

Life Insurance And Family Takaful in Pakistan



June 2018

Life Insurance Contracts ^{1a}

- ◆ Life Insurance companies in Pakistan are allowed to enter into following types of contracts of life Insurance
 1. that provides for the payment of money on the death of a person or on the happening of a contingency dependent on the termination or continuance of human life
 2. that is subject to payment of premiums for a term dependent on the termination or continuance of human life;
 3. that provides for the payment of an annuity for a term dependent on the continuance of human life;

- ◆ In addition, following contracts are also allowed
 4. that provides for the payment of an annuity for a term not dependent on the continuance of human life but exceeding the period of one year;
 5. a contract providing an indemnity for medical expenses
 6. a continuous disability income contract;
 7. an investment contract;

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Life Insurance Key terms^{1b}

- ◆ “**investment contract**” means a contract of insurance, providing for benefits to be paid on death or on a specified date or dates before death where the benefits paid are calculated by reference to either a running account or units under the contract whether or not the minimum value of that account or those units is guaranteed and providing for the account to be increased during the currency of the contract;
- ◆ “**investment-linked contract**” in relation to life insurance means investment contracts, the principal object of which is the provision of benefits calculated by reference to units, the value of which is related to the market value of a specified class or group of assets of the party by whom the benefits are to be provided;
- ◆ “**group**” in relation to contracts of life insurance, including health insurance, means contracts having a term not dependent on the termination or continuation of human life, under which the benefits are payable to a member of a group defined in the contract on the happening to that member during the term of the contract of a contingency defined in the contract, not being a contingency which is bound to happen;

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Life insurance differentiated in Pakistan

Life Insurance Business Classes^{1c}

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- 1 Ordinary life business;
- 2 Capital redemption business;
- 3 Pension fund business; and
- 4 Accident and health business.

General Insurance Business Classes^{1c}

- 1 Fire and property damage business;
- 2 Marine, aviation and transport business;
- 3 Motor third party compulsory business;
- 4 Liability business;
- 5 Workers' compensation business;
- 6 Credit and suretyship business;
- 7 Accident and health business; and
- 8 Agriculture insurance including crop insurance;
- 9 Miscellaneous business;

Company registered as General Insurance and (i) term of contract is not greater than one year (ii) payment is only to be made in the event of death by accident.



Life insurance products²

Risk and earnings profile

Life Risk Protection

Savings



Products offered across Globe

Term Assurance
Group Life
Disability
Long term Care
Critical illness
Payout Annuities

Whole Life
Universal Life
Variable Life
Endowment Insurance
Combined Life Annuity

Deffered Fixed and variable Annuities
Unit-Linked Savings
Guaranteed interest contracts
Defined Contribution Pension

