

Life Insurance And Family Takaful in Pakistan



March 2016

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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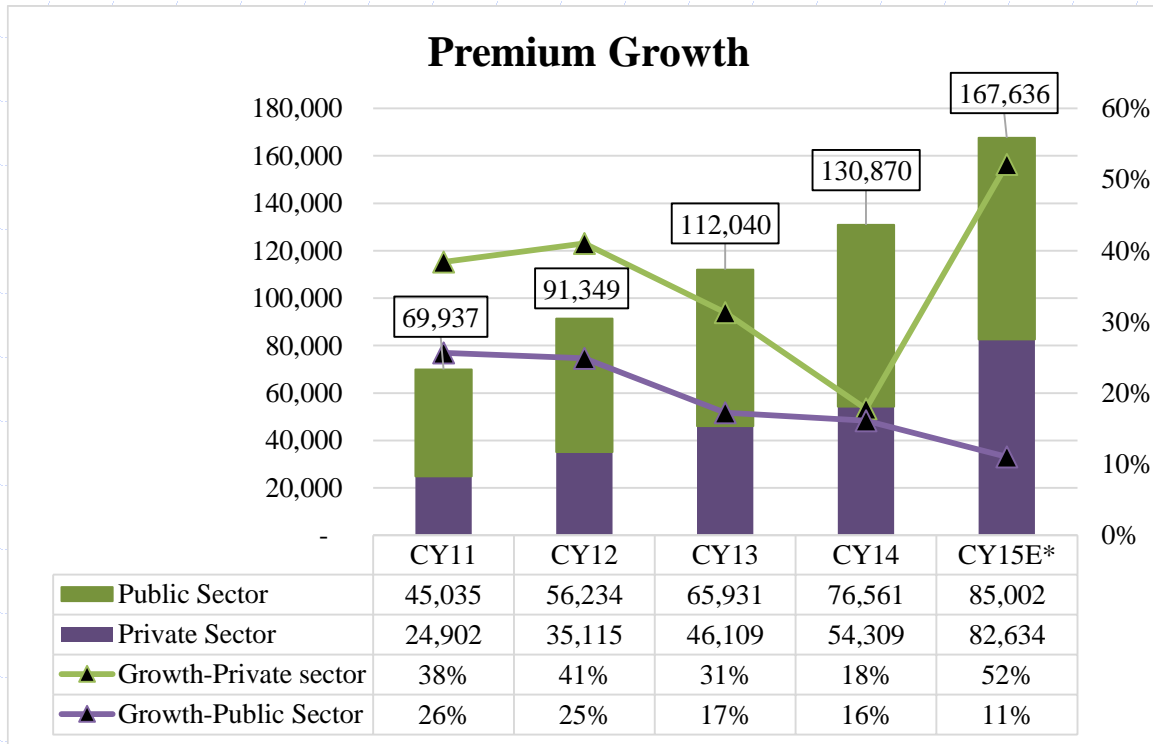
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Growth Dynamics

