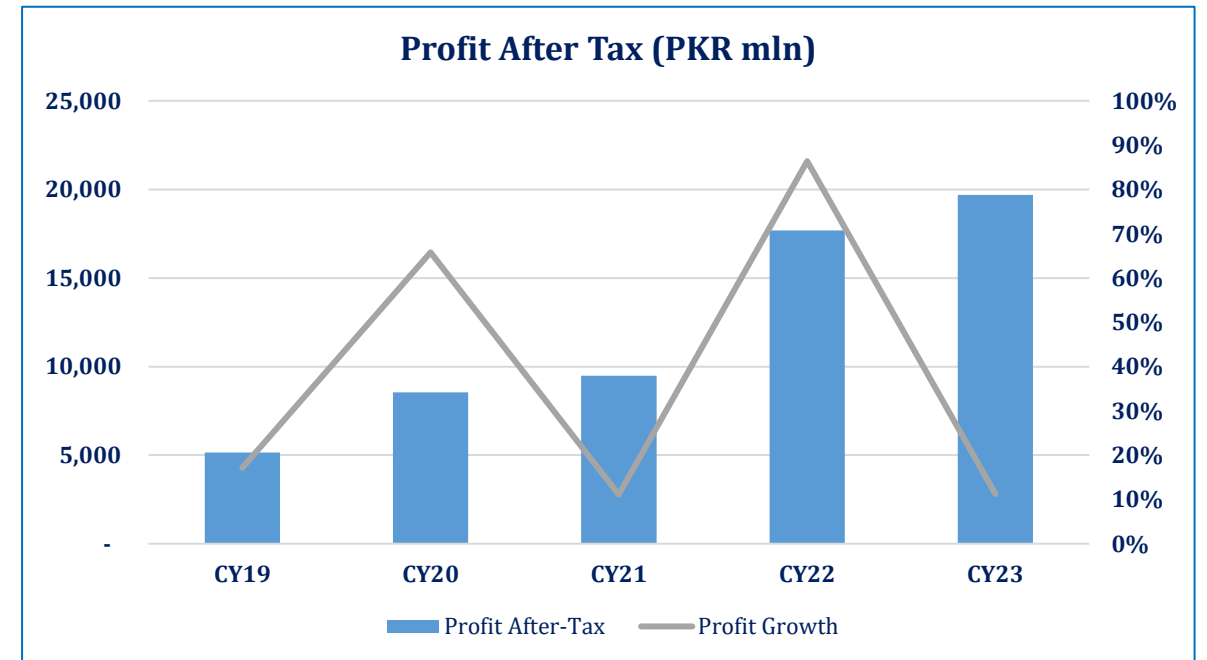
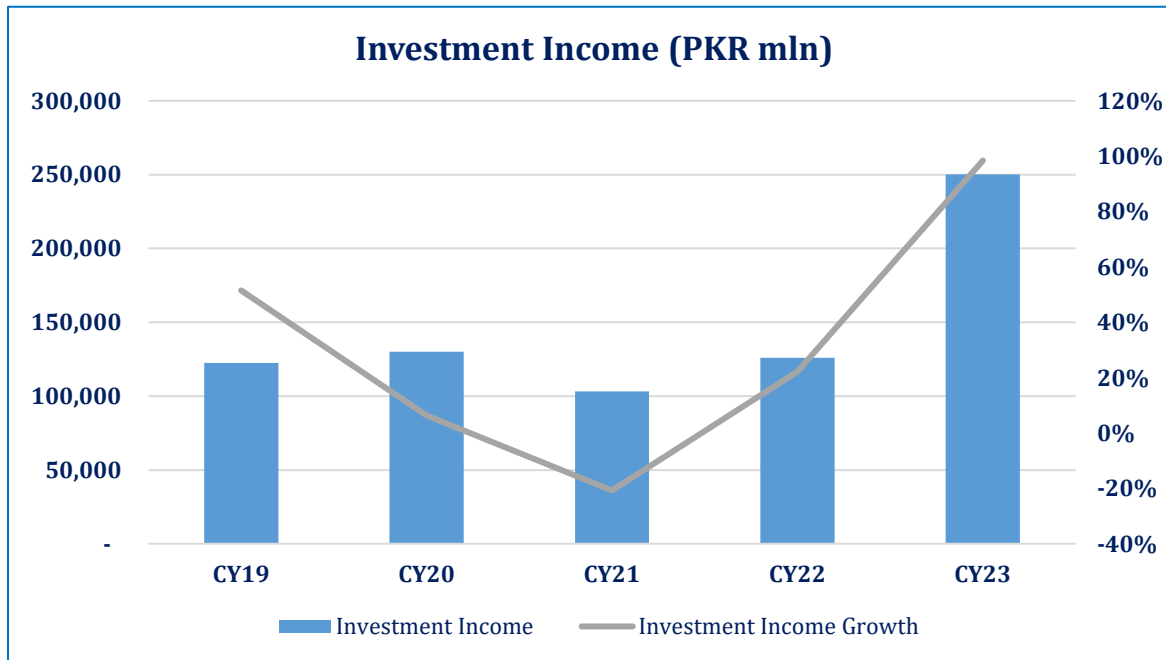
- Persistency is a measure of customer retention and an important performance metric for life insurance companies. In other words, it is the proportion of policyholders who continue to pay their renewal premium.
- From the adjacent chart, it can be deduced that, historically (CY19-23), public segment has had, on average, higher persistency levels than those recorded by the private segment (~1.6% and ~0.9% respective deltas for second and subsequent years). Moreover, subsequent-year persistency is usually higher than the second-year persistency for both segments.
- Private segment's persistency for the second year remained stable at ~67.3% in CY23 (CY22: ~65.7%), while subsequent-year persistency recorded at ~78.5% for the same period (CY22: ~77.6%).
- On the other hand, the public segment's persistency for the second year decreased slightly by ~1.9% to clocked in at ~81.3% (CY22: ~83.2%), while the subsequent year persistency decreased by ~7.8% in CY23 to ~91.1% (CY22: ~98.9%)



