



# General Insurance Sector Update

November 2016

GPW Growth

Market |  
Segmental Mix

Performance

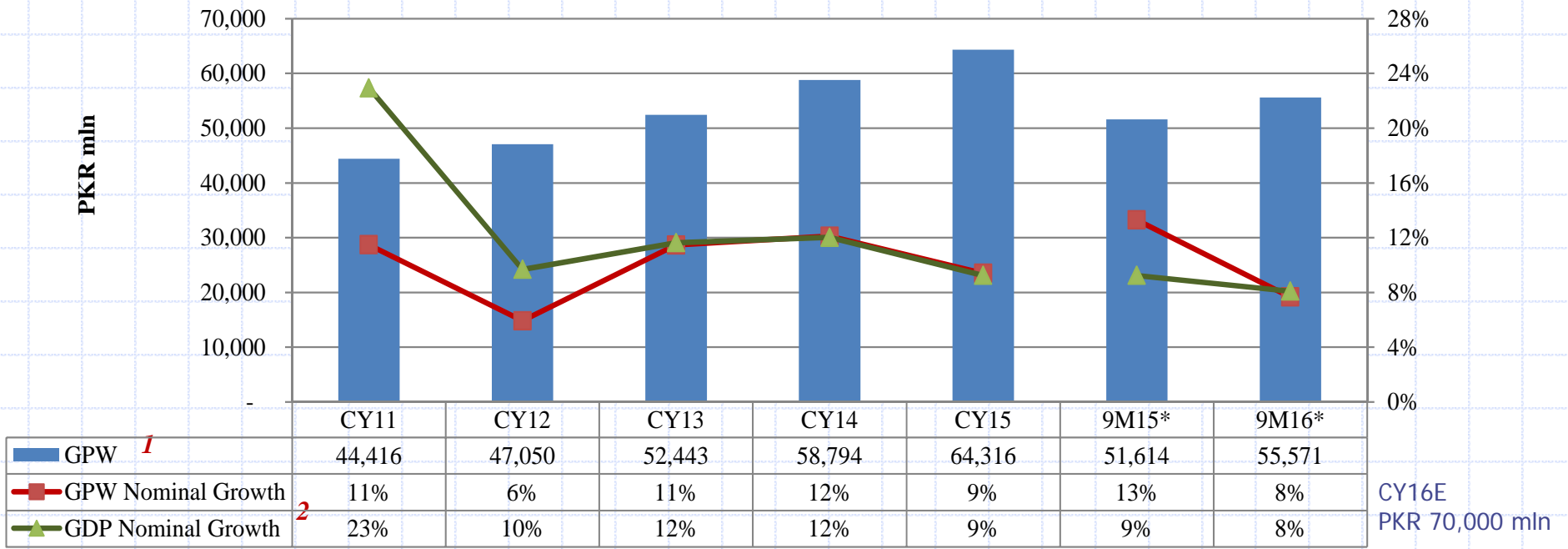
Strengths

Challenges

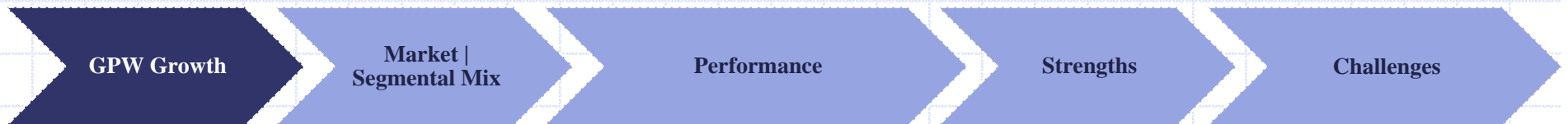


# GPW Growth

- Growth in economy impacts directly the business prospects of general insurance industry in Pakistan
- Private sector GPW CAGR 10% for four years
- General Insurance Penetration declined to 0.23% in CY15 from 0.24% in CY11



\*Estimated





# Industry Fragmentation<sup>1</sup>

- Changing competitive landscape; appreciable growth by medium sized companies
- Reclassification 9M16:
  - UBL Insurance moved up to medium insurer category
  - Premier and New Hampshire lost its status as medium insurer and reclassified to small insurer

	9M16*			
	Small	Medium	Large	Total
GPW (PKR mln)	8,108	15,706	31,756	55,571
Market Share	15%	28%	57%	100%
No. of companies	17	9	4	30
Mean GPW	477	1,745	7,939	1,852

	9M15*			
	Small	Medium	Large	Total
GPW (PKR mln)	6,068	15,303	30,243	51,614
Market Share	12%	30%	59%	100%
No. of companies	15	11	4	30
Mean GPW	405	1,391	7,561	1,720