Risk of a Life Insurance Company

Mortality
Morbidity
Longevity
Lapse

Mortality
Morbidity
Longevity
Lapse
Interest Rate
Equity Market

Lapse
Interest Rate
Equity Market

Main Source of earning

Underwriting result
Investment Income

Underwriting result
Investment Income

Investment Income
Fee Income



Sector Performance²

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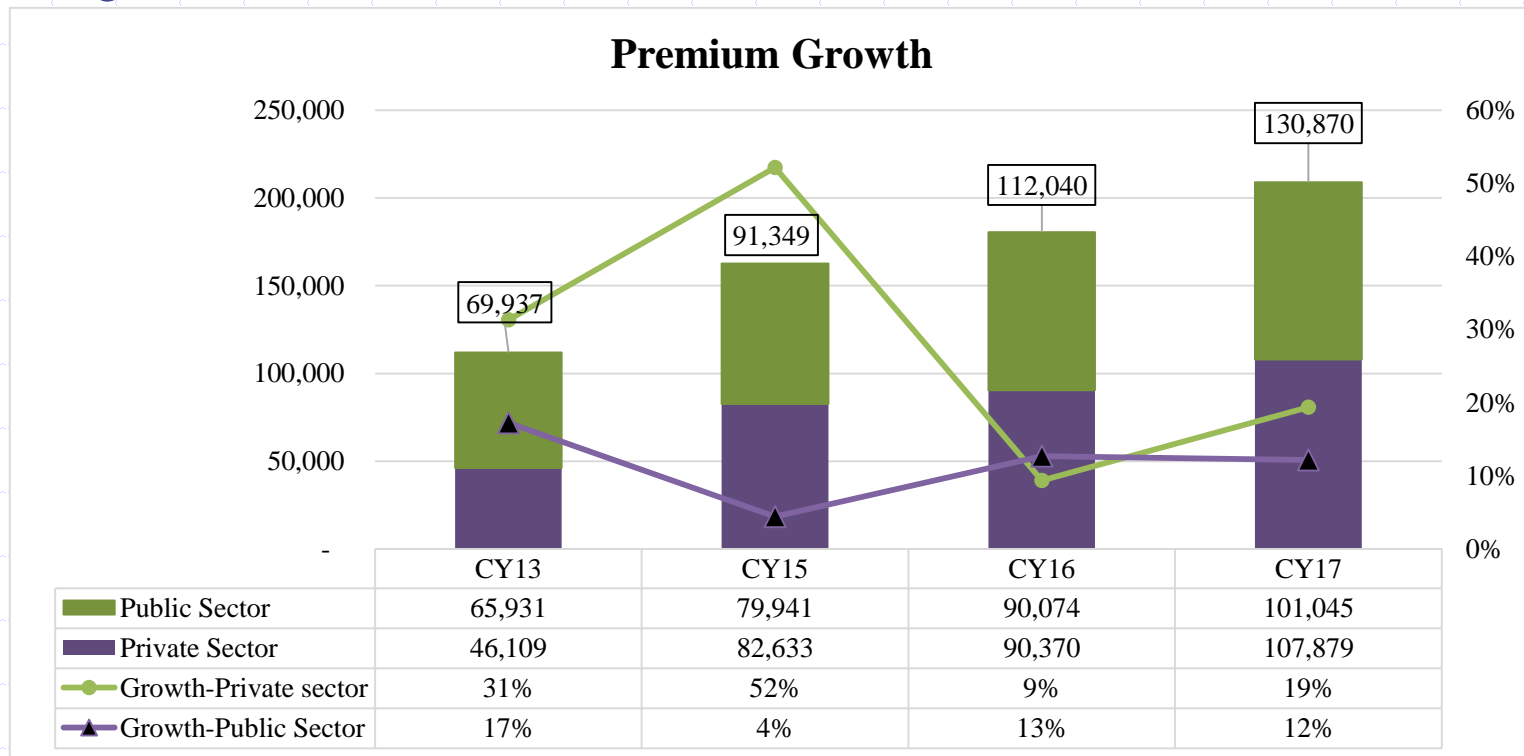
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Growth Dynamics

- ◆ Liberalized in early 90s | only state owned insurer is State Life Insurance Corporation (SLIC)
- ◆ Private sector growth outpacing public sector because of unit linked selling through bancassurance



Family Takaful

- ◆ Rise in growth rate
- ◆ Dominated by one operator
- ◆ Window takaful allowed to conventional players in May 2014, is expected to boost takaful prospects in the country

Number at year end	Takaful Operator	Window Takaful
CY11	2	-
↓		
CY17	2	4
CY18 (projected)	2	4



Industry Competition

- ◆ Market remains dominated by public sector giant – State Life Insurance Corporation of Pakistan (SLIC)
- ◆ Innovative efforts by private sector, has enabled them to increase the market share

Company		IFS Rating	CY17			CY16			CY15		
			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	AA+	47,116	24%	23%	38,004	27%	21%	29,955	37%	18%
2	EFU Life	AA+	31,499	28%	15%	24,667	-21%	14%	31,300	72%	19%
3	Adamjee Life	A+	13,781	22%	7%	11,302	24%	6%	9,151	75%	6%
4	IGI Life (ALICO)	A+	5,617	-26%	3%	7,584	91%	4%	3,962	56%	2%
5	TPL life (AsiaCare)	A-	270	132%	0%	116	-75%	0%	459	35%	0%
6	East west life	N/a	19	-23%	0%	25	-44%	0%	44	-83%	0%
Takaful											
7	Pak Qatar Family	A	8,263	10%	4%	7,494	12%	4%	6,721	32%	4%
8	Dawood Family	A-	1,313	11%	1%	1,178	13%	1%	1,040	24%	1%
Premium Private Sector			107,879	19%	52%	90,370	9%	50%	82,633	52%	51%
9	SLIC	AAA	101,045	12%	48%	90,074	13%	50%	79,941	4%	49%
Total Premium			208,924	16%		180,444	11%		162,574	24%	

IGI Life experienced a decline in single premium of PKR2.52bn due to the shift in partner bank