- ◆ 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



*Public sector Projected for CY15, based on actual growth in 9M15

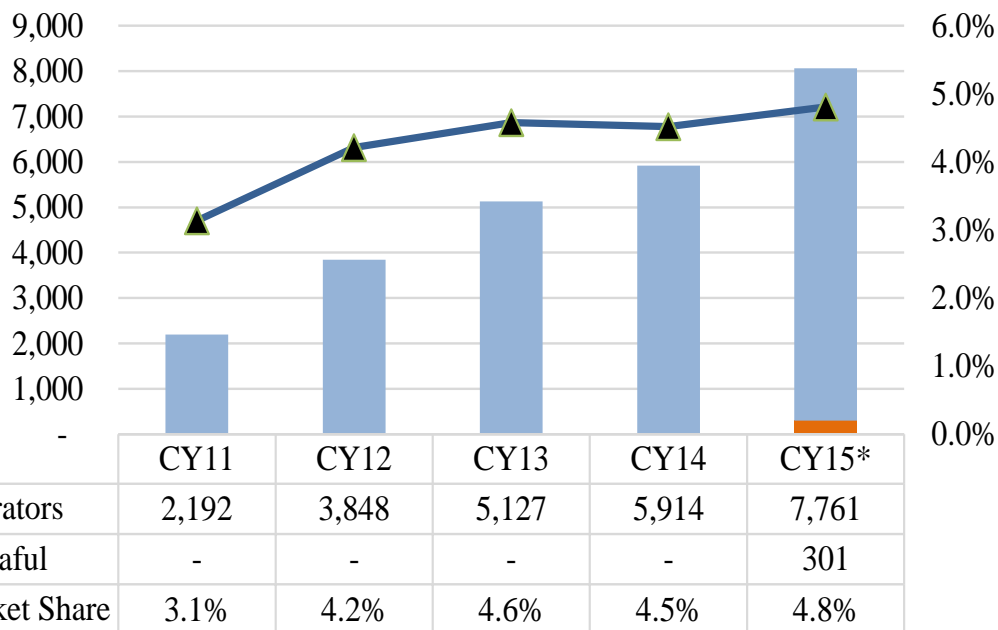


Family Takaful | slower growth

- ◆ Relatively slower growth, 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 CY15, based on actual growth in 9M15*



Industry Competition

- ◆ Market 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		CY15		CY14		CY13		CY12		CY11	
		Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)	Gross Premium (PKR mln)	Market share(%)
Conventional											
1	EFU Life	31,301	18.7%	18,220	13.9%	14,059	12.5%	11,874	13.0%	10,130	14.5%
2	Jubilee Life	29,955	17.9%	21,823	16.7%	17,077	15.2%	12,080	13.2%	8,215	11.7%
3	Adamjee Life	9,151	5.5%	5,215	4.0%	4,475	4.0%	2,296	2.5%	913	1.3%
4	IGI Life (ALICO)	3,962	2.4%	2,535	1.9%	4,389	3.9%	4,170	4.6%	2,993	4.3%
5	Asiacare	459	0.3%	342	0.3%	723	0.6%	670	0.6%	213	0.2%
6	East west life	44	0.0%	261	0.2%	261	0.2%	177	0.2%	247	0.4%
Takaful											
7	Pak Qatar Family	6,721	4.0%	5,077	3.9%	4,461	4.0%	3,324	3.6%	1,865	2.7%
8	Dawood Family	1,040	0.6%	837	0.6%	666	0.6%	524	0.6%	326	0.5%
Premium Private Sector		82,634	49%	54,309	41%	46,109	41%	35,115	38%	24,902	36%
9	SLIC	85,002	51%	76,561	59%	65,931	59%	56,234	62%	45,035	64%
Total Premium		167,636		130,870		112,040		91,349		69,937	

*SLIC Projected for CY15, based on actual growth in 9M15

Life Insurance Concepts

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Signs of Turnaround

- ◆ Market share of first year premium (fresh policies) reflects aspiring market leaders. In recent years, Jubilee life is taking lead in the private sector, while new players are also doing good.
- ◆ State life's market share is declining

