Asia e-Alert

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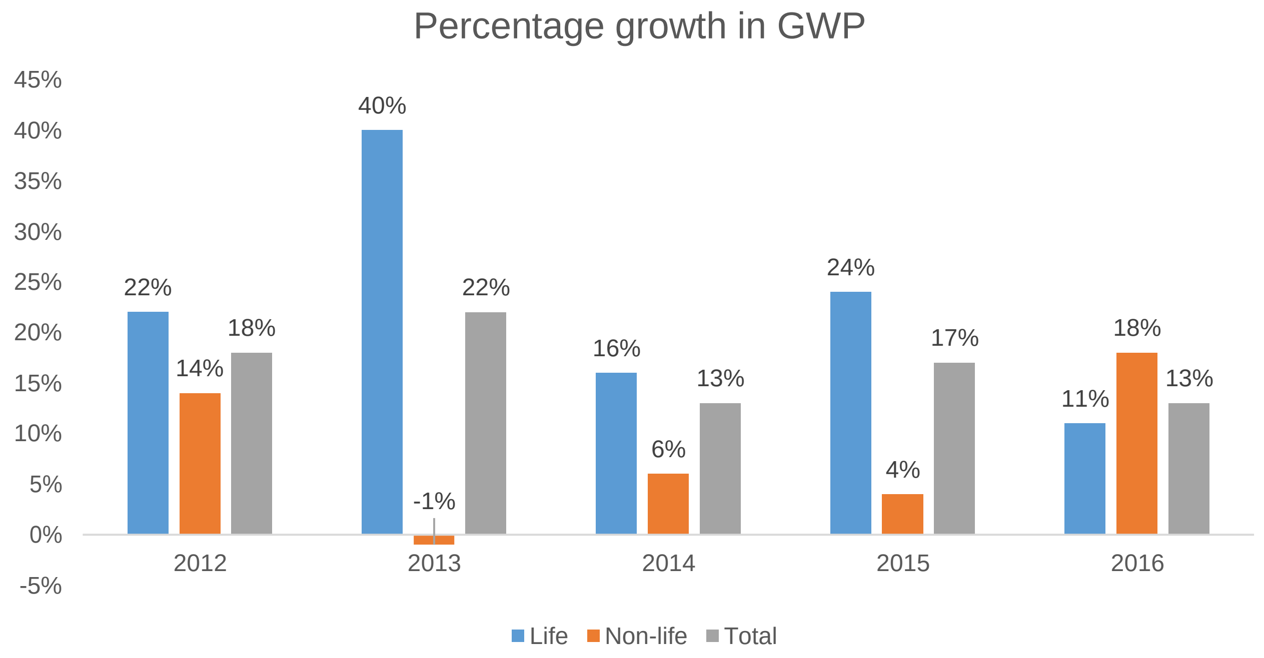
Pakistan: Growth and developments in the insurance sector