Life Insurance

Local | Business Risk

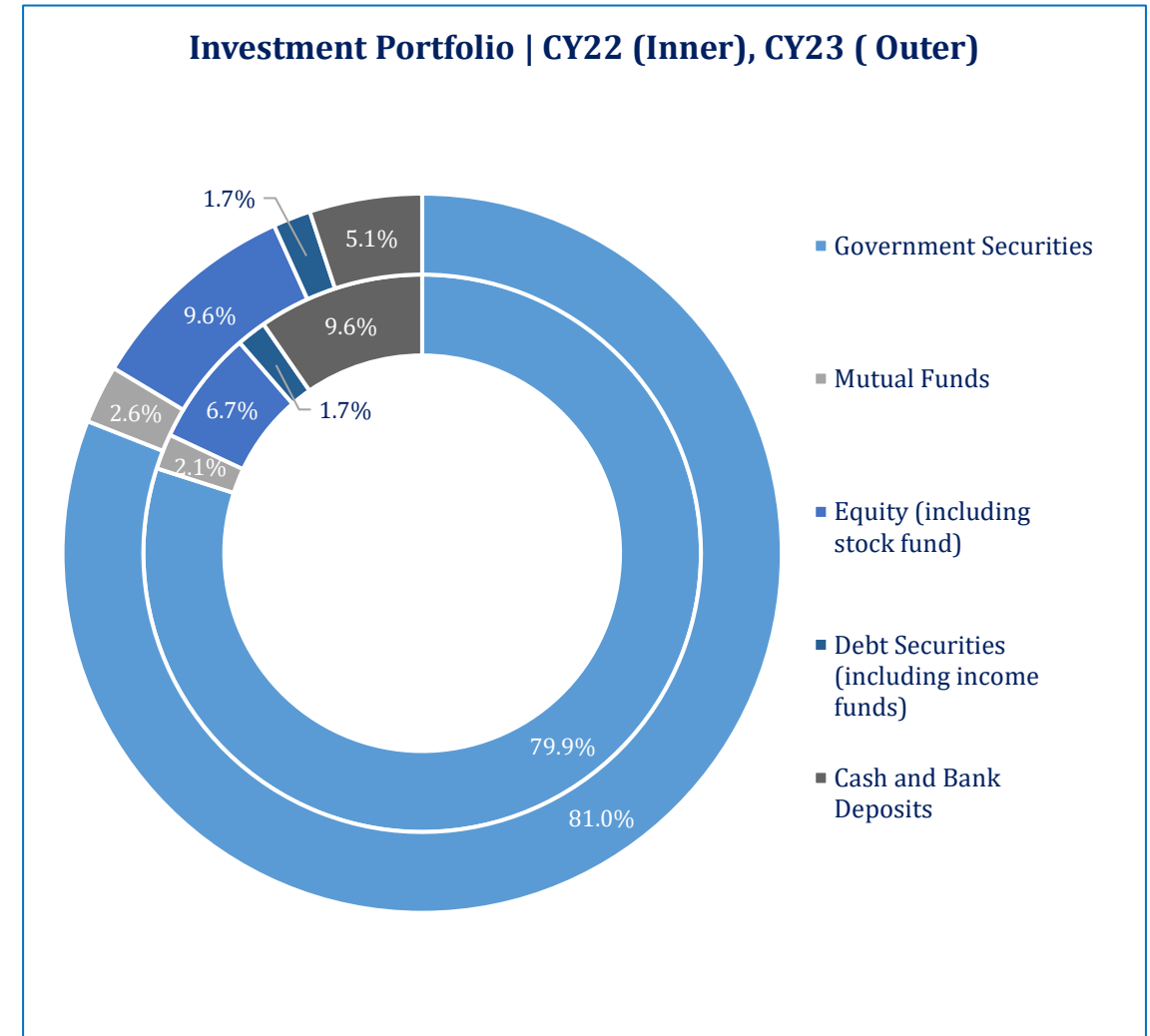
- Sector's total investment income stood at PKR~250.0bln in CY23 (CY22: PKR~126.0bln), up ~98.3% YoY (CY22: ~22.1%), surpassing the CY19 level of ~52.0%. This can be corroborated with rising interest rates, especially during CY23 (Jan'23 MPR: ~17%; Dec'23 MPR: ~22%). Investment income for the sector had plummeted by ~21.0% YoY in CY21 due to net fair value losses and comparatively lower returns.
- On the other hand, Profit-After-Tax (PAT) for the sector rose ~11.3% YoY in CY23 (CY22: up ~86.4% YoY), recording at PKR~19.6bln in CY23 (CY22: PKR~17.6bln).



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Business Risk | Investment Portfolio

