

INDUSTRY OVERVIEW – LIFE INSURANCE

- The life insurance industry in Pakistan comprises seven (7) private sector companies and one (1) public sector company. Life insurance penetration in Pakistan stands on the lower side. In 2020, life insurance penetration to GDP dropped further from 0.60% in 2019 to 0.56% in 2020. Overall life insurance penetration in Pakistan is dismal, particularly in comparison to India's life insurance penetration of 3.2% as of FY21.
- For 2020, the sole public sector insurer, State Life Insurance Company (SLIC), held 51% of the market share, in terms of gross premiums. SLIC was formed as part of the nationalization process in 1972, wherein all life insurance companies were merged into a single entity.
- Growth in industry gross premiums stood at 4.5% for 2020, with SLIC contributing majority of the same, as illustrated in the table below. Strong growth in SLIC's underwriting is attributable to initiation of government sponsored health coverage for underprivileged citizens under the 'Sehat Sahulat Program' (SSP).

Table 1: Life Insurance Industry Market Shares (Source: IAP)

	2019	2020	2019	2020	2020
	Gross Premiums		Market Share		Δ
State Life	112,777	119,035	51.0%	51.6%	6,258
Jubilee Life	49,627	46,508	22.4%	20.1%	(3,119)
EFU Life	31,750	32,546	14.3%	14.1%	796
Adamjee Life	12,969	17,101	5.9%	7.4%	4,132
Pak Qatar Family Takaful	8,287	7,961	3.7%	3.4%	(326)
IGI Life	4,815	6,161	2.2%	2.7%	1,346
TPL Life	753	1,130	0.3%	0.5%	377
Askari Life	301	449	0.1%	0.2%	148
	221,279	230,891			9,612

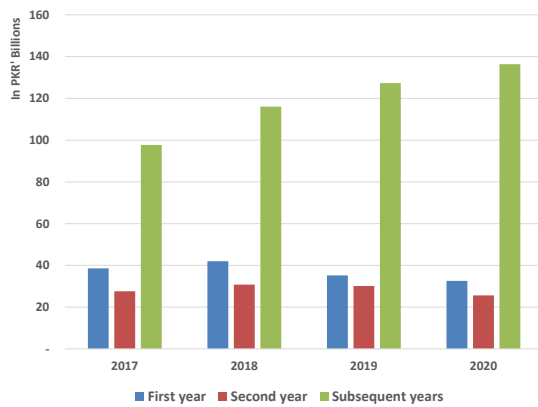


Figure 1: Year-wise Breakup of Gross Premium (Individual Life excludes single premium policies)
(Source: Life Insurance Company Financial Statements)

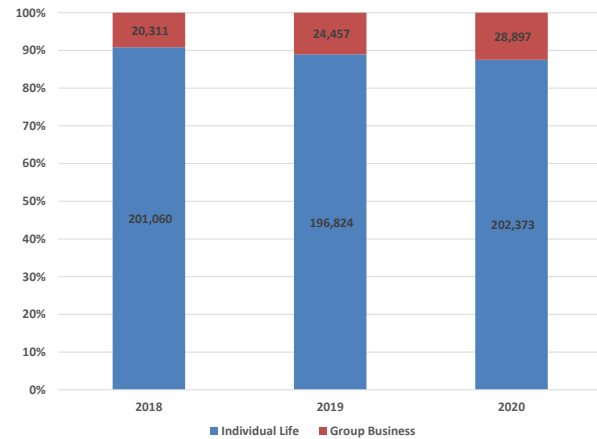


Figure 2: Segment-wise Breakup of Gross Premium
(Source: Life Insurance Company Financial Statements)

- As illustrated in the figure above, growth has been led by the Group business segment, which comprised 12% of the gross premiums as of 2020 (2019: 11%; 2018: 9%). Growth in the same is attributable to initiation of SSP as discussed above.
- VIS has noted slowdown in first year underwriting, which initially materialized in 2019, being precipitated by the macroeconomic slowdown, while further contraction in the same was witnessed in 2020 given the onset of the pandemic-induced lockdowns. (2020: Rs. 32.6b; 2019: Rs. 35.2b; 2018: Rs. 42.0b).
- Given limitations of publicly available disclosures, persistency calculations can only be made for second year renewals. In the past two year period, second year persistency has fallen (2020: 72.8%; 2019: 71.7%; 2018: 79.9%). As per industry experts, the drop in persistency can be attributed to adverse macroeconomic conditions precipitated by the pandemic, as a result of which several policies were liquidated during 2020.
- In 9M'21, the industry gross underwriting posted a growth of 30% vis-à-vis SPLY, with Group policies being the growth driver contributing 60% of the growth. As a result, share of Group business to total business increased to 26% vis-à-vis 15% in SPLY. The sizable growth in Group business can be attributed to initiation of SSP and growth in consumer financing transactions during the period.

- VIS has noted an adverse trend in individual life claims performance during the period reviewed, which is presented in Table 2. Interim data is only available for 4 private sector life insurance companies (JLI, EFU IGI & Askari), wherein the performance of individual life and individual life (only death) was more adverse in 9M'21, with the same coming in at 78.0% and 7.3% respectively. The increase in individual life claims ratio can partly be explained by higher surrenders during the pandemic period. Nevertheless, the increase in net claims (only death ratio) does not correlate with the trend in crude death ratio, which has dropped on a timeline. This points towards higher death rate in insured individuals, because the insured portfolio of individuals are likely part of higher economic strata.