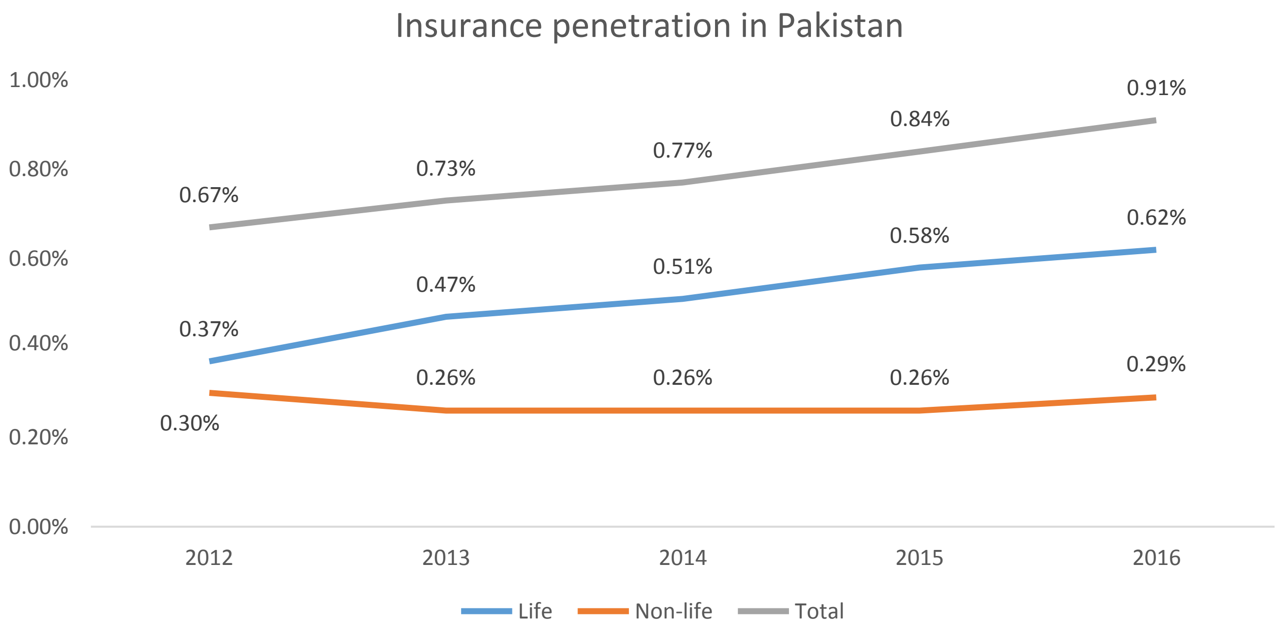
The life and non-life insurance industry in Pakistan witnessed continued growth momentum in 2016. Our insight into the market observed similar growth in 2017 that is expected to be carried forward into 2018. In 2016, the both life and non-life insurance sectors as a whole grew by more than 13% measured in terms of annual gross written premium (GWP). For the past five years, both life and non-life insurance sectors, measured by GWP, have been growing at an average compound annual growth rate (CAGR) of 13%, increasing insurance penetration and insurance density, albeit from a low base. During 2016, the industry's total premium revenue generated stood at PKR 265 billion (USD 2.54 billion) ,[1] with total assets of PKR 1,165 billion (USD 11.16 billion)[1].

At present in the life insurance sector there are nine life insurers, including two family Takaful operators and one state-owned insurer. In 2016, the life insurance market GWP grew by 11%, and the total 2016 GWP stood at PKR 180 billion (USD 1.72 billion).[1]

There are currently 41 non-life insurers operating in the market, including three general Takaful operators and one state-owned insurer. In 2016, significant GWP growth of more than 18% was observed in non-life insurance, which can be mainly attributed to the China-Pakistan Economic Corridor (CPEC) and related infrastructure development. The total GWP of the non-life insurance sector in 2016 was PKR 85 billion (USD 0.81 billion), excluding reinsurance.

The graphs below show the annual growth of GWP and insurance penetration rates (measured as the ratio of GWP underwritten in a particular year to the gross domestic product (GDP)) in Pakistan's life and non-life insurance sectors.





In 2016, the Securities and Exchange Commission of Pakistan (SECP) also allowed one additional life insurer and three more non-life insurers to transact "window Takaful" business during the year, taking the total number of "window Takaful operators" to 21. Window Takaful operators are conventional insurance companies authorised by the regulator to operate Takaful business, enabling firms to offer Shariah-compliant and conventional products side by side, provided that client money is segregated.

The Pakistan insurance market is relatively liberalised, with 100% foreign ownership and control of insurance companies permitted, subject to the current minimum capital requirements of PKR 650 million (USD 6.23 million) [1] for life insurers and PKR 450 million (USD 4.31 million)[1] for non-life insurers. However, the SECP has announced that paid-up capital requirements will be increased from 31 December 2017 to PKR 700 million (USD 6.70 million) [1] for life insurers and PKR 500 million (USD 4.79 million)[1] for non-life insurers. At present, nine non-life companies[2] and two life companies[3] have foreign investments, operating either as wholly owned or as joint ventures with a local partner.

The SECP has been at the forefront in devising new policies and action plans for the industry, and has implemented major reforms in the regulatory framework in Q1 2017 with the issuance of Insurance Rules, 2017, and Insurance Accounting Regulations, 2017. Mr Fida Hussain Samoo, Insurance Commissioner at the SECP, has previously stated that "these rules were issued so as to bring uniformity in the subsidiary legislation while incorporating all the notifications and amendments made under the previous sets of rules promulgated in 2002," and that the "accounting regulation aim is to develop high-quality standards that are comparable and bring in more transparency and enhanced disclosures."

The CPEC investment of USD 46 billion is likely to benefit the non-life sector, and with increasing awareness and improving economic conditions, life sector growth is also expected to continue in the future. The government has taken steps to increase insurance penetration by launching the National Finance Inclusion Scheme (NFIS) with the stated vision that "individuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness." With the appropriate regulatory environment and increasing awareness, there are significant future growth opportunities for insurance business in Pakistan.