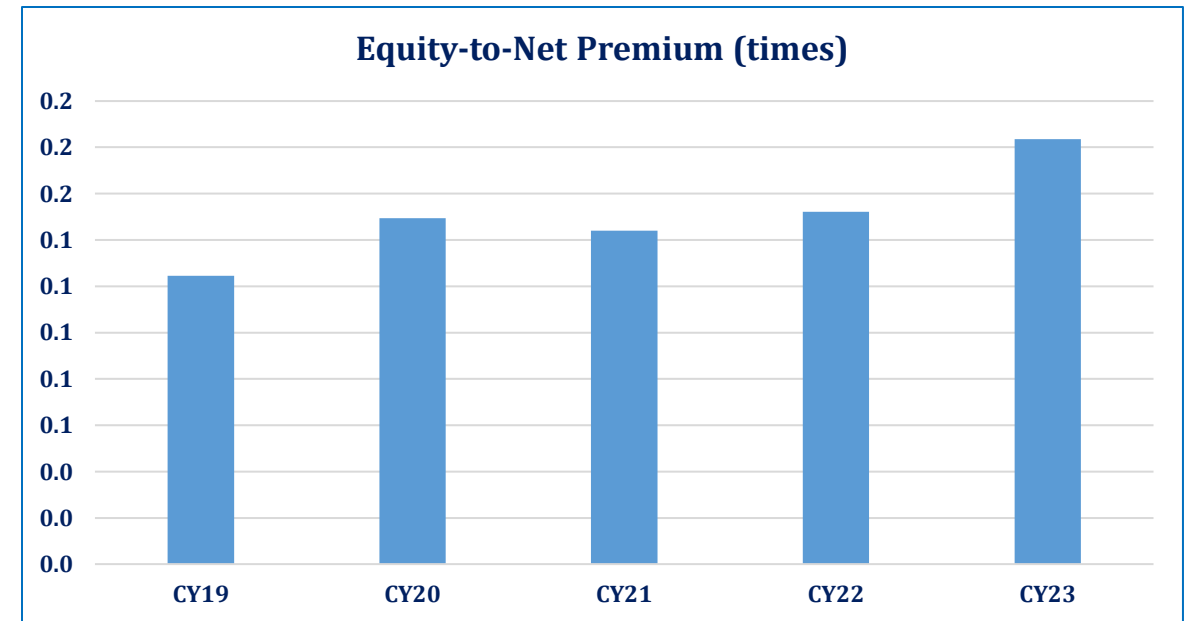
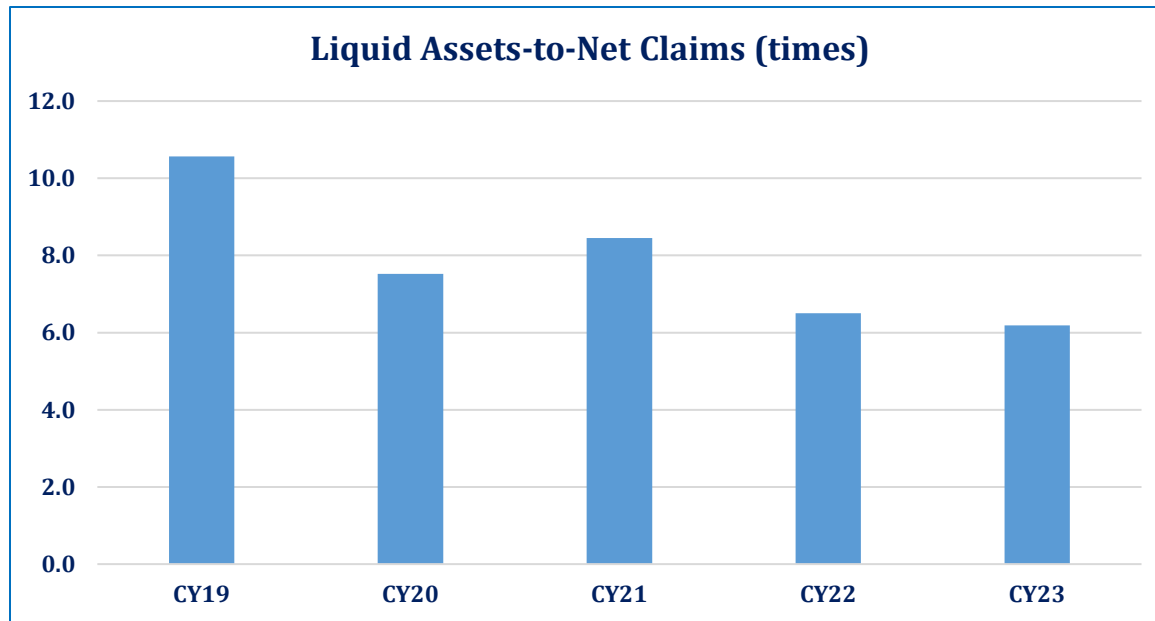
- The sector’s total investments went up by ~57.1% in CY23 (CY22: ~13.6% growth YoY), clocking in at PKR~2,008bln.
- Sector’s investments are largely concentrated in Government Securities including investment in Treasury Bills, Pakistan Investment Bonds (PIBs) and Sukuks.
- Investments in Government Securities formed ~81.0% of the total investments in CY23 (CY22: ~79.9%). In absolute terms, these increased by ~43.4% YoY in CY23, amounting to PKR~1,626bln (CY22: PKR~1,136mln.)
- The second highest chunk of investments lies in equity market securities which contributed ~9.6% towards the sector’s total investments during CY23 (CY22: ~6.7%). In absolute terms, these stood at PKR~193bln, up ~150.6% YoY.
- Meanwhile, investments in mutual funds and debt securities both contributed ~2.6% and ~1.7%, respectively, to the total investments in CY23. In absolute terms, these stood at PKR~52bln and PKR~33bln, respectively, during the year.