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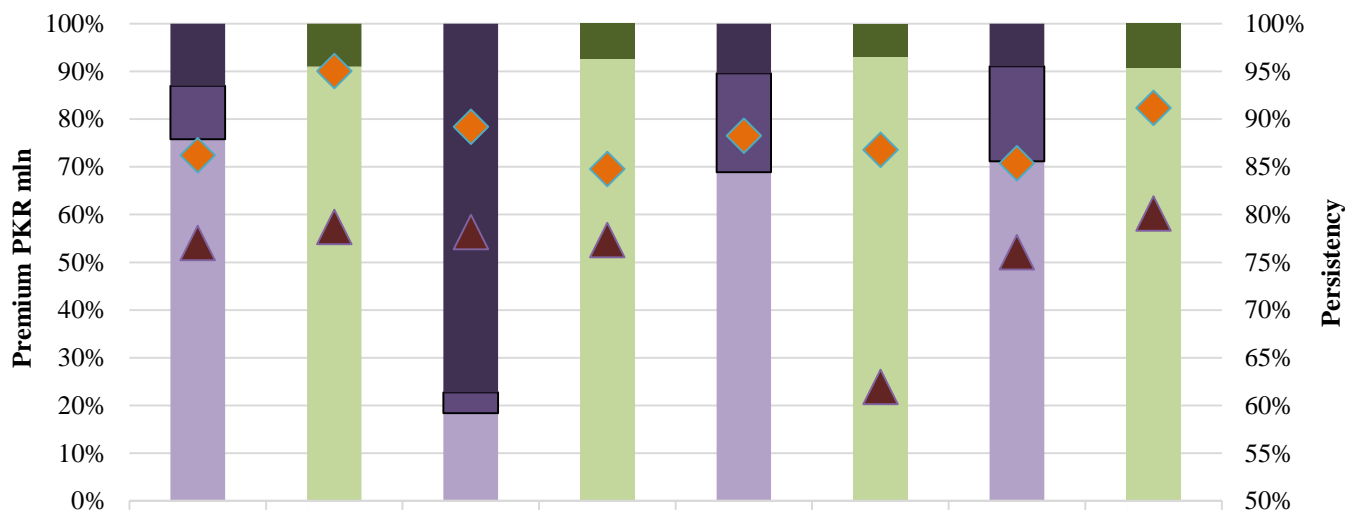
Performance Analysis – Assets

Strengths and Risk

Revenue Streams | Persistency

- ◆ Private sector's growth driver is primarily single premium – unit linked product sold through bancassurance
- ◆ Persistency of public sector is higher than private sector

