4.3 Insurance Sector Performance and Risk Analysis

Despite volatility in the domestic financial markets, which has affected investment income from equity securities, the insurance sector has performed well in CY18. The sector has registered an increase in gross premiums of 9.45 percent mainly due to healthy growth in renewal premiums in the life insurance sector. Further potential for growth exists as the insurance penetration level in the country is less than 1 percent of GDP, which is well below the global average of 6.3 percent recorded in 2016. However, in the current macrofinancial environment, it is expected that the growth trajectory may decelerate in CY19. In addition, the sector is exposed to concentration, market and geo-political risks; while limited domestic avenues for re-insurance can lead to exchange rate risk.

Global insurance premiums are expected to continue to grow in 2019[194]…

In the global non-life sector, premium rates have slightly improved in 2018 (3.3 percent) on the back of strong growth in Agriculture Insurance in China and India. Premiums are expected to continue to grow at 3 percent for both life and non-life in 2019-20 driven, in part, by the EMDEs. (**Table 4.3.1**)

Table 4.3.1: Global insurance market outlook 2019/20

	World			North America			Emerging Markets		
	Percent								
	Past Trend	Current	Outlook	Past Trend	Current	Outlook	Past Trend	Current	Outlook
Non-life									
Premium Growth (CAGR)	3.1	3.3	3.0	2.2	2.8	2.0	8.1	7.8	8.0
Profitability (ROE)	7.4	6.5	7.0	7.7	6.7	8.0			
Life									
Premium Growth (CAGR)	2.3	1.6	3.0	(1.0)	1.7	1.0	10.0	1.3	9.0
Total									
Profitability (ROE)	10.2	8.9		10.4	9.8				

Source: Swiss Re Institute
CAGR = Compound average growth rate
Past Trend = 2013-17; Current = 2018; Outlook = 2019-20

However, underwriting performance needs to be strengthened in order to improve profitability in an environment of increasing claims in the non-life insurance sector. The marine segment is expected to be affected by a potential trade slowdown, which will lead to an overall decline in premiums for non-life. However, pricing has improved in the motor segment. Overall, pricing and underwriting results in non-life are expected to remain stable in 2019.

In 2018, global life insurance premiums have grown by 1.6 percent (which is lower than the average annual growth rates of the last five years) mainly on the back of premium growth slowdown to 1.3 percent in emerging markets (including China). China is estimated to have had a substantial contraction (-1.8 percent) in life premiums due to introduction of tighter regulation of wealth-management-product (WMP)[195] types. However, the life premiums for emerging markets are expected to accelerate to 9 percent in the coming two years with China accounting for the WMP shock. While profitability has improved in life insurance sector, the general low interest rate environment remains a concern. Since interest rates are expected to remain stable at current levels (with only marginal increases), life insurers are looking for high equity valuations and diversifying their assets to maintain adequate returns and curb their exposures to market downturn.

Overall, global insurance premiums are expected to grow at around 3 percent in 2019-20 due to above potential global economic growth with emerging markets (especially China) again being the main drivers of premium growth.

In premium-equivalent terms, the global mortality and property protection gap has been estimated at

[194] Swiss Re – Global economic and insurance outlook 2020

[195] A wealth management product is an uninsured financial product (generally offering high rates of return) sold in China by banks and other financial institutions. They are considered to have financial stability implications.

USD 500 billion in 2018, which is about 70 percent of the respective insurance markets. The gap highlights the enormous potential for insurers and if they are able to increase coverage, they can help strengthen the resilience of the global economy.

The EMDEs are expected to continue to spearhead demand for insurance in the coming years. The low insurance penetration in these economies, coupled with increasing wealth, indicate potential for growth.

In Pakistan, insurance sector has continued its upward growth trajectory…

Low insurance penetration (0.83 percent of GDP) indicates that there is room for growth in the Pakistani insurance sector (Global insurance penetration = 6.3 percent in 2016[196]).