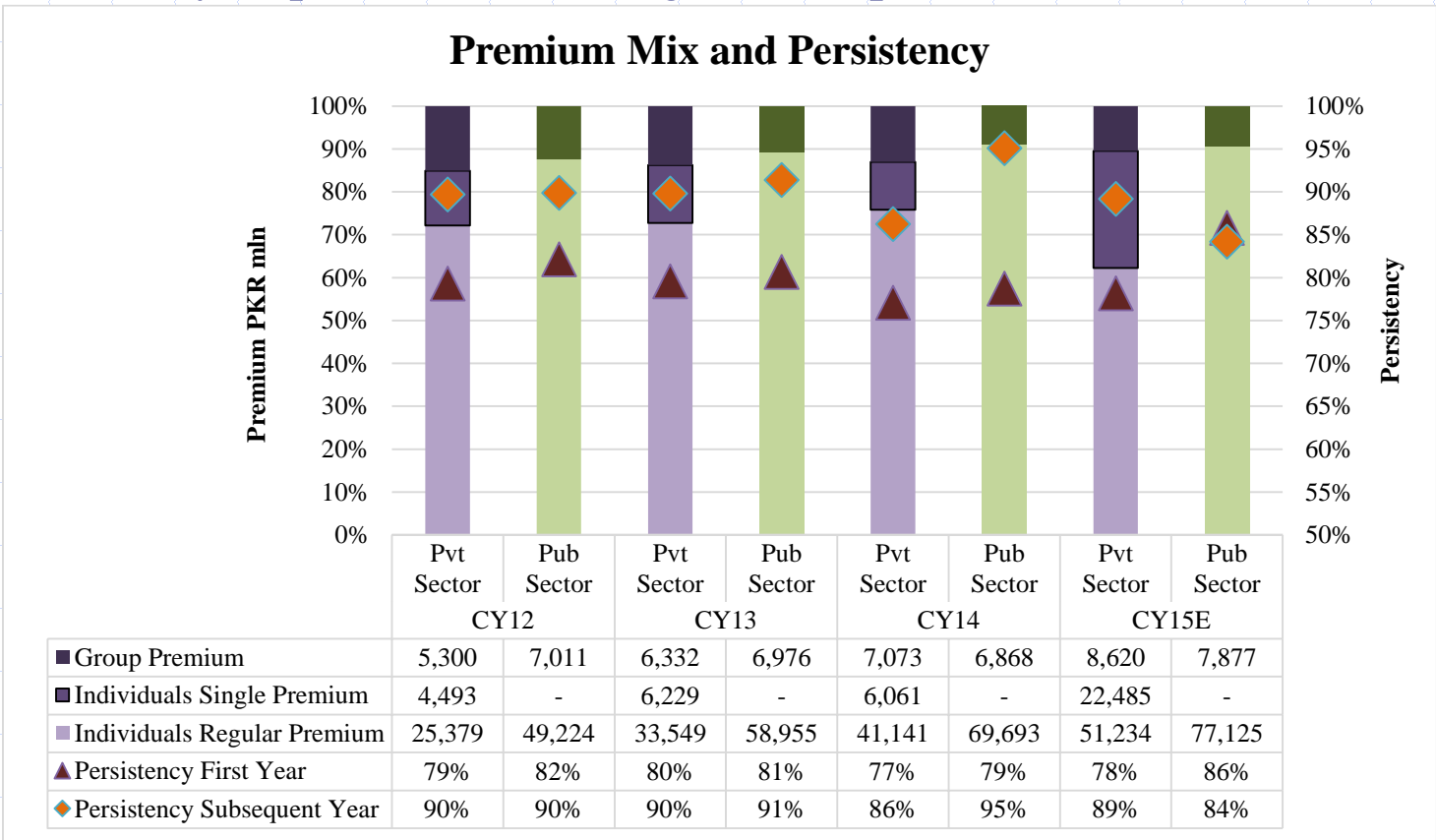
First Year Premium	CY14	CY15	CY14	CY15
	(PKR mln)		Market Share	
State Life (SLIC)	16,185	18,210	55%	53%
Jubilee Life	6,240	7,972	21%	23%
EFU Life	3,589	3,732	12%	11%
Adamjee Life	582	1,839	2%	5%
Pak Qatar Family	1,382	1,578	5%	5%
Top 5 Premium	27,978	33,331	95%	97%
<i>Industry's First Year premium</i>	29,481	34,232	100%	100%
<i>Industry's Total Regular premium</i>	110,834	128,359		