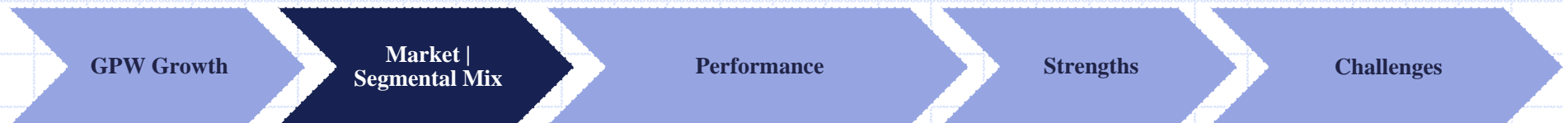
\*Estimated

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

	CY15			
	Small	Medium	Large	Total
GPW (PKR mln)	7,906	19,260	37,151	64,316
Market Share	12%	30%	58%	100%
No. of companies	15	11	4	30
Mean GPW	527	1,751	9,288	2,144

	CY14			
	Small	Medium	Large	Total
GPW (PKR mln)	8,842	18,550	31,402	58,794
Market Share	15%	32%	53%	100%
No. of companies	16	11	3	30
Mean GPW	553	1,686	10,467	1,960

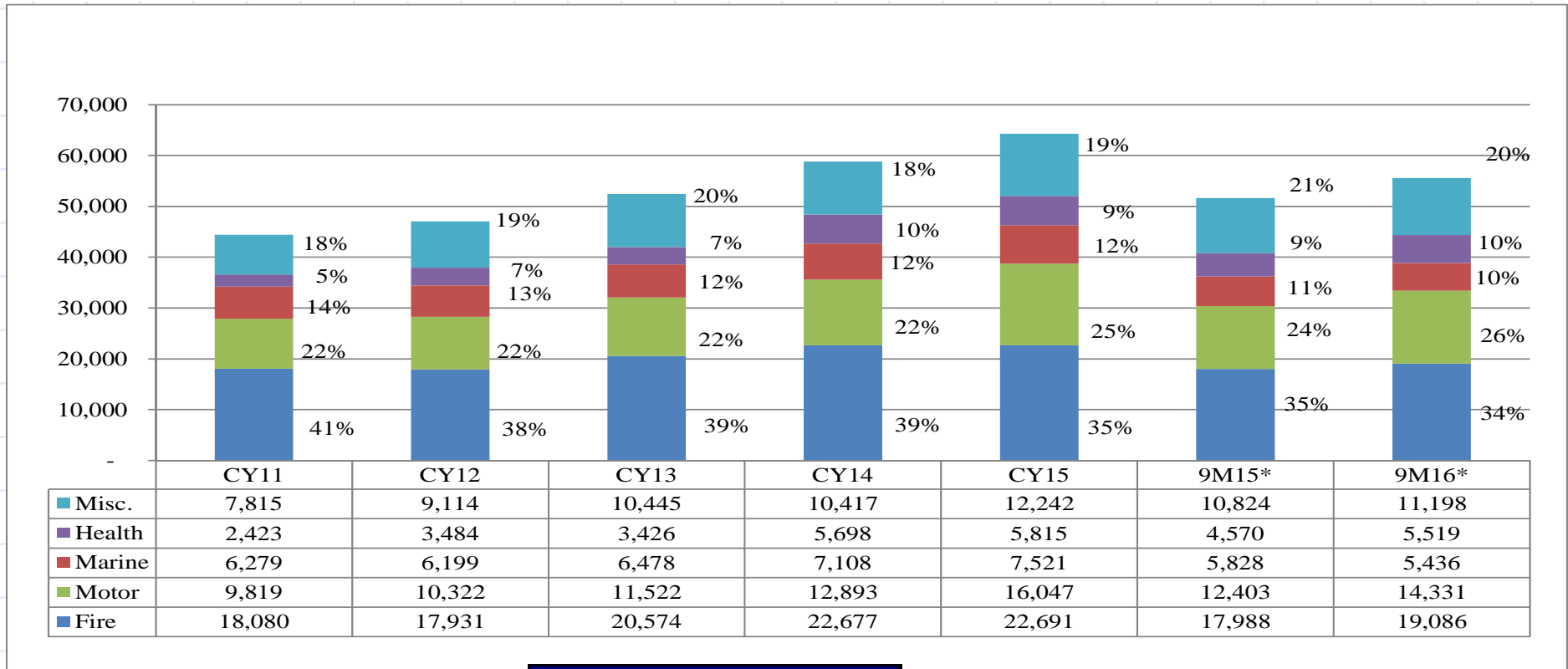
	CY13			
	Small	Medium	Large	Total
GPW (PKR mln)	8,904	15,183	28,357	52,443
Market Share	17%	29%	54%	100%
No. of companies	17	10	3	30
Mean GPW	524	1,518	9,452	1,748