Life Insurance

Local | Financial Risk

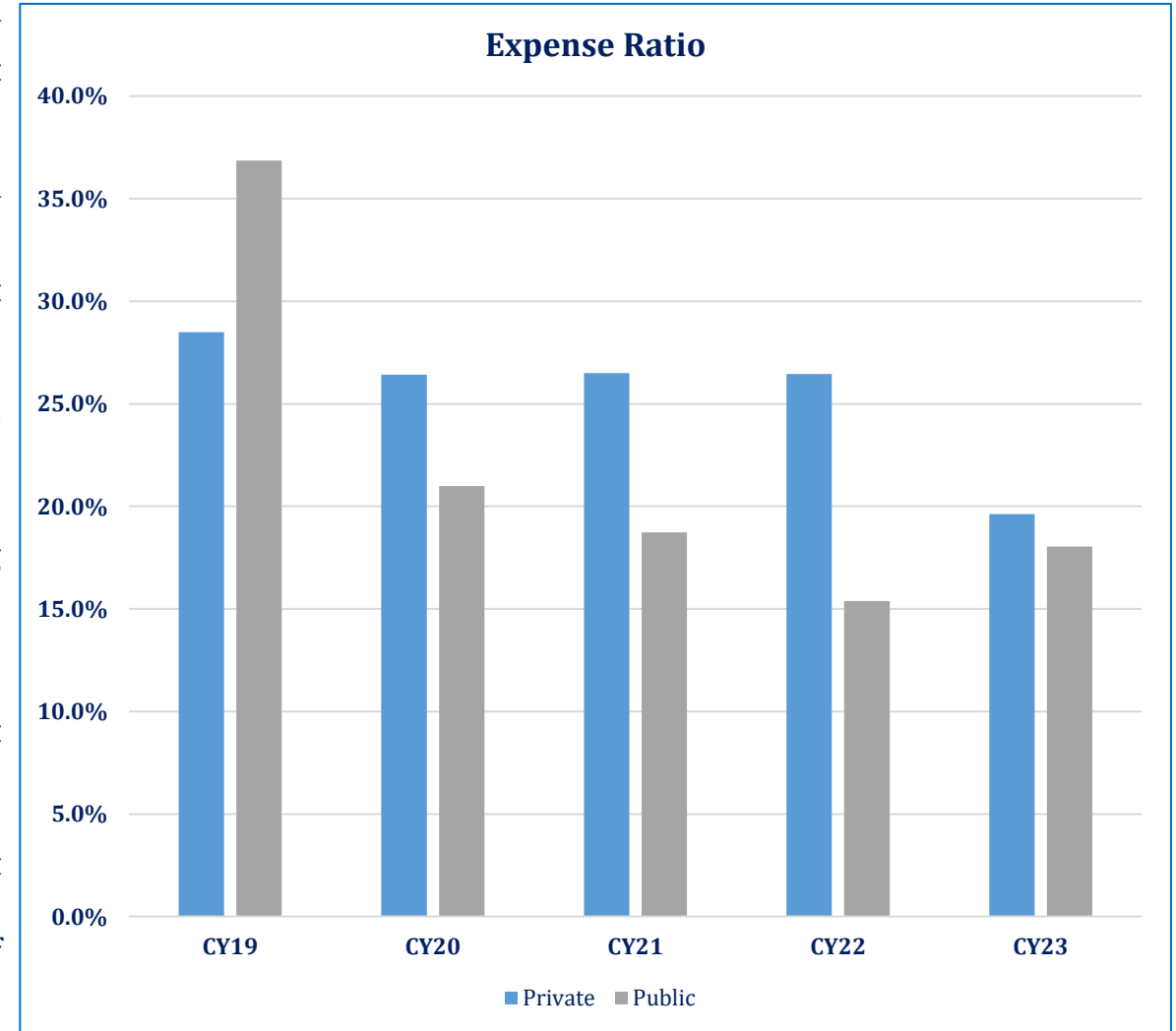
- Sector's liquid assets increased by ~57.1% YoY to PKR~2,008bln in CY23 (CY22: PKR~1,277bln). Meanwhile, overall Net Claims increased by ~20.2% YoY during the said period (CY22: ~48.8% YoY decline). Therefore, with the increase in Net Claims outpacing that of liquid assets, the Liquid Assets-to-Net Claims ratio declined to ~6.1x in CY23 (SPLY: ~6.5x). In terms of segments, private segment's liquid assets form ~26.8% of the sector's total liquid assets, while those pertaining to the public segment comprised ~73.2% (same as SPLY).
- The sector's equity base registered an increase of ~31.1% YoY from PKR~55,422mln in CY22 to PKR~72,695mln in CY23. On the other hand, the Net Premium Revenue expanded by ~8.7% YoY in CY23 (CY22: ~28.7% YoY increase), clocking in at PKR~396.2bln. Therefore, the Equity-to-Net Premium Ratio marginally rose to ~0.18x in CY23 from ~0.15x in CY22.