In June 2017, the SECP approved a draft insurance bill. The proposed bill aims to strengthen the regulatory framework to ensure alignment with the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS). Additionally, the proposed bill addresses entity-specific and systemic risks by a phased shift towards a risk-based supervision (RBS) regime, and by closing key gaps in the regulatory framework within the existing law.

Citing a statement issued by the SECP, the Associated Press of Pakistan reported: "The Bill has been formulated to institute significant reforms in the insurance regulatory framework to bring it on a par with the international standards and to ensure the development of a financially sound insurance sector where interests of policyholders are protected ."

Salient proposed reforms include:

1. The introduction of:
   - Dedicated micro-insurers
   - Risk-based supervision framework encompassing risk-based capital and risk-based solvency margin
2. Provisions for:
   - Regulation of Takaful and Retakaful
   - Regulation of local and foreign reinsurance business for enhancement of local capacity
   - Regulation of reinsurance brokers

3. Flexibility for the introduction of:
    - New intermediaries
    - Concept of web aggregators
    - Insurance repositories
4. A requirement for:
    - An appointed actuary (for non-life companies)
    - Product filing in the non-life sector

The industry has generally applauded the new reforms, particularly those encouraging technological innovation. Concepts such as dedicated microinsurers and web-based aggregators have also generated positive interest in the market.

However, several industry practitioners have expressed concerns over the regulation of reinsurance companies. Some suggest that foreign reinsurers should not be required to obtain licenses/authorisation from SECP, but instead there should be regulatory criteria introduced for automatic authorisation of foreign reinsurers. The industry has also emphasised the need for sufficient time for the industry to adopt the new RBS regime. In addition, there has been opposition from the non-life insurance sector to the introduction of the appointed actuary role for non-life companies as well as new regulatory requirements for non-life products. Note that there is a pre-existing requirement for an appointed actuary role for life companies.

Shoaib Javed Hussain, a consulting actuary in Milliman's Asia life and financial services consulting practice, is cautiously optimistic about the market outlook:

> *The insurance market penetration rates are extremely low in Pakistan at 0.91% in 2016 compared to the emerging markets average of 3.2% and the world average of 6.3%.[4] One of the key reasons for the low penetration rates is the lack of mandatory insurance requirements, particularly for motor insurance and to a lesser degree health insurance. This indicates that the insurance industry in Pakistan has tremendous scope for expansion. The Pakistan life insurance sector has been demonstrating consistent year-on-year growth, with the GWP of life insurance firms, including the state-owned State Life Company, growing at a CAGR of 25% between 2009 and 2015.*
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> *Despite the recent and potential growth of Pakistan's insurance industry, factors such as security concerns and a difficult business environment, including inconsistent taxation policies, can present challenges for foreign investors. The recent political change, together with the upcoming general elections and the completion of current insurance commissioner's term, further adds to the uncertainty. Some foreign investors have cited the inability or the discomfort of board members to travel to Pakistan as a reason for not investing.*
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> *However, given the proposed improvements in the regulatory framework, together with increasing market awareness, economic growth and large investment projects such as CPEC, the future outlook for Pakistan's insurance market is positive. Insurers' adoption of digital innovations further increases growth prospects. The SECP is also encouraging the spread of microinsurance, and the government has taken steps to increase insurance penetration by launching the NFIS. The adoption of alternative sales channels and new product offerings has also helped private insurers wrest market share from the state-owned insurer, and the split between state-owned and private insurers, as reported in Pakistan's press, is now around 50/50.*

Notes:
1. All PKR and USD currency exchange rate is as at 31 December 2016 sourced from Bloomberg.
2. Alfalah Insurance Company Limited, Allianz EFU Health Insurance Limited, Chubb Insurance Pakistan Limited, New Hampshire Insurance Company Limited, Pak-Kuwait Takaful Company Limited, Pak-Qatar General Takaful Limited, SPI Insurance Company Limited, Takaful Pakistan Limited and TPL Direct Insurance Limited.
3. Adamjee Life Assurance Company Limited and Pak-Qatar Family Takaful Limited.
4. Source: Swiss Re Institute Sigma 3/2017: World Insurance in 2016: The China growth engine steams ahead
5. Source for market statistics and number of operating companies is SECP Annual Report 2016 and SECP's website.

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