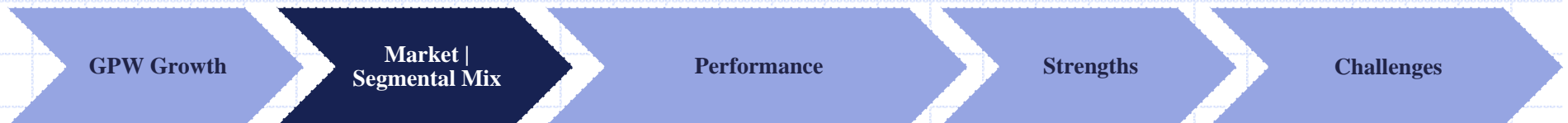
# GPW Mix by Segments

- Insurance industry dominated by fire (34%) and motor (26%)
- Health segment gradually achieved size (9M16: 10%, CY11: 5%)



\*Estimated

Miscellaneous CY15	
Engineering	13%
Crop	11%
Health	9%
Bankers Blanket	8%

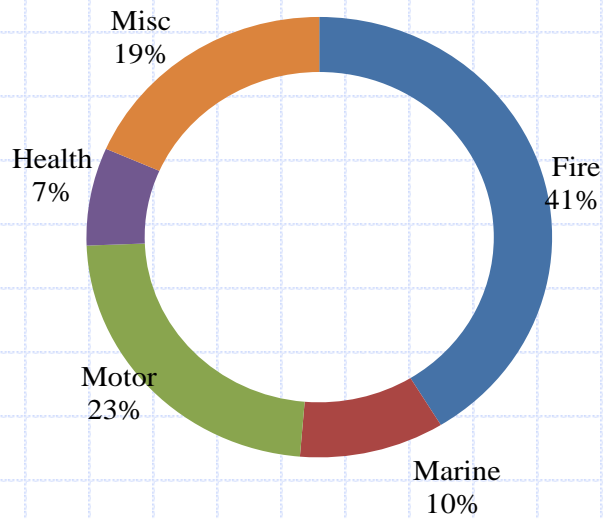




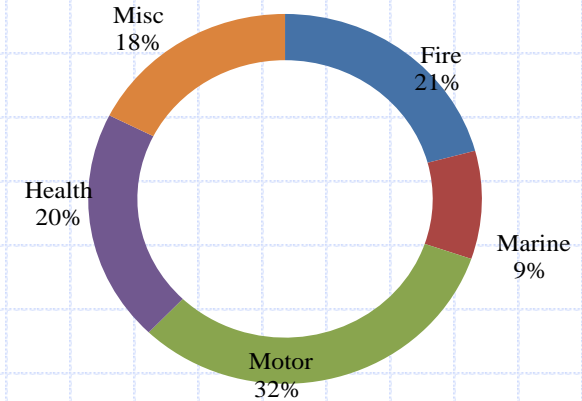
# GPW Mix by Segments <sup>1 & 4</sup>

➤ Medium Insurers are well diversified as compared to large and small insurers

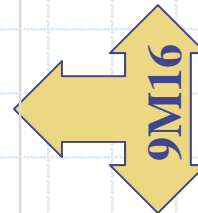
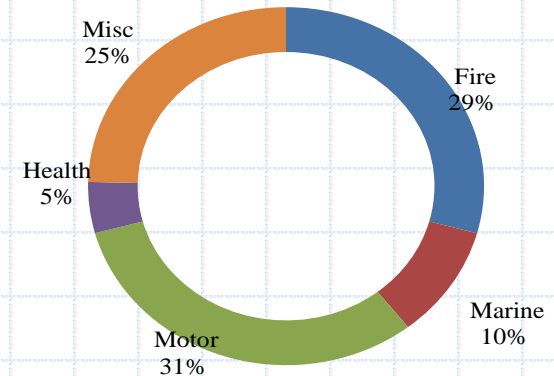
### Large Companies 9M16