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Financial Risk | Expense Ratio

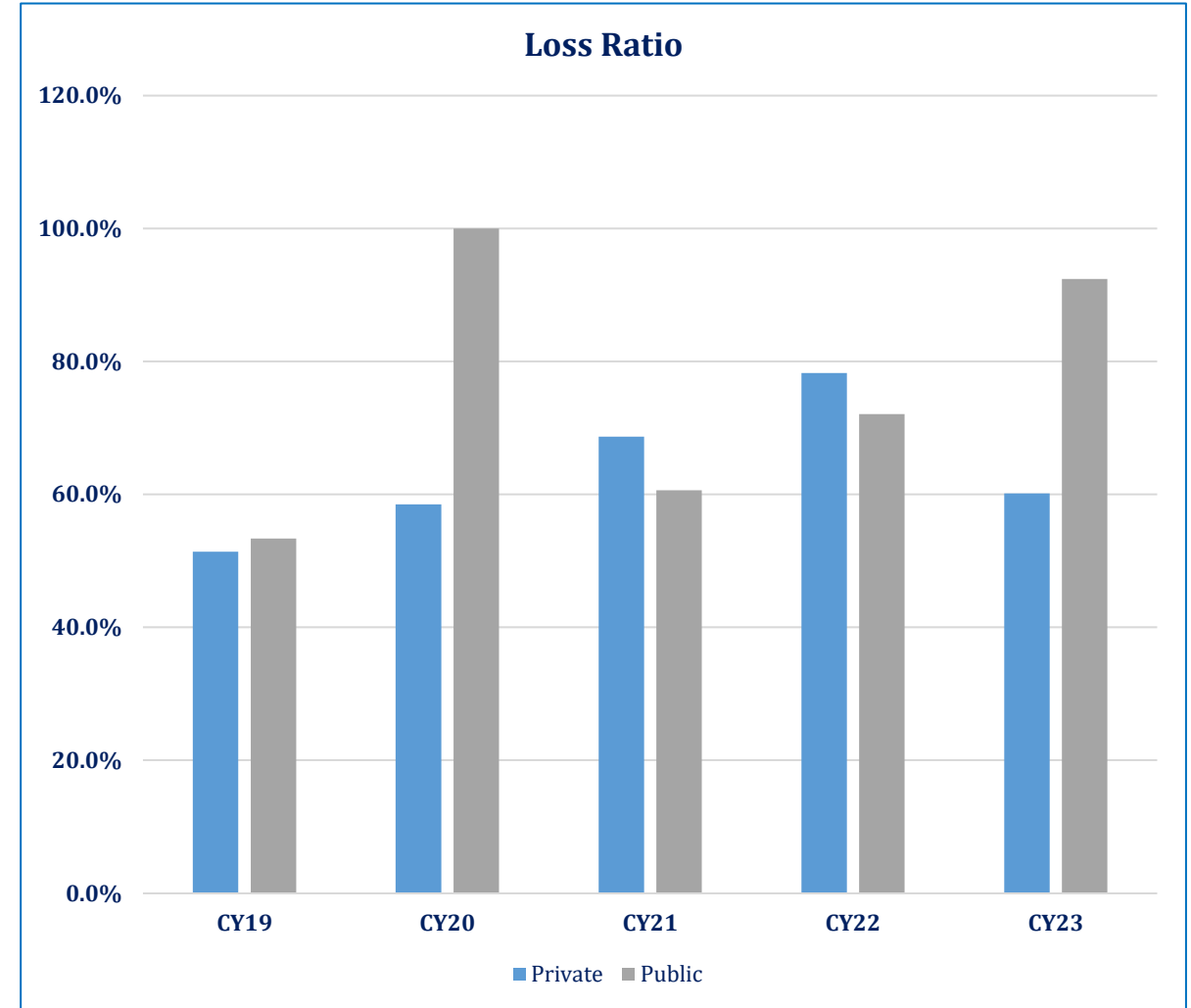
- Expense ratio compares the expenses incurred by an insurance company while underwriting an insurance policy against the net revenues (or net premiums) it receives as a result.
- Sector's expense ratio traced a downward trend during CY19-22, especially that for the public segment, depicting better expense management (these expenses are exclusive of money paid out in investment claims or investment income/ losses).
- For CY23, however, expense ratio clocked in at ~18.0% for the public segment (CY22: ~15.4%). For the private segment, it decreased to ~19.6% in CY23 (CY22: ~26.4%). This implies that public segment's performance deteriorated compared to the private segment's in terms of managing expenses and generating net revenues.
- During CY23, aggregate expenses for the private segment amounted to PKR~25.1bln (CY22: PKR~32.1bln), a YoY decline of ~21.4%, against the Net Premium of PKR~128.8bln (CY22: PKR~121.2bln), YoY increase of ~5.9%.
- Similarly, for the public segment, expenses during CY23 came in at PKR~48.3bln (CY22: PKR~37.4bln), up ~29.0% YoY, against Net Premium registering at PKR~267.8bln (CY22: PKR~243.2bln), a YoY growth of ~10.1%.



