

# **Life Insurance And Family Takaful in Pakistan**



**April 2017**

# Life Insurance Contracts <sup>1a</sup>

- ◆ 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;

Life  
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Concepts

Growth  
Dynamics

Revenue  
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Competition  
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Analysis of  
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# Life Insurance Key terms<sup>1b</sup>

- ◆ “**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<sup>1c</sup>

H  
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N

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

## General Insurance Business Classes<sup>1c</sup>

- 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 products<sup>2</sup>

## 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 Performance<sup>2</sup>

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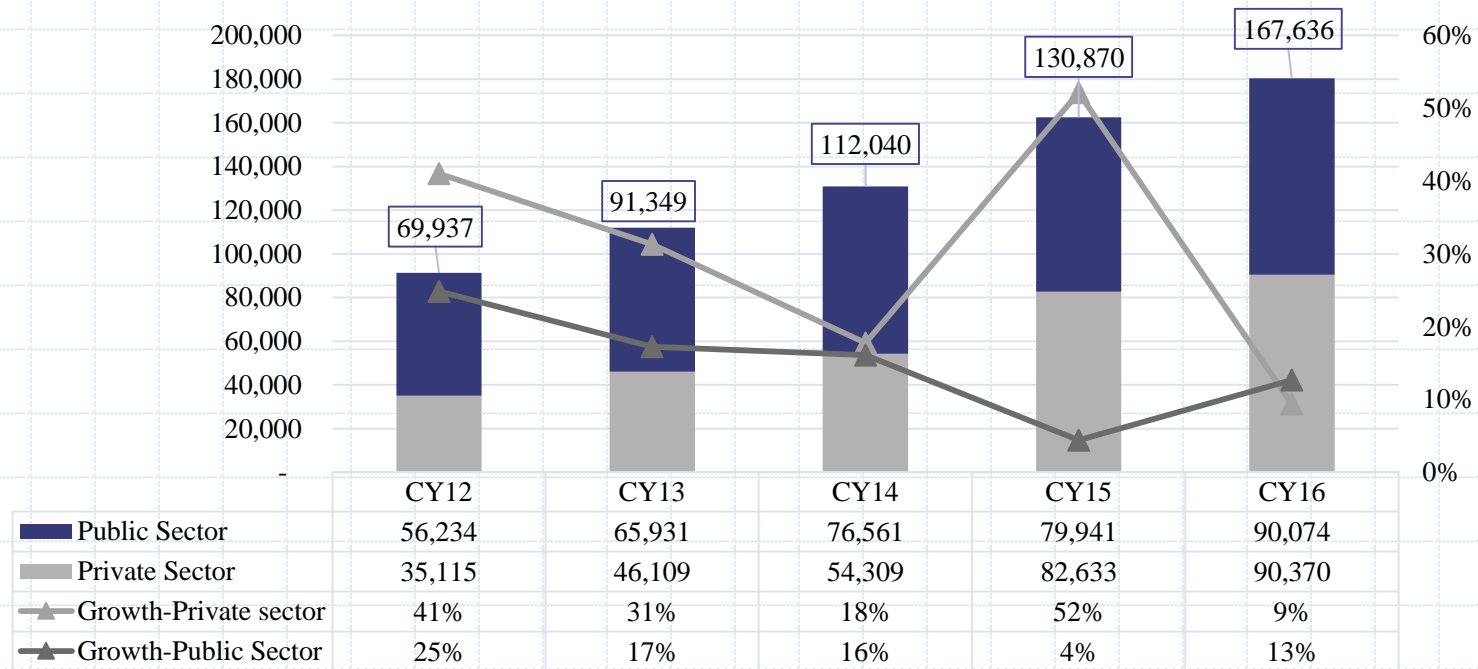
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# Growth Dynamics