### Medium Companies 9M16



### Small Companies 9M16



GPW Growth

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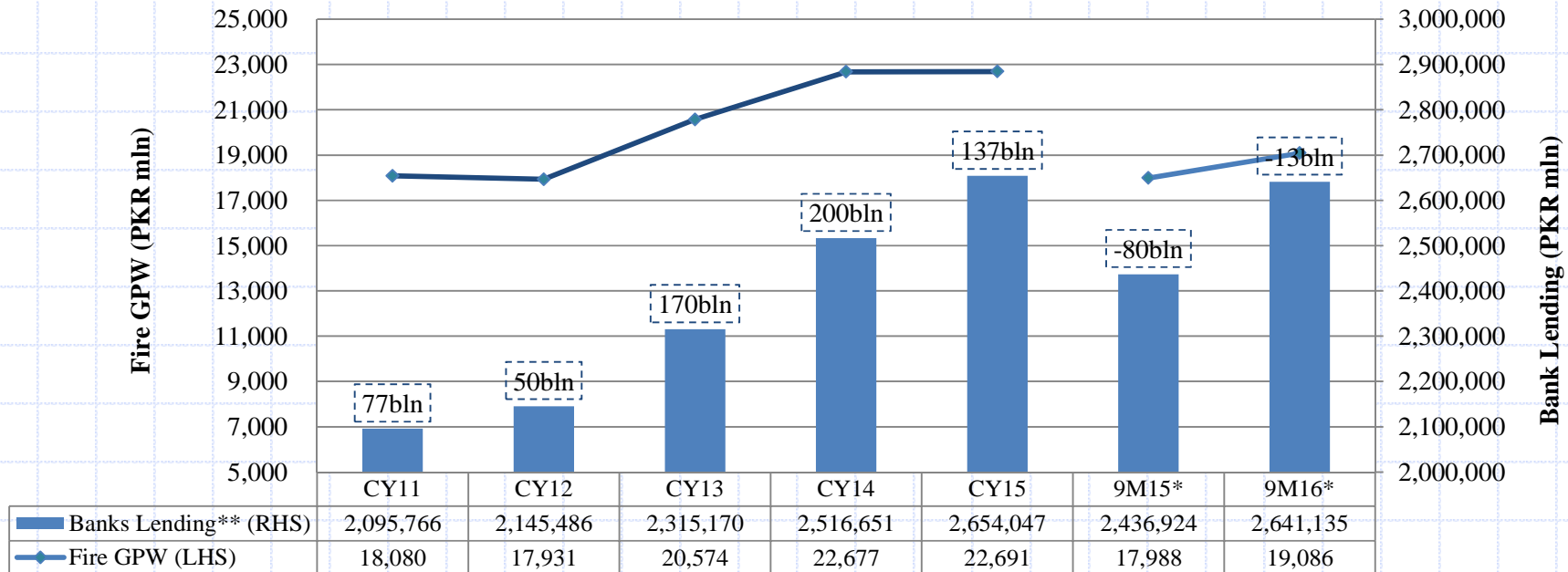
Strengths

Challenges



# Fire Segment Analysis <sup>1&5</sup>

➤ Fire, the largest segment's GPW witnessed tremendous growth with rising demand on the back of development in the sectors of Power, Chemicals, Transport, and Foods



*Bank's lending: Fresh Disbursements in PKR*

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

\*Estimated

Fresh Disbursements from banks to top 4 Sectors - "PKR bln"				
	9M16	CY15	CY14	CY13
Power	29	13	14	13
Chemicals	19	57	25	n.a
Transport	17	32	37	n.a
Infrastructure	14	11	n.a	n.a
Food	n.a	n.a	92	44
Textile	n.a	n.a	n.a	59
Basic Metals	n.a	n.a	n.a	10