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Financial Risk | Loss Ratio

- The loss ratio of an insurance company measures the overall amount of incurred losses to the total amount of earned premium and can be considered a good metric to assess the health and profitability of an insurance company. Generally, the lower the ratio, the better it is.
- The sector's loss ratio, with respect to both the private and public segments, has been gradually rising as net claims are growing more rapidly compared to net revenues. Additionally, the loss ratio for the private segment has been observed to be usually higher than that of the public segment's.
- For the private segment, the loss ratio dropped to ~60.1% in CY23 as against ~78.3% recorded during SPLY. The public sector loss ratio during the year clocked in at ~92.4% (SPLY: ~72.1%).
- A further breakdown of the ratio shows that where, for the private segment, net claims dropped by ~18.5% YoY in CY23, clocking in at PKR~77.2bln, while net claims for the public segment increased by ~41.1% YoY and came in at PKR~247.5bln.



Life Insurance

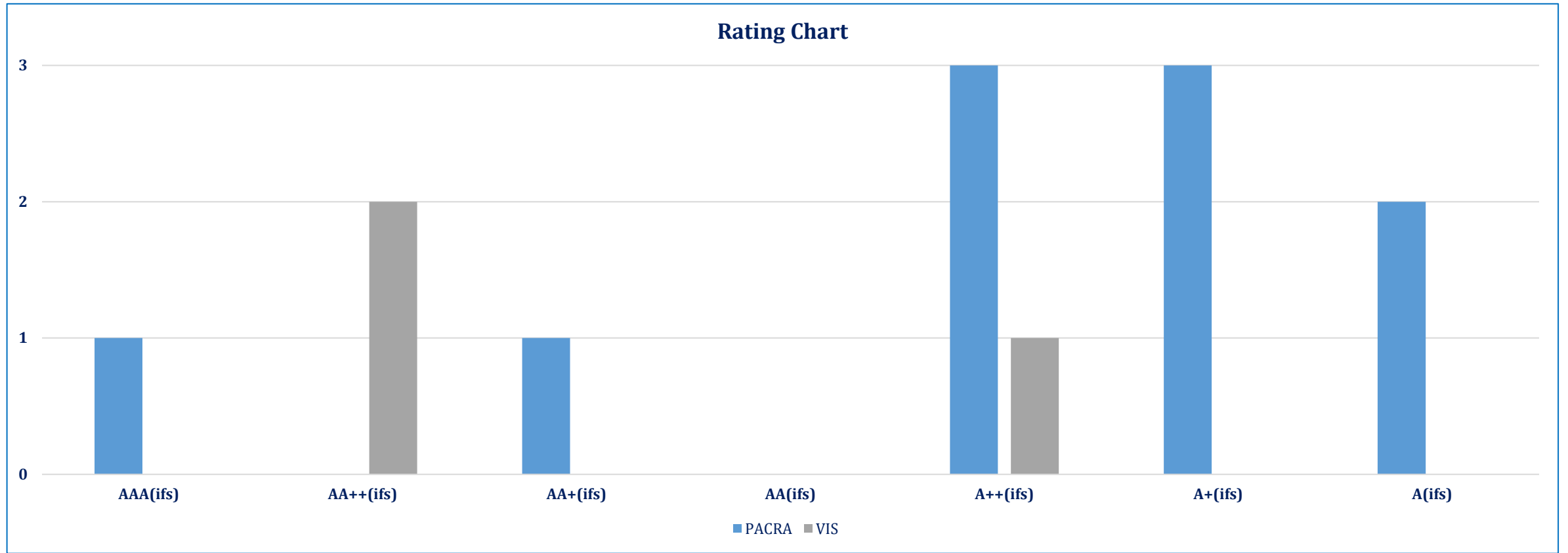
Regulatory Framework

- 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 in Dec'20 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. In the proposed Budget FY24, the revised rates of super tax are as follows: 3%, 4%, 6%, 8% and 10% on incomes exceeding PKR 300mln but not exceeding PKR 350mln, exceeding PKR 350mln but not exceeding PKR 400mln, exceeding PKR 400mln but not exceeding PKR 500mln and exceeding PKR 500mln, respectively.

Life Insurance

Rating Curve

▪ PACRA rates ten (10) clients from the Life Insurance sector. The overall rating bandwidth lies between AAA(ifs) and A(ifs).



Life 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)



- Inadequate awareness about insurance policies among various segments of the population.
- High barriers to entry due to customer retention and effective distribution channels.
- Lack of access to the target segments of the society where life insurance can benefit the most.

- 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.
- Abundance of capacity in the re-insurance market.