Premium Mix and Persistency

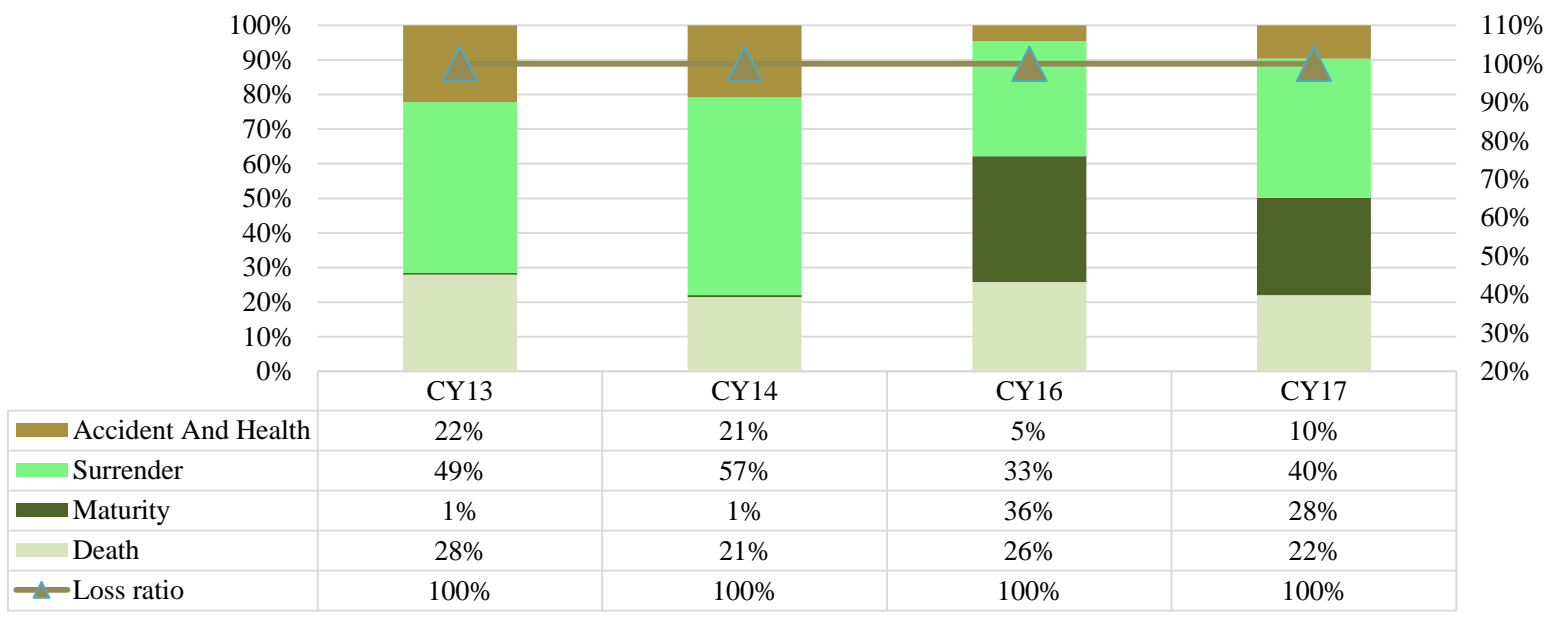


	CY14		CY15		CY16		CY17	
	Pvt Sector	Pub Sector	Pvt Sector	Pub Sector	Pvt Sector	Pub Sector	Pvt Sector	Pub Sector
■ Group Premium	7,073	6,868	398,898	5,978	9,409	6,158	10,474	8,686
■ Individuals Single Premium	6,061	-	22,486	-	18,701	-	23,507	-
■ Individuals Regular Premium	41,141	69,693	94,747	74,191	62,260	83,916	83,916	84,573
▲ Persistency First Year	77%	79%	78%	77%	21%	62%	76%	80%
◆ Persistency Subsequent Year	86%	95%	89%	85%	88%	87%	85%	91%



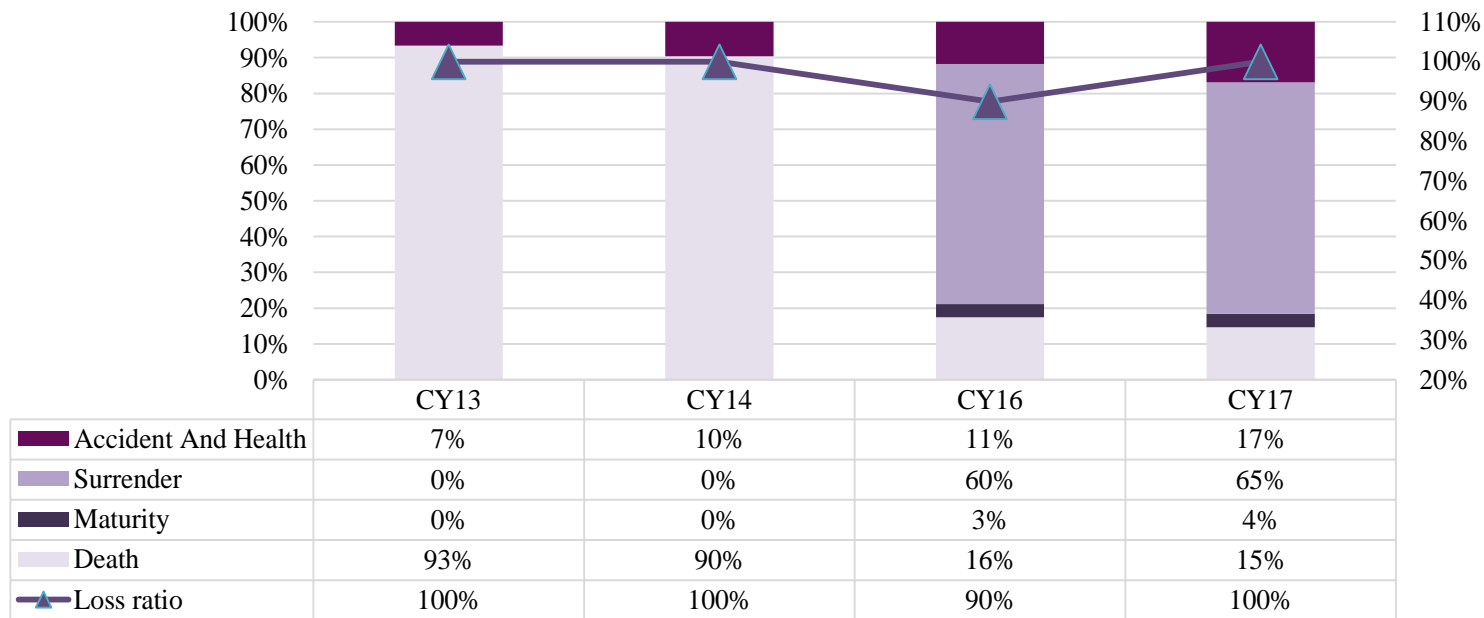
Analysis of Claims Expense – Public Sector