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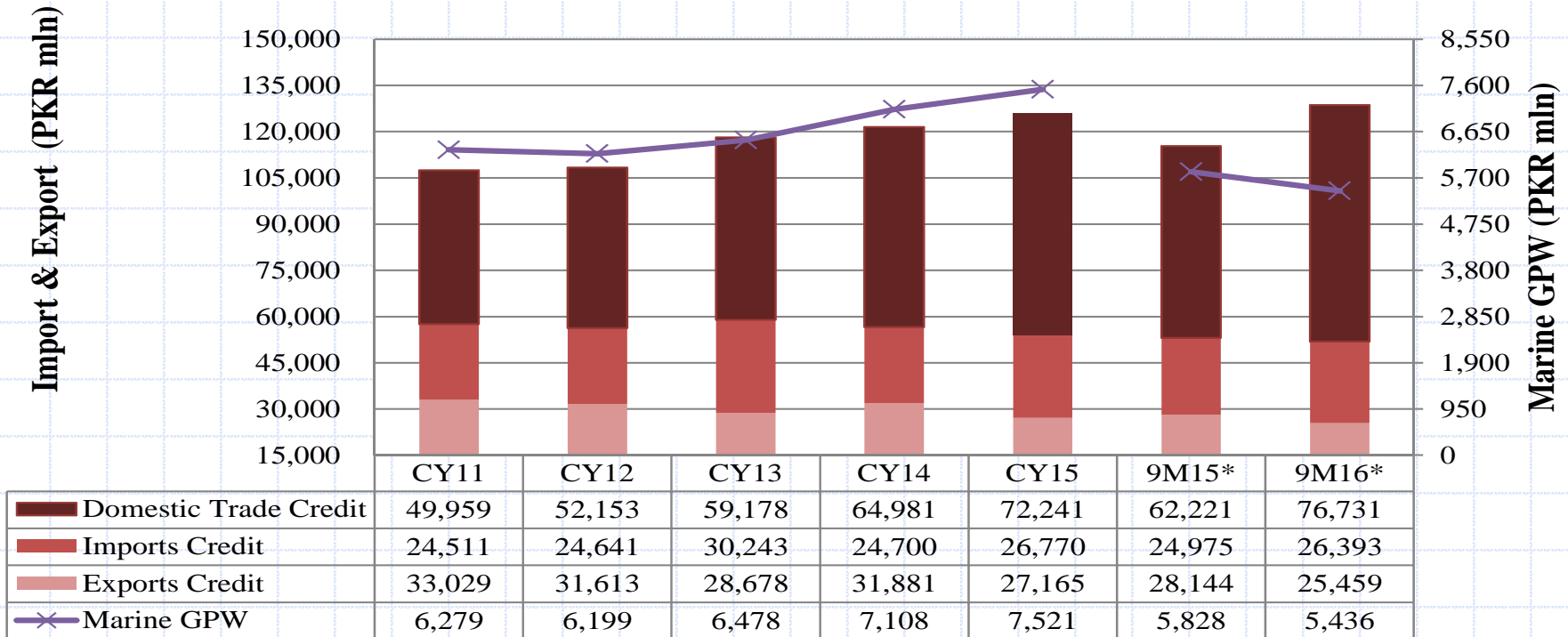
Strengths

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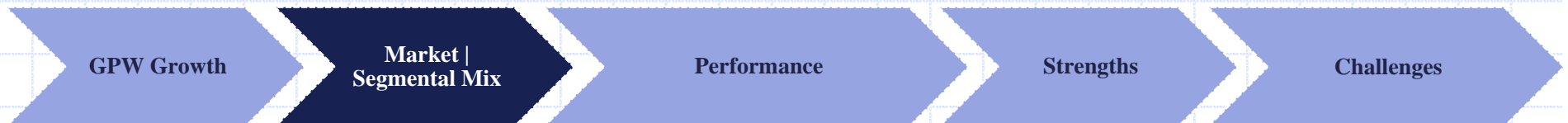


# Marine Insurance <sup>1 & 6</sup>

- Marine segment largely remained stagnant due to low growth of imports and export in the country
- Moreover, thin pricing continued to remain real challenge for the industry players



