

## Life Insurance

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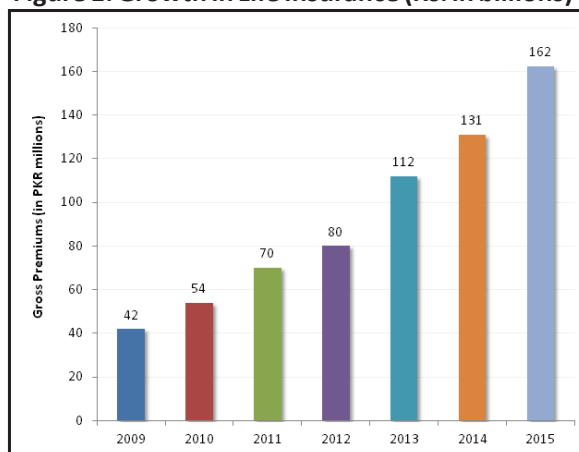
*With significant growth in Assets under Management of most life insurance companies, the importance of further strengthening the investment management function has become critical. Investment portfolios of industry players have major exposures against sovereign and highly rated fixed income instruments.*

Significance of insurance industry in any country is determined by two basic metrics, insurance penetration and insurance density. Insurance penetration measures premium booked as a percentage of a country's Gross Domestic Product (GDP) while insurance density assesses gross premium per capita. Historically, life insurance penetration in Pakistan remained at significantly lower levels; this metric was around 0.5% in 2014 vis-à-vis world average for life insurance premiums penetration was 3.3%<sup>1</sup>. A similar trend was also observed in terms of insurance density depicting significant room for growth in Pakistan. The below average insurance density of the country can be attributed to cycles of political instability, which included almost two decades where all life insurers remained under state control. Furthermore, lack of development of networks on the part of life insurers to target prospective rural consumers, which form a significant proportion of overall population, is also contributing to a low penetration.

Over the last few years, the life insurance industry within the country has experienced healthy growth, in terms of gross premiums. Along with introduction of innovative products, the demand seems to be primarily emanating from enhanced work force participation and greater awareness. In addition, the introduction of Bancassurance (insurance products sold through the banking channel) in Pakistan in early 2000 has also been a key driver of this growth. Moreover, another aspect for growth in gross premiums is marketing of life insurance policies as an investment avenue. With a significant proportion of premium invested into the life insurance company's own managed funds, customers are able to earn a notable return. These funds comprise equities, government securities, term finance certificates, mutual funds, real estate, short term deposits, sukus and other instruments of redeemable capital.

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**Figure 1: Growth in Life Insurance (Rs. in billions)**



<sup>1</sup> Swiss Re (sigma explorer)

Premium base of life industry have grown at a CAGR of 25.2% from 2009 to 2015. Total gross premium grew to Rs. 162b (2014: Rs. 131b, 2013: Rs. 112b) at end-December 2015. At end-December 2015, private life insurance sector (excluding State Life of Pakistan Limited) underwrote a total of Rs. 82.3b (2014: Rs. 54.1b).

At present, 7 life insurance companies and 2 family takaful companies operate in the country. State Life Insurance Corporation Limited, a state owned player, leads in gross premiums as it generates almost three-fifth of the industry's premium. Furthermore, private sector's landscape is dominated by two players, namely Jubilee Life Insurance Limited (JLI) and EFU Life Assurance Limited (EFUL). Contribution of takaful operators remains minimal on account of lack of general awareness about takaful products and services. However, with the opening of takaful windows by conventional life insurance companies coupled with their extensive branch network, customers are now being educated about importance of takaful products on a larger scale. These efforts are anticipated to facilitate growth in contributions over time.

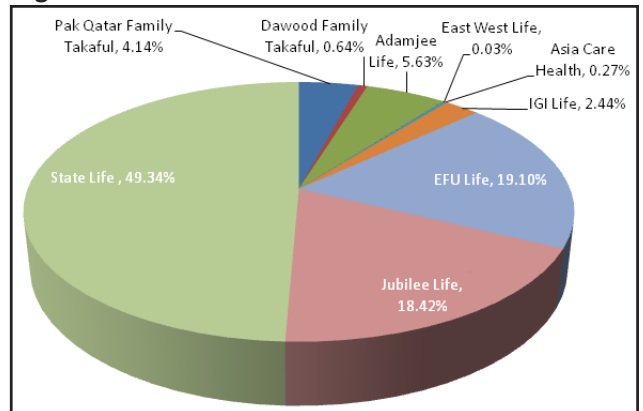
Figure 2 depicts market share of life insurance companies as at Dec. 2015.