**State Life Projected for CY15, based on actual growth in 9M15*



Revenue Streams

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

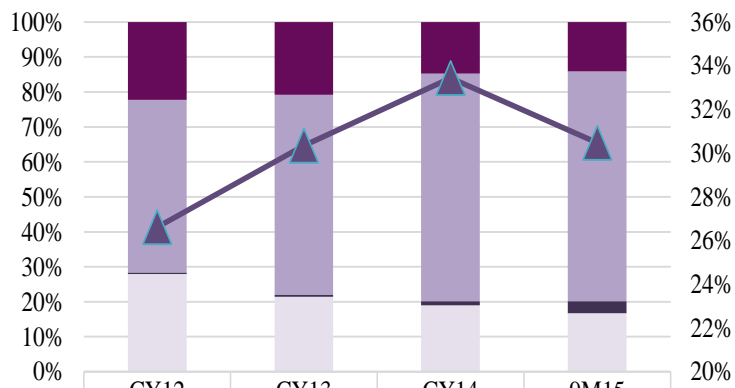


*State Life Projected for CY15, based on actual growth in 9M15



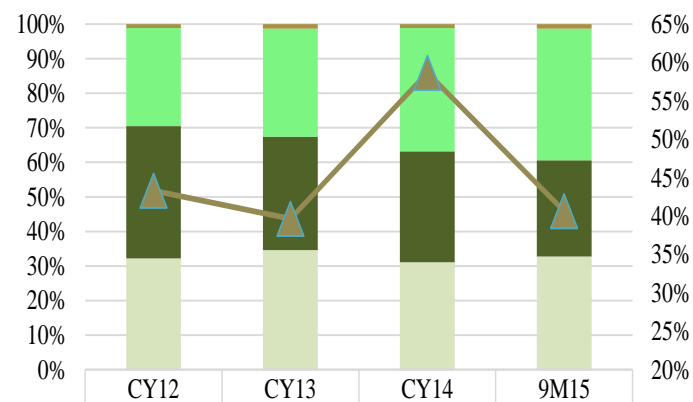
Analysis of Claims Expense

Claims Experience | Private Sector



Accident And Health	6%	6%	5%	4%
Surrender	13%	17%	22%	20%
Maturity	0%	0%	0%	1%
Death	7%	7%	6%	5%
Loss ratio	27%	30%	33%	30%

Claims Experience | Public Sector



Accident And Health	0%	1%	1%	1%
Surrender	12%	12%	21%	16%
Maturity	17%	13%	19%	11%
Death	14%	14%	18%	13%
Loss ratio	43%	40%	59%	41%

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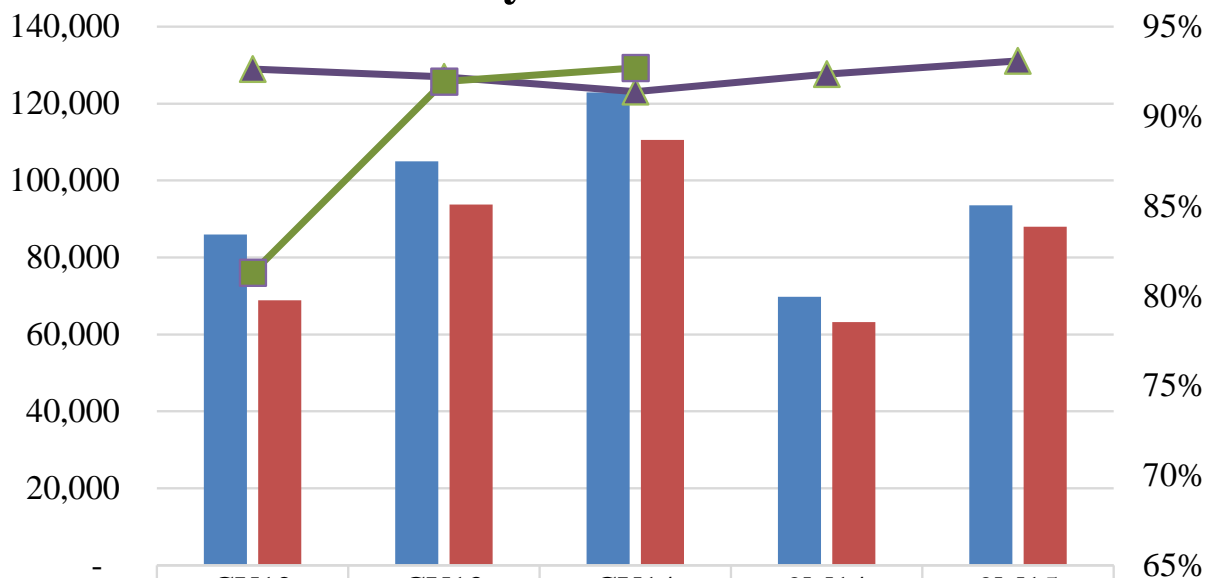
Performance Analysis - Profitability