The asset base for the insurance sector[197] has been estimated to have grown by 10.88 percent to PKR 1,435 billion as of December 31, 2018 mainly due to an increase in the Life Insurance business. Investments and properties have registered an increase of 12.11 percent to PKR 1,128 billion as of December 31, 2018. (**Table 4.3.2**)

Equity for the industry has increased by 5.87 percent to PKR 119 billion in CY18 as insurers try to comply with the enhanced regulatory paid-up capital requirements.

Table 4.3.2: Overview of insurance industry for CY18 (PKR million)

	Life	Family Takaful	Non-Life	General Takaful	Aggregate 2018	Aggregate 2017
Assets	1,206,856	29,359	196,087	2,917	1,435,219	1,294,381
Investments	997,251	23,237	106,438	681	1,127,607	1,005,847
Equity	21,887	1,474	94,505	1,004	118,870	112,277
Gross Premium	202,977	12,399	79,138	1,756	296,271	270,687
Net Premium	200,408	2,589	44,621	554	248,172	226,944
Net Claims	87,833	1,718	23,468	616	113,635	99,733

Source: Unaudited/Audited published financial statements of insurers and Takaful companies

Growth in the life sector has been driven by an increase in its core business…

The assets for the Life Insurance sector grew by 11.92 percent to PKR 1,207 billion for CY18 as life insurers increased their Total Investments by 13.52 percent to PKR 997 billion; investments now constitute 82.63 percent of Total Assets.

Life insurers are considered among the large institutional investors for capital and debt markets. Given the volatility in the financial markets, life insurers have decreased their share of investment in equities from 20.32 percent in CY17 to 18.10 percent in CY18 while increasing their share of investment in fixed income and term deposits from 1.93 percent in CY17 to 5.38 percent in CY18. Life insurers continue to have a significant portion (76.14 percent in CY18) of their investments in government securities.

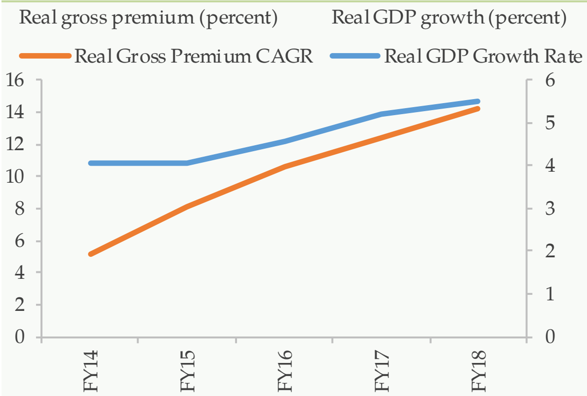
In addition, the dominant public life insurer has increased its investments in properties by 14.82 percent to PKR 3.7 billion; overall, investment in properties constitutes 0.37 percent of total investments in CY18.

Growth rate comparison of real GDP and real gross premiums for the life sector shows a positive correlation indicating that an increase in economic activity may lead to an increase in gross premiums for Pakistan. (**Chart 4.3.1**)

[196] Swiss Re Institute

[197] The analysis is based on the data of 5 life insurers and 28 non-life insurers covering approximately 97 percent and 78 percent of the life and non-life insurance sectors' assets, respectively. The analysis covers data up to period ending December 31 2018. Data has been estimated, where necessary. The financial close for insurers is December of the corresponding year. All growth ratios are on year-on-year basis.