- ◆ 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

### Premium Growth



*\*Public sector Projected for CY16, based on actual growth in 9M16*

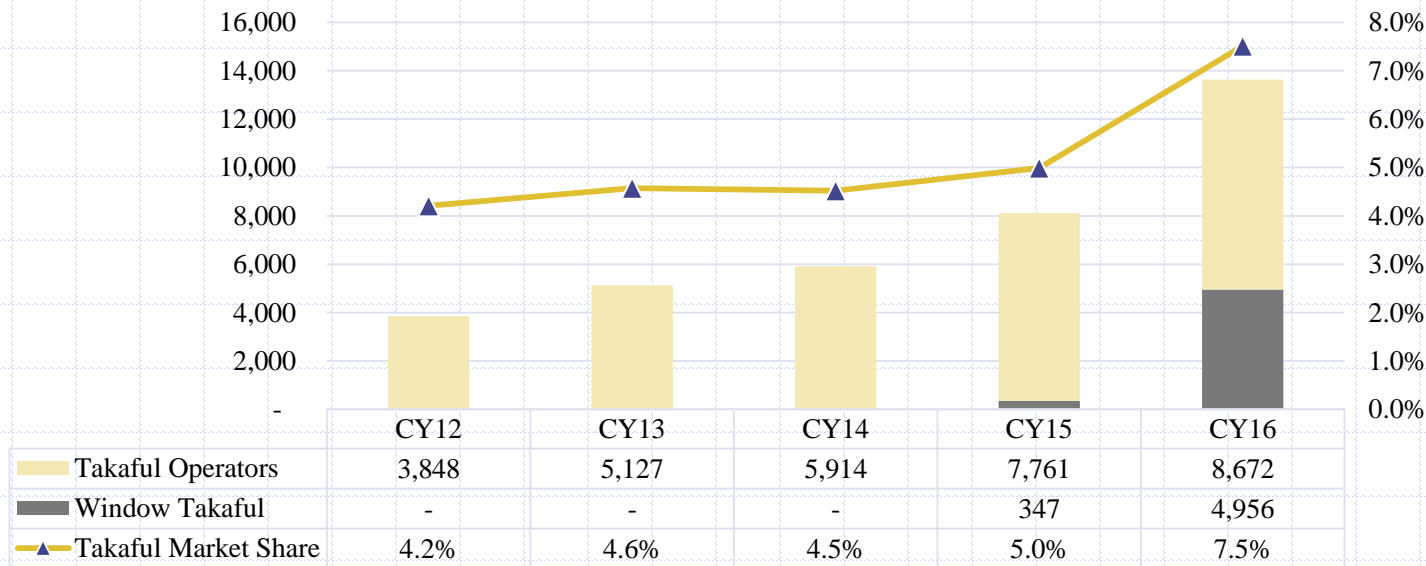


# Family Takaful

- ◆ 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	-
↓		
CY15	2	3
CY16 (projected)	2	5

**Family Takaful**



*\*Public sector Projected for CY16, based on actual growth in 9M16*





# 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

		CY16		CY15		CY14		CY13	
Company		Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)
<b>Conventional</b>									
1	Jubilee Life	38,004	21.0%	29,955	18.4%	21,823	16.7%	17,077	15.2%
2	EFU Life	24,667	13.6%	31,300	19.3%	18,220	13.9%	14,059	12.5%
3	Adamjee Life	11,302	6.2%	9,151	5.6%	5,215	4.0%	4,475	4.0%
4	IGI Life (ALICO)	7,584	4.2%	3,962	2.4%	2,535	1.9%	4,389	3.9%
5	TPL life (AsiaCare)	116	0.1%	459	0.3%	342	0.3%	723	0.6%
6	East west life	25	0.0%	44	0.0%	261	0.2%	261	0.2%
<b>Takaful</b>									
7	Pak Qatar Family	7,494	4.1%	6,721	4.1%	5,077	3.9%	4,461	4.0%
8	Dawood Family	1,178	0.6%	1,040	0.6%	837	0.6%	666	0.6%
<b>Premium Private Sector</b>		<b>90,370</b>	<b>50%</b>	<b>82,633</b>	<b>51%</b>	<b>54,309</b>	<b>41%</b>	<b>46,109</b>	<b>41%</b>
9	SLIC	91,000	50.2%	79,941	49.2%	76,561	58.5%	65,931	58.8%
<b>Total Premium</b>		<b>181,370</b>		<b>162,574</b>		<b>130,870</b>		<b>112,040</b>	

\* EFU experienced drop in single premium from PKR 13.3bln in 2015 to 4.4bln in 2016.