Life insurance policies can be classified into two broad categories; individual and group life policies. Group life insurance policies are offered with a coverage period of up to one year and emanate from the mandatory coverage of corporate workforce. It is also offered to customers of financial intuitions who avail any kind of financing facility such as credit card, home financing etc. There is no investment aspect in the group policies. Given lesser focus on individual underwriting along with increasing competition, companies have been unable to earn higher levels of surplus as a proportion of gross premium in recent years.

Unlike group life, individual life features policies as an investment vehicle as well. In this case, a proportion of premium generated through these investment linked policies is contributed into the funds managed by insurance company; these funds work like any other mutual fund of an asset management company. The largest fund managed by a life insurance company in Pakistan is in excess of Rs. 81b. The customer earns cash value from its investments; cash value is the accumulated value of investments (including return and capital gains) during the policyholder's lifetime. Primary risk that emanates from this premium allocation is that there is greater retention of potential claims on net account in case there is a decline in return from investments. On the contrary, life insurers also benefit from increase in cash values over time. Depending on portfolio allocation and sum assured of the policy, normally, it takes approximately a period of 5-10 years since initiation for the policy's cash value to exceed sum assured. As a growing company, there will be sizeable number of policies with cash value less than sum assured. Risk may be considered manageable keeping in view the low crude death rate experienced in the past and reinsurance coverage in place. Table 1 overleaf highlights further differences in individual and group life insurance policies.

Individual life policies can be further segregated into two sub-categories; regular premium policy and single premium policy. Single premium policy involves one-time payment of premium, which is subsequently invested in funds in order to generate returns covering insurance claims. In recent years, single premium policies have gained popularity given that the mutual fund industry is not doing as well comparatively. However, it is an industry wide phenomena that such policies are volatile in nature and depict an increase in demand for a period of few years, while reducing slowly again after that. Sales of such policies are largely dependent on the performance of mutual fund industry. On the other hand, as evident from its name, regular policy entails payment of premiums at regular

**Figure 2: Market Share**



**Table 1: Differences in Group and Individual Life Policies<sup>2</sup>**

	Group	Individual
Cost	Unisex rates	Gender specific rates generally
	Additional coverage can be acquired at a favorable rate without health assessment	Favorable pricing for lower age and sound medical history
Coverage limits	Employer discretion over coverage limits and eligibility	Coverage can be customized as per individual requirements
Requirements	No health assessment of individual employees	Individual health assessment determines the price and eligibility
Tenor of Policy	Coverage is provided for a year	Coverage is valid until policy is surrendered or lapsed
Portability	Coverage terminates as soon as employee leaves job	Coverage remains until it is terminated by clients

intervals over the life of the policy. These policies exhibit less volatile business and continue for longer tenures. Persistency level in regular premium for top two private market players is more than 85%.

Two separate distribution channels namely Direct Sales Force (DSF) and Bancassurance are utilized by the individual life business for promotion of policies. Bancassurance is the sale of insurance policies through bank channels and it operates on a referral model, whereby a bank employee recommends insurance policy to bank clients. Generally, sale of policies through this channel results in higher expense base for insurance companies since higher commission rates are charged by bank agents. However given a larger client base tapped, most of the growth in premiums/contributions has emanated from bancassurance channel

in recent years. Unlike some of the other life insurance operators which have dedicated banking arms, life insurers have lesser degree of control over its bancassurance partners. This in turn, may lead to greater variance in the business generated from the bancassurance channel as some larger partner banks focus more on their core banking operations. This is the reason why companies are now working towards further enhancing the business generated from its own sales force, thereby reducing the company's reliance on commercial banks. Business generated from sales force channel has witnessed moderate to steady growth. Life insurers are facing the challenge of retaining and growing the size of their sales force. Over the long-term, increasing the size of the sales force along with enhancing productivity indicators will help life insurers maintain growth momentum for business generated through the sales force.

With lower expenses as a proportion of premium, profitability of established players within the life insurance industry has remained strong. The private sector life insurance industry<sup>3</sup> reported an improved net claims ratio of 28.3% in FY15 vis-à-vis 31.8% in FY14. Despite higher business acquisition costs, expense ratio of the industry declined from 28.6% to 22.4%. Moreover, ability to pay claims for most life insurers is considered strong in view of exposure in highly liquid avenues. Liquid assets in relation to policy holder liabilities are around 100% for large private sector life insurers. Capitalization levels are also considered adequate in view of strong capital coverage of claims, calculated on the basis of historical crude death rate.