Claims Experience | Public Sector



Analysis of Claims Expense – Private Sector

Claims Experience | Private Sector



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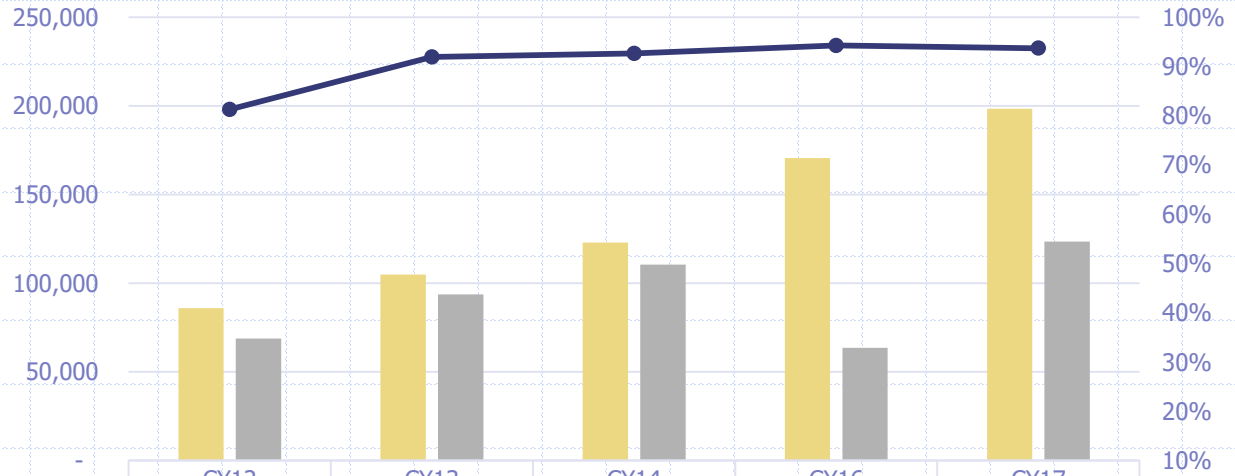
Performance Analysis - Profitability

Performance Analysis – Assets

Strengths and Risk

Performance Analysis

Profitability



NPR	85,944	105,007	122,919	170,678	198,325
Excess of income over Claims and Expenditure	68,894	93,757	110,572	63,647	123,578
Operating Ratio - Pvt Sector	93%	92%	91%	94%	94%
Operating Ratio - Pub Sector	81%	92%	93%	94%	94%

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Conclusion – Strengths

- ◆ Low Penetration providing opportunity
- ◆ Tremendous Growth, specially private sector
- ◆ Robust profitability
- ◆ Conservative investments strategy, low risk

Conclusion – Risks

- ◆ Transparency – limited disclosures of assets under management. Takaful firms are better off.
- ◆ Single premium driven growth by few private sector players, which is not a sustainable source of income
- ◆ Persistency still lower than developed markets, though improving
- ◆ Compliance with more stringent Regulatory | Solvency, Corporate governance, MCR
- ◆ Competition with substitutes | mutual funds

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 - a) Section 3 – Division of insurance business into life and non-life, sub-section 2
 - b) Section 2 – Definitions (xxxii), (xxxiii), and (xxvi)
 - c) Section 4 – Classes of life and non-life business
2. Swiss Re Sigma no. 1/2012: understanding profitability in life insurance | Figure 16 | Page 21
3. Analysis based on PACRA’s inhouse research | figures compiled from annual financial statements of industry participants
4. Returns automatic calculated by PACRA’s inhouse software “Venus for mutual funds”

Analysts	Jhangeer Hanif	Rohail Amjad
	jhangeer@pacra.com	rohail.amjad@gmail.com
	Unit Head – Ratings	Financial Analyst
Contact Number: +92 42 3586 9504		

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