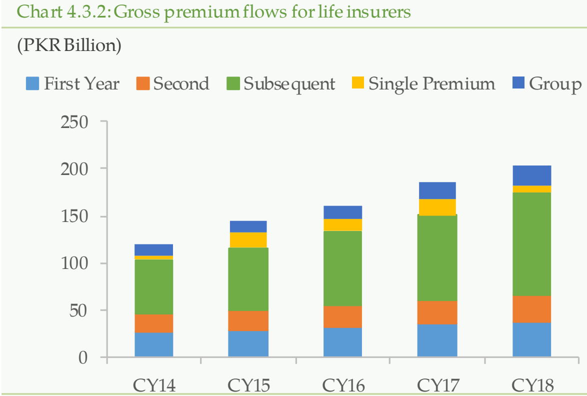
Chart 4.3.1: GDP growth versus premium growth



Source:SBP and financial statements of life insurers

Total gross premium for Life insurance sector has increased to PKR 203 billion in CY18 from PKR 185 billion in CY17. The increase of 19.46 percent in Subsequent Year Premium to PKR 109 billion, coupled with the 12.55 percent YOY increase in Second Year Premium, signifies that the sector has been able to retain its business. Moreover, the First-Year Premium to Gross Premium sustained its growth of 9.40 percent in CY18 indicating that the sector sustained issuance of new insurance policies. The increasing interest rate environment may have led policyholders to look for better rates, which may have led to redemption of policies; this is supported by the spike in Surrender Claims[198] in CY18. (**Chart 4.3.2**)

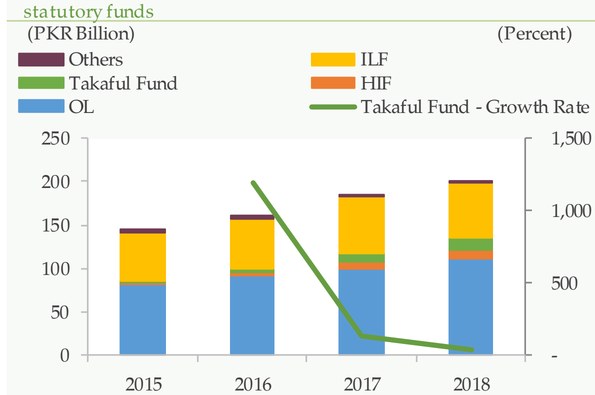
Chart 4.3.2: Gross premium flows for life insurers



Source: SECP and financial statements of life insurers

However, there has been a substantial decline in Single Premium from PKR 16 billion in CY17 to PKR 7 billion in CY18 as a private life insurer registered a significant decrease in this category over the last year. This policy (along with other life insurance policies) is used to claim tax rebate. The reduction in tax rates in 2018 along with the prevailing inflationary pressures (which reduces the net future value of the upfront single premium) may have lowered the demand for this product, as they may no longer form an attractive tax saving option.

Chart 4.3.3 Gross premium flows and rates of life insurance - statutory funds



Source: SECP Data

OL = Ordinary Life; HIL = Health Insurance Fund; ILF = Investment-Linked Fund

Life insurers are required to maintain statutory funds in respect of each class of life insurance business; statutory finds are separate from shareholders' fund, which contains only those assets and liabilities that are solely attributable to the life insurer. Analysis of statutory funds[199] indicates that Family Takaful Fund has shown extraordinary growth for Gross Premiums in CY16 and CY17 of 1190.61 percent and 136.58 percent, respectively. While this illustrates the widespread demand for an Islamic alternative to conventional insurance, the growth rate of Gross Premiums for Takaful Fund is extraordinary because of the small base in 2015. This is demonstrated by the lower (albeit still impressive) growth rate of 34.61

[198] Please see next page for discussion on Surrender Claims

[199] There is overlap between the statutory funds, as certain funds in Pakistan have features of two or more different funds.

percent to PKR 14 billion in Gross Premiums for Takaful Fund in CY18. Ordinary Life, which includes individual and group insurance, still forms the largest statutory funds; its Gross Premiums have increased from PKR 100 billion in CY17 to PKR 112 billion in CY18. (**Chart 4.3.3**)

Due to the initiatives of one of the provincial government to increase health coverage for its population, the gross premium for the public life insurer's Health Investment Fund has increased by 38.83 percent to PKR 5 billion in CY18. It is expected that there will be further growth in this Fund as the federal government has re-launched a national-wide health insurance program.