Life Insurance

Outlook: Stable

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~54.3% share in GDP during the year. However, the provisional data released by National Accounts reveals that Pakistan's GDP during FY24 is expected to clock in above PKR~100.0trn in nominal terms with expected GDP growth rate in real terms of ~2.4%, depicting an improved economic activity during FY24 compared with SPLY. The SBP estimates GDP growth at ~2-3% for FY24, while IMF's forecast for the same stands at ~2.0%.
- However, the market size of the Life Insurance sector with respect to the Gross Premiums Written (GPW) stood at PKR~404.1bln in CY23 (CY22: PKR~374.8bln), up ~8.0% YoY (CY22: ~28.3% YoY growth).
- Gross claims of the sector grew by ~20.2% YoY in CY23 (CY22: ~48.8% increase YoY) and amounted to PKR~324.7bln. During the year, surrender claims formed the highest share of total claims (as has been the case during CY19-22) at ~45.0% (CY22: ~38.0%), up ~7.0% YoY. In absolute terms, these stood at PKR~147.3bln (CY22: PKR~102.5bln).
- Moreover, the sector's loss ratio, with respect to both the private and public segments, has been gradually rising. For the private segment, the loss ratio dropped to ~60.1% in CY23 as against ~78.3% recorded during SPLY. The public sector loss ratio during the year clocked in at ~92.4% (SPLY: ~72.1%). The sector's total investments went up by ~57.1% in CY23 (CY22: ~13.6% growth YoY), clocking in at PKR~2,008bln.
- Private segment's persistency for the second year remained stable at ~67.3% in CY23 (CY22: ~65.7%), while subsequent-year persistency recorded at ~78.5% for the same period (CY22: ~77.6%).
- Thus, in terms of the financial strength, the sector is expected to remain resilient and maintain its current momentum. It is generally so because most of the clientele of life insurance companies belongs to the segment of the market which is comparatively less affected by hiked inflation and rising prices.

Life Insurance

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- Company Financial Statements
- Pakistan Bureau of Statistics (PBS)

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