\*Estimated

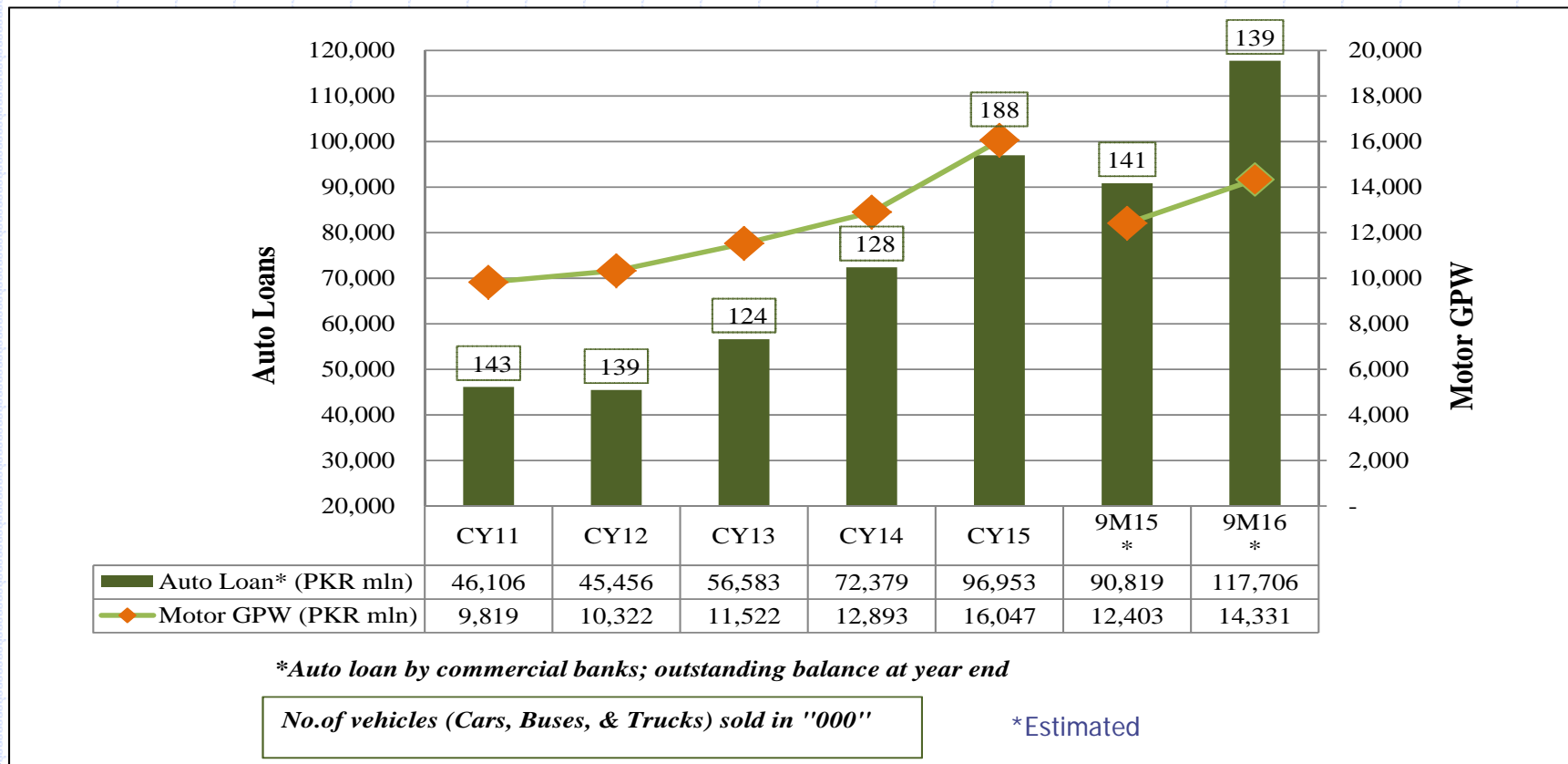




# Motor Insurance

1, 5 & 7

- Since CY14, consumer lending picked up amidst low interest rate environment and overall improvement in the economy
- Government sponsored schemes is helping the motor segment
  - CY15: GoPb's Apna Rozgar Taxi scheme – 50,000 taxis
  - CY13: Green tractor scheme 20,000 tractors for farmers by GoPb
  - CY12: Yellow cab scheme 20,000 taxis – GoPb



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# Performance

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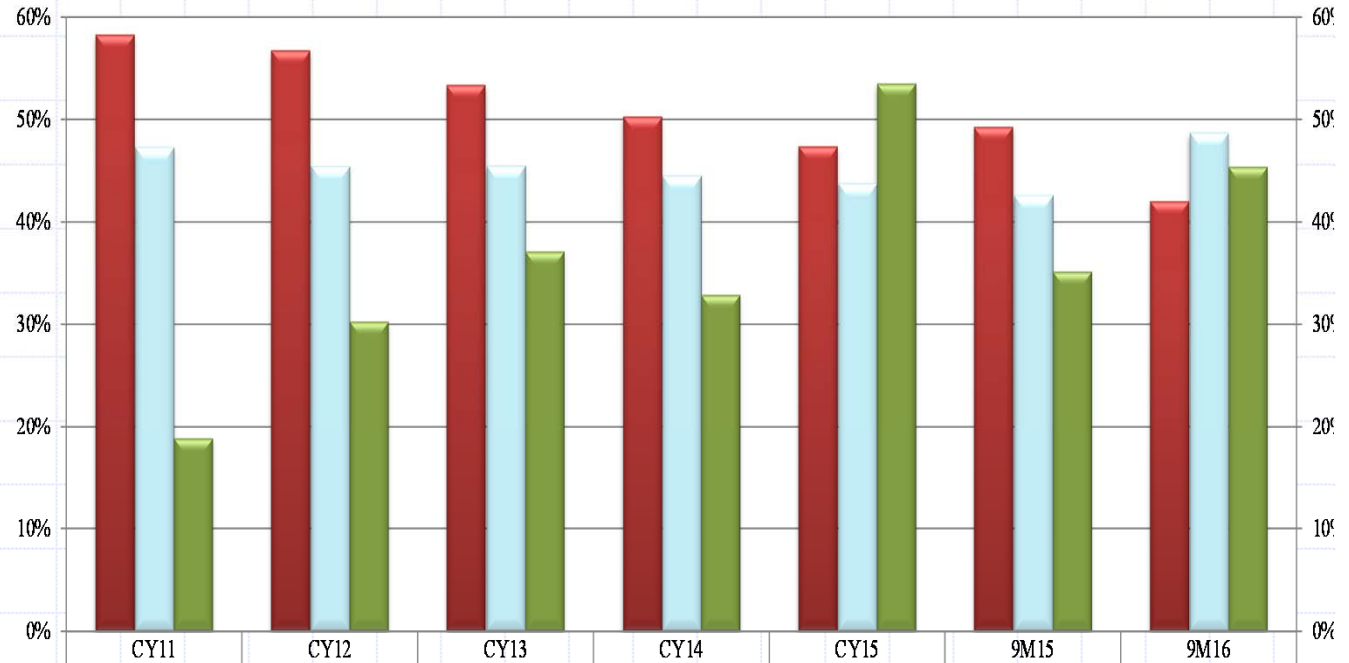
Challenges