Performance Analysis – Assets

Strengths and Risk

Performance Analysis

Profitability



NPR	85,944	105,007	122,919	69,765	93,515
Excess of income over Claims and Expenditure	68,894	93,757	110,572	63,238	87,965
Operating Ratio - Pvt Sector	93%	92%	91%	92%	93%
Operating Ratio - Pub Sector	81%	92%	93%	n.a	n.a

n.a: actuarial calculations of policyholders liabilities not available at quarter end

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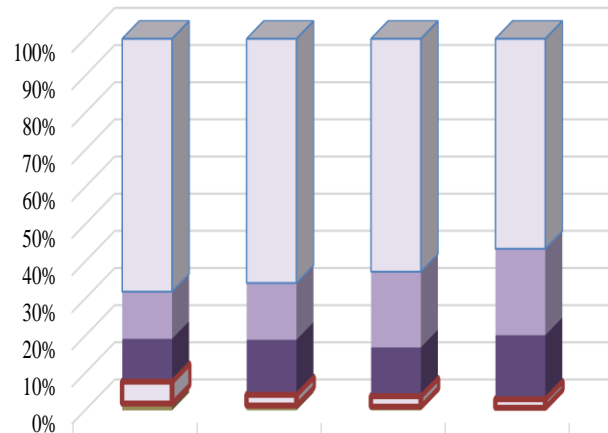
Performance Analysis - Assets

Strengths and Risk

Assets Allocation

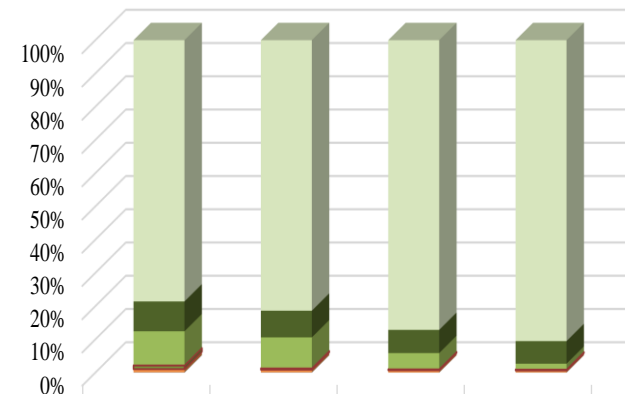
Size of Investment Book	CY12	CY13	CY14	CY15E
Private Sector	74,677	103,418	138,708	193,370
Public Sector*	302,868	354,432	412,766	453,406
Total	377,545	457,850	551,474	646,776

Assets Allocation | Pvt Sector



	CY12	CY13	CY14	CY15E
Govt securities (Incl MM Funds)	50,806	67,957	86,924	109,254
Equities (Incl Stock Funds)	9,500	15,829	28,292	45,028
Bank Deposits	8,559	15,248	18,127	33,166
Debt Securities (Incl Income Funds)	4,395	2,979	3,912	4,467
Strategic Investments	1,417	1,405	1,453	1,456

Assets Allocation | Pub Sector



	CY12	CY13	CY14	CY15E*
Govt securities (Incl MM Funds)	238,003	288,394	359,653	410,413
Equities (Incl Stock Funds)	27,183	28,452	28,792	30,801
Bank Deposits	31,132	33,112	20,261	8,053
Debt Securities (Incl Income Funds)	3,318	1,241	934	961
Investment Property	2,990	2,991	2,955	2,937
Strategic Investments	242	242	171	241

*State Life balance taken is unaudited at end-Sep15



Investments – Performance Analysis

Average Yield (%)	CY14	CY15
Public Sector Insurer	11%	7%
Private Sector Insurers	14%	9%

Comparison with Benchmark	CY14	CY15
Money Market Mutual Funds ⁴	7%	6%
Equity Mutual Funds ⁴	32%	7%
Income Mutual Funds ⁴	10%	8%
Min Bank Deposit Rate	6.75%	4.75%
KSE-100 Index	21.4%	2.1%



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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1. Insurance Ordinance, 2000
 - 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”

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