Table 2: Net Claims Performance – Industry (Source: Company Financials)

	2018	2019	2020
Individual Life	40.0%	48.2%	53.3%
Individual Life – Only Death	4.5%	5.5%	6.4%
Group Business	81.9%	77.2%	79.3%

- The industry's offerings are largely concentrated in individual life unit-linked policies. As a result the industry has a sizable investment portfolio of Rs. 1,634b as of Sep'21 (Dec'20: Rs. 1,652b; Dec'19: Rs. 1,237b). Furthermore, as unit-linked policies remain the primary product offering, the industry's liquidity is considered strong, given that liquid assets cover ~90% of the insurance liabilities.
- The 5-year return performance of companies – which have made their fund management reports public and wherein fund size meets the criteria of minimum Rs. 0.5b – is provided in the table below. As illustrated in the table, performance of life insurance investment portfolios trailed inflation, mainly on account of adverse equity market performance observed during the 5 year period (2017-21).

Table 3: 5-year Fund Performance

	2017	2018	2019	2020	2021	5 Year Return*	AUMs (PKR' Billions)
Conventional							Dec'21
IGI (IAF, IBF, ICF & SSF)	4.74%	2.57%	12.98%	9.21%	5.07%	139.28	5.77
Adamjee Life (IMF, ISF & ISF 2)	-1.42%	1.97%	10.59%	10.91%	6.01%	130.71	46.0
EFU (MGF, AGF & GGF)	-5.79%	-1.89%	4.00%	15.26%	3.31%	114.46	132.7
JLI (MGF, CGF, YGF & MF)	-6.80%	-3.50%	13.21%	4.44%	0.11%	106.46	132.5
Takaful							
Adamjee (MF & TF)	-4.5%	-2.1%	11.4%	9.1%	5.4%	119.74	6.30
EFU (TGF)	-4.61%	3.00%	1.97%	15.37%	2.55%	118.53	10.43
PQFTL (AF, BF & CF)	-5.8%	-0.1%	8.2%	9.2%	-3.5%	107.26	13.76
JLI (MTF & CGTF)	-4.4%	-0.7%	9.7%	2.7%	-0.2%	106.81	24.80
IGI (TAF, TBF & TCF)	-4.4%	-2.2%	9.4%	5.6%	-14.0%	92.95	1.37
Inflation (National)							
Inflation National (CY)	5.60%	5.40%	12.60%	8.00%	12.30%	152.0	-
6 Month PKRV (Daily Average)	5.99%	8.76%	12.39%	8.77%	8.02%	152.2	-
KSE-100	-15.3%	-8.4%	9.9%	7.4%	0.36%	91.9	-
KMI-30	-16.1%	-10.8%	7.9%	7.8%	-1.06%	86.1	-

* On a notional principal investment of Rs. 100

- Given low insurance penetration and muted growth, the industry remains well capitalized. In 2020, the industry's operating leverage further receded to 15% from 17% in 2019. The RoAE of the industry remained elevated in 2020, despite adverse trend in claims ratios. The profitability was mainly supported by investment returns driven by stock market performance. Nevertheless, the adverse claims ratio in combination with adverse investment performance has weighed on the RoAE for 9M'21.

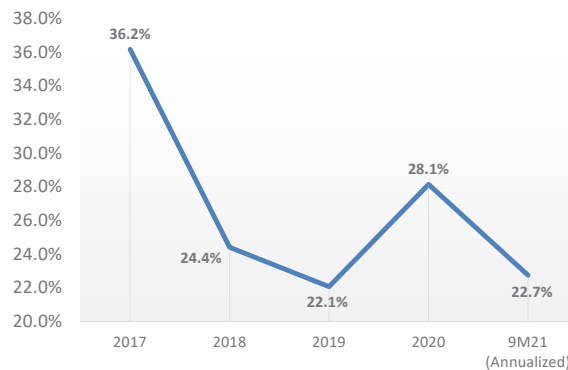


Figure 3: RoAE (Life Insurance Industry) Source: IAP

FUTURE OUTLOOK:

- The continuing trend of low insurance penetration can partly be attributed to cultural averseness to insurance, which is also evident from similarly low insurance penetration in Bangladesh. Cognizant of the same, the industry introduced family takaful insurance products in 2005. Over the years, family takaful business has grown to comprise 27% of the private sector life insurance business, as all life insurance companies launched takaful variants of their policies. Nevertheless, despite the strong growth in takaful segment, no new market participants have entered to drive this growth further.
- The low insurance penetration is also a product of low financial inclusion and private sector credit to GDP, another parameter where Pakistan trails its regional counterparts. Given recent changes in foreclosure laws and push from the Government of Pakistan and State Bank of Pakistan for banks to grow their house financing portfolios, life insurance industry growth should increase in the medium term. This is already evident from the strong growth noted in 9M'21, majority (60%) of which was driven by Group business segment, wherein these transaction related policies are clubbed.
- Additionally, distribution through digital channels may also increase outreach and awareness. Presently, the industry relies on traditional distribution channels such as the Direct Sales Force (DSF) and through banks i.e. the 'Banca' channel. New 3rd party digital sales channel have been launched, which claim to have insured 10,000 lives in 2020. Growth through these digital channels should support industry growth going forward.
- There remains room for innovation in terms of industry's product offerings, with majority of policies sold in the market being individual unit-linked investment based products with life insurance riders. Development of innovative micro insurance products, linking the same with existing banking channels and moving away from lump sum premium payments may add further value to life insurance industry offerings thus driving penetration over the longer term.

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