<sup>2</sup> <https://www.fidelity.com/viewpoints/layered-life-insurance>

<sup>3</sup> Excludes Non-IAP members

	EFU Life		Adamjee Life		East West Life		IGI Life		Jubilee Life	
(Figures in PKR million)	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
<b>BALANCE SHEET</b>										
Cash and Bank Deposits	14,406.6	7,666.4	1,339.8	572.7	189.1	207.3	433.2	596.6	7,379.8	5,070.9
Investments	71,941.3	55,534.6	13,682.9	8,099.7	305.1	284.9	12,094.0	10,308.2	58,999.0	41,908.7
Total Assets	91,265.4	67,228.5	15,658.7	9,189.2	541.7	579.3	13,606.2	11,862.6	69,223.9	49,613.5
Net Worth	3,409.7	2,834.3	351.0	363.9	199.7	230.5	889.9	825.5	3,910.2	3,159.9
Liabilities of Statutory Fund	83,829.2	61,222.4	14,444.8	8,256.3	215.4	247.3	12,020.9	10,455.9	62,205.7	44,020.9
<b>INCOME STATEMENT</b>										
Gross Premium Written	31,033.8	18,219.9	9,150.6	5,214.9	42.9	22.5	3,962.4	2,535.2	29,929.2	21,823.4
Net Premium Revenue	30,352.0	17,595.9	8,837.7	4,976.4	31.6	142.6	3,834.6	2436	29,120.8	21,085.9
Net Claims	8,941.5	4,714.4	1,778.3	1,243.4	73.7	121	2,598.1	3,398.4	7,021.6	5,082.6
Net Investment Income	144.4	476.0	27.5	33.9	9.9	18.7	105.6	89.4	345.6	206.4
Surplus Transferred to Shareholder's Fund	2,122.1	973.1	-	-	-	26.9	18	-	2,220.0	1,880.0
Profit Before Tax	2,225.4	1,423.4	4.2	18.7	-2.2	28.4	112.6	82.6	2,441.6	2,001.5
Profit After Tax	1,475.5	950.9	0.9	15.0	-0.2	29	76.6	55.4	1,621.6	1,361.5
<b>RATIO ANALYSIS</b>										
Overall Cession Ratio (%)	2.2	3.4	3.4	4.6	26.3	36.6	3.2	3.9	2.7	3.4
Cession in Group Life (%)	20.1	22.3	59.1	54.8	47.2	40.2	7.3	6.5	13.0	15.0
Cession in Individual Regular Premium	1.6	1.7	2.3	2.4	7.7	7.3	0.3	3.4	1.3	1.6
Persistency (%)	85.3	84.7	82.7	79.8	74.0	80.4	76.1	79.4	88.4	84.4
Gross Claims Ratio (%)	30.3	26.8	22.3	27.1	231.5	90.3	65.9	135.3	25.5	25.7

	Pak Qatar Family Takaful		Dawood Family Takaful		Asia Care Health & Life Insurance Corporation		State Life Insurance Corporation	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
<i>(Figures in PKR million)</i>								
<b>BALANCE SHEET</b>								
Cash and Bank Deposits	7,956.1	3,226.5	1,432.8	984.5	81.5	88.1	27,623.5	20,260.7
Investments	3,215.2	4,583.8	569.3	468.4	374.5	395.8	445,957.9	390,102.5
Total Assets	12,098.9	8,592.7	2,298.5	1,760.2	591.9	638.3	571,826.7	496,689.7
Net Worth	596.9	440.1	392.8	447.3	203.5	305.1	4,229.0	3,840.3
Liabilities of Statutory Fund	752.9	610.6	1,749.3	1,155.2	142.2	126.7	526,675.7	450,025.4
<b>INCOME STATEMENT</b>								
Gross Premium Written	6,721.2	5,076.7	1,039.8	836.8	434.3	341.5	80,171.6	76,560.6
Net Premium Revenue	917.4	706.2	515.1	475.6	432.5	340.2	79,941.3	76,342.1
Net Claims	580.4	412.4	31.4	28.7	383.8	270.5	35,961.0	30,504.6
Net Investment Income	36.3	33.9	23.4	25.2	20.5	32.5	323.8	150.7
Surplus Transferred to Shareholder's Fund	101.6	31.6	(57.9)	(59.9)	-	-	1,268.9	1,186.2
Profit Before Tax	133.9	56.1	(37.8)	(39.3)	3.2	14.1	1,588.5	1,332.7
Profit After Tax	84.0	29.5	(51.1)	(24.3)	1.3	13.8	1,047.9	905.1
<b>RATIO ANALYSIS</b>								
Overall Cession Ratio (%)	5.4	5.7	4.8	5.4	0.4	0.4	28.7	28.5
Cession in Group Life (%)	16.7	17.0	46.7	47.3	0.4	0.4	0.6	0.6
Cession in Individual Regular Premium	4.4	4.4	3.0	2.8	-	-	0.3	0.2
Persistency (%)	82.0	77.3	75.7	73.1	-	-	83.1	90.8
Gross Claims Ratio (%)	28.0	29.1	5.9	7.4	88.4	79.2	44.9	40.0

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