# Performance - Analytical Analysis

3 & 4

- Significant improvement in profitability
- Declined loss ratio due to better risk management
- Expense ratio high, and remained stagnant despite topline growth due to infrastructure development to tap future growth
- Effective tax rate increased due to change in tax law – now capital gain also taxable



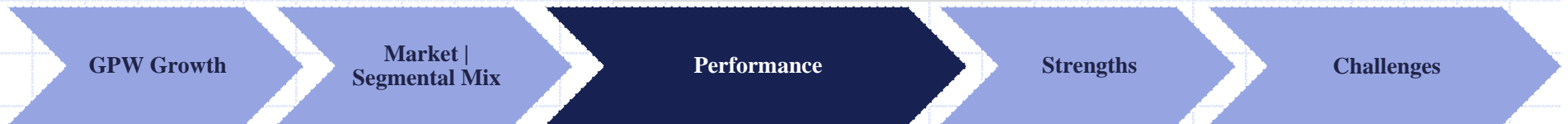
	CY11	CY12	CY13	CY14	CY15	9M15	9M16
Loss Ratio	58%	57%	53%	50%	47%	49%	42%
Expense Ratio	47%	45%	45%	44%	44%	43%	49%
Investment Income Ratio	19%	30%	37%	33%	53%	35%	45%

\*9M16: the sample (PACRA Universe) figures are extrapolated on the basis of 1H16 numbers

Year	Pre-tax profit	Effective Tax rate
CY11	3,395	11%
CY12	6,164	21%
CY13	8,996	14%
CY14	10,294	15%
CY15	15,910	15%
9M15*	10,503	18%
9M16*	14,048	22%

	Commission	Operational expenses
CY11	8.4%	38.9%
CY15	5.9%	37.8%

\*Estimated





# Strengths and Risks Analysis

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# Strengths/ improvements

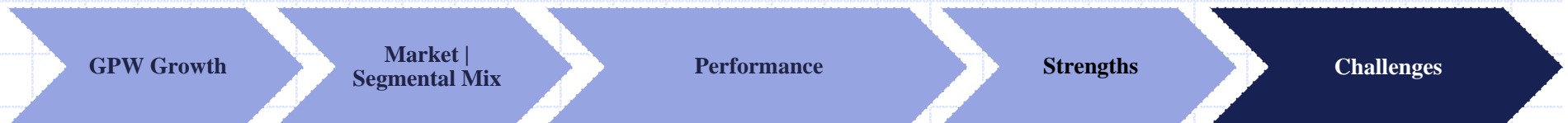
- ◆ Uptick in economic activity is enabling the general insurance GPW growth
- ◆ Allowance of takaful window operation to conventional insurers have positively impacted the overall industry
- ◆ Growth in the miscellaneous segment indicates focus towards diversification; fresh interest in retail and micro 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