Life Insurance Concepts

Growth Dynamics

Revenue Stream

Competition and Market Share

Analysis of Claims

Performance Analysis - Profitability

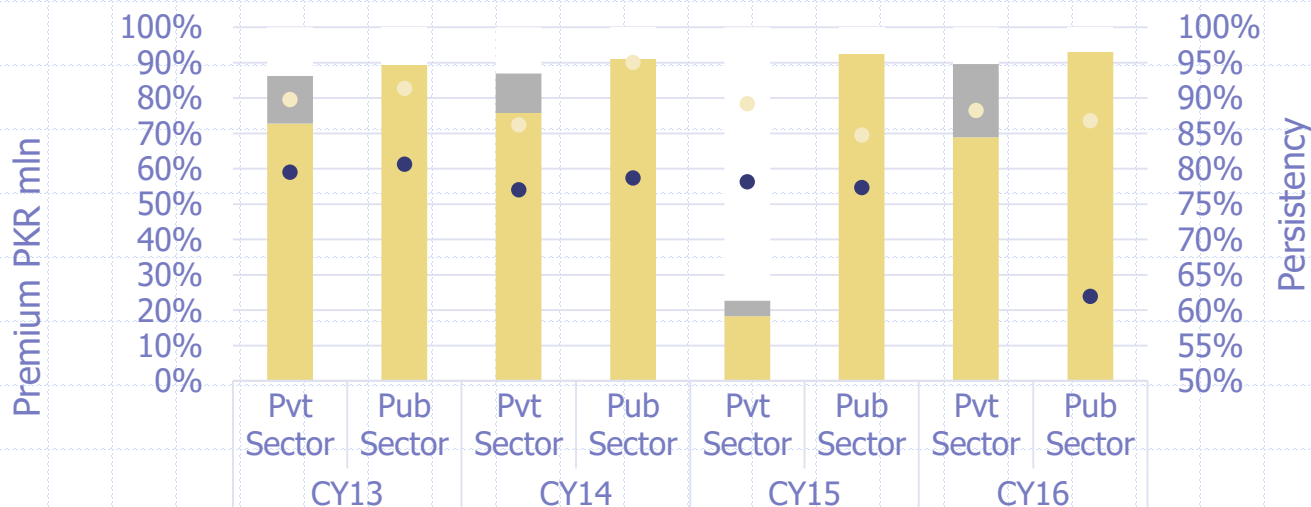
Performance Analysis – Assets

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



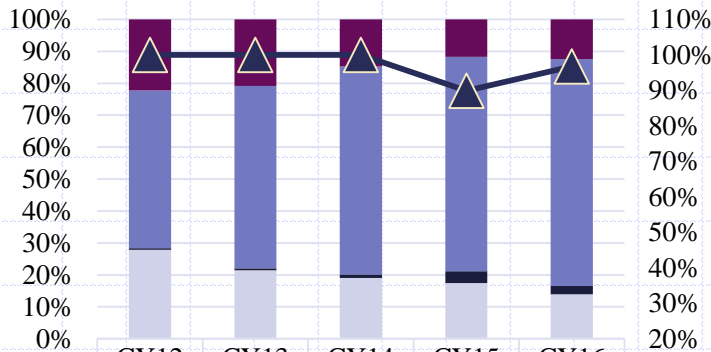
Group Premium	6,332	6,976	7,073	6,868	398,898	5,978	9,409	6,158
■ Individuals Single Premium	6,229	-	6,061	-	22,486	-	18,701	-
■ Individuals Regular Premium	33,549	58,955	41,141	69,693	94,747	74,191	62,260	83,916
● Persistency First Year	80%	81%	77%	79%	78%	77%	21%	62%
● Persistency Subsequent Year	90%	91%	86%	95%	89%	85%	88%	87%