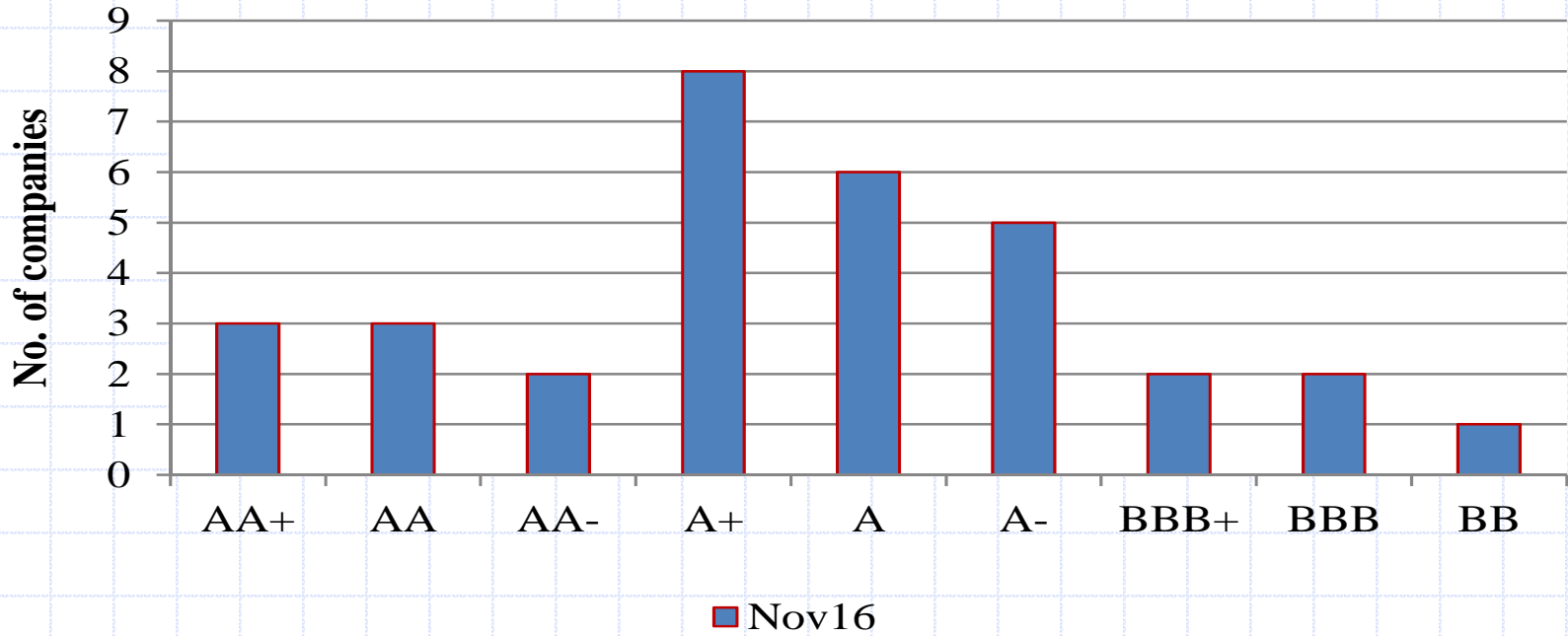
1. Industry depends predominantly upon banking sector for business growth (traditional model). Retail penetration is low.  
**Moderate Risk - maintained**
2. Change in tax laws would impact the profitability going forward.  
**Moderate Risk**
3. Improved Underwriting performance is driven by reduced loss ratio, the benefit was limited due to high expense ratio – comparatively more controllable factor.  
**Moderate Risk - maintained**
4. 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 - maintained**
5. Catastrophic risk – strong treaty arrangements required  
**Low Risk - maintained**
6. Regulatory Risk – very basic solvency requirements. Absence of risk based capital adequacy model.  
**Low Risk - maintained**
7. Small players exposed to regulatory non-compliance  
**High risk - maintained**





H I S T O R Y

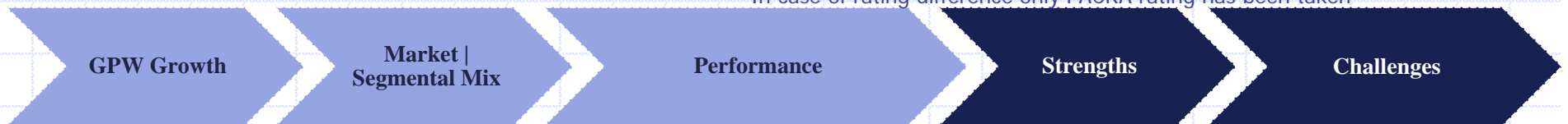
## Insurer Financial Strength (IFS) Rating Paradigm



Rating Actions in last one year		
Maintain	25	
Upgrade	4	Adamjee AA+   EWI A+   Universal BBB   The Cooperative BB
Downgrades	0	
Rating Watch	3	PICIC   Pak Kuwait   Crescent Star
Initial	0	
<b>TOTAL</b>	<b>32</b>	

Outlook		
Stable	27	
Positive	2	Habib   Reliance
Negative	0	
Rating Watch	3	PICIC   Pak Kuwait   Crescent Star
<b>TOTAL</b>	<b>32</b>	

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





# Bibliography

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