*\*State Life Projected for CY16, based on actual growth in 9M16*



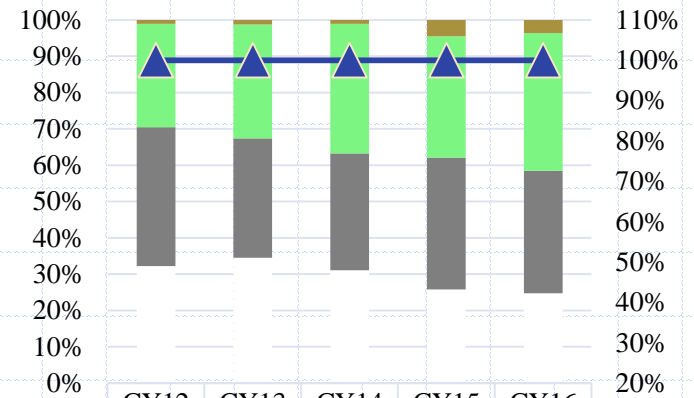
# Analysis of Claims Expense

## Claims Experience | Private Sector



	CY12	CY13	CY14	CY15	CY16
Accident And Health	22%	21%	15%	11%	12%
Surrender	49%	57%	65%	60%	69%
Maturity	1%	1%	1%	3%	2%
Death	28%	21%	19%	16%	14%
Loss ratio	100%	100%	100%	90%	97%

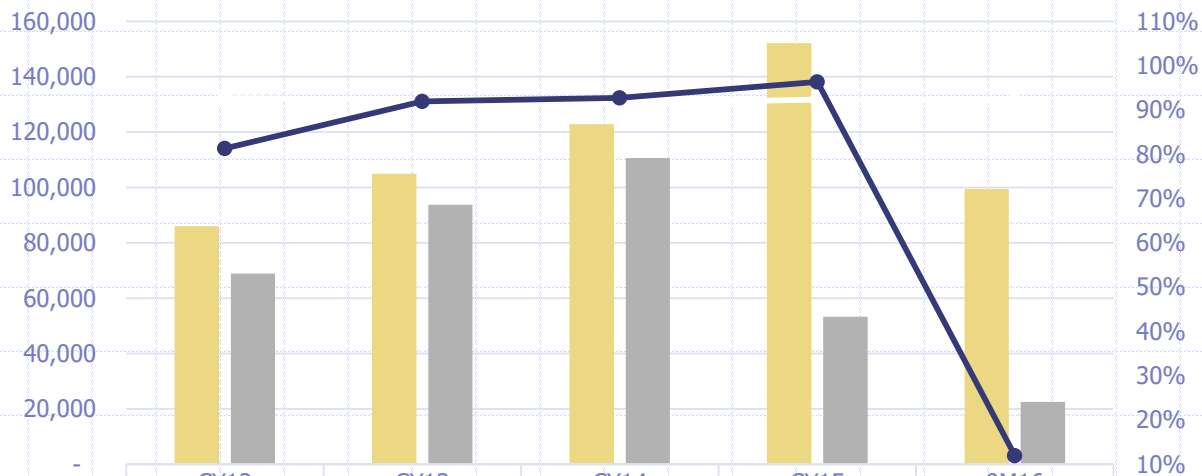
## Claims Experience | Public Sector



	CY12	CY13	CY14	CY15	CY16
Accident And Health	1%	1%	1%	5%	4%
Surrender	28%	31%	36%	33%	38%
Maturity	38%	33%	32%	36%	34%
Death	32%	35%	31%	26%	25%
Loss ratio	100%	100%	100%	100%	100%

# Performance Analysis

## Profitability



NPR	CY12	CY13	CY14	CY15	9M16
	85,944	105,007	122,919	152,117	99,432
Excess of income over Claims and Expenditure	68,894	93,757	110,572	53,276	22,506
Operating Ratio - Pvt Sector	93%	92%	91%	92%	92%
Operating Ratio - Pub Sector	81%	92%	93%	96%	12%

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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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