Claims under individual policies increased from PKR 63 billion in CY17 to PKR 72 billion in CY18. This was mainly due to increases of PKR 4 billion and PKR 3 billion to PKR 44 billion and PKR 16 billion in Surrender Claims and Maturity Claims, respectively. Surrender Claims, forming 49.24 percent of Gross Claims for CY18, have registered a 19.05 percent YOY increase, indicating that significant number of policyholders are exiting from their insurance policies before maturity; this development may lead to maturity mismatches for the sector. Several factors have led to an increase in Surrender Claims including the prevailing financial market conditions, which has reduced the value of unit-linked policies (with significant investments in equities); this, coupled with the increasing interest rates, may possibly lead policyholders to surrender their policies in search of higher yields. In addition, in order to meet their sales targets, agents may encourage recycling of policies, which increases Surrender Claims.

While the Life Insurance sector is relatively stable, some of its indicators have started to deteriorate slightly. Return on Assets has decreased from 0.79 percent in CY17 to 0.69 percent in CY18, as there was only a marginal increase in profitability compared to a significant increase in the asset base for the sector. Profitability was affected due to an increase in management and marketing expenses as some insurers invested in their branch network, salesforce, IT software, etc. for higher future returns. (**Table 4.3.3**)

Table 4.3.3: Soundness of life insurance

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18*
	Percent				
Capital to Assets	1.74	1.69	1.61	1.42	1.81
Claims Ratio	37.26	38.10	43.27	41.91	43.83
Return on Assets (ROA)	0.78	0.85	0.89	0.79	0.69
Return on Investments (ROI)	13.70	12.82	13.73	7.10	8.08

Source: Unaudited/Audited published financial statements of life insurance companies.
*Estimated Figures

In addition, the Claims Ratio has increased from 41.91 percent in CY17 to 43.83 percent in CY18, which is still quite comfortable. In addition, the Return on Investments has increased from 7.10 percent in CY17 to 8.08 in CY18 due, in part, to a tightening of monetary policy in CY18 as the sector maintains a significant portion of investments (76.14 percent) in government securities.

Window Takaful Operators (WTOs) are expected to drive growth in the Family Takaful segment …

The asset base for the Family Takaful segment[200] [Full-Fledged and Window Takaful Operators (WTOs)] has expanded to PKR 42,564 million as of December 31, 2018. (**Table 4.3.4**).

[200] This is the first year where separate financials became available for Window Takaful Operators (WTOs) operating in the Family Takaful segment. This section covers both WTOs and full-fledged Family Takaful companies. In the rest of the chapter, WTOs operating in the Family Takaful segment are included in the consolidated financials of the conventional insurers.

Table 4.3.4: Family takaful overview for CY18*

	Window Takaful Operators	Full-Fledged Takaful Companies	Total
	PKR Million		
First Year Contribution	6,312	2,315	8,626
Renewal Contribution	4,245	6,674	10,919
Single Contribution	2,884	853	3,737
Group Life Contribution	668	1,945	2,612
Net Claims	1,604	1,447	3,050
Total Assets	13,205	29,359	42,564

Source: Insurance Association of Pakistan and unaudited financial statements of Family Takaful companies and WTOs.
*Estimated Figures

WTOs have accounted for 73.17 percent share in First Year Contribution for Family Takaful, which supports the premise that growth in this sector in the future will be driven by WTOs. In addition, WTOs' viability can be ascertained by their significant Renewal Contribution (which indicates their ability to retain customers).

Since these are the initial years of operations, it is expected that the Claims ratio will rise for WTOs (11.37 percent in CY18) as policies become payable in line with that for Full-Fledged Family Takaful companies (45.01 percent in CY18).The growth rate for the WTOs will eventually slowdown as they reach maturity.

The Surplus before Tax for WTOs is PKR 239 million for CY18. While most WTOs have posted losses for CY18, one WTO has posted a Surplus before Tax of PKR 313 million as it has recorded substantial Net Written Contribution in its Individual Family Takaful business for CY18 while Net Claims will only begin to increase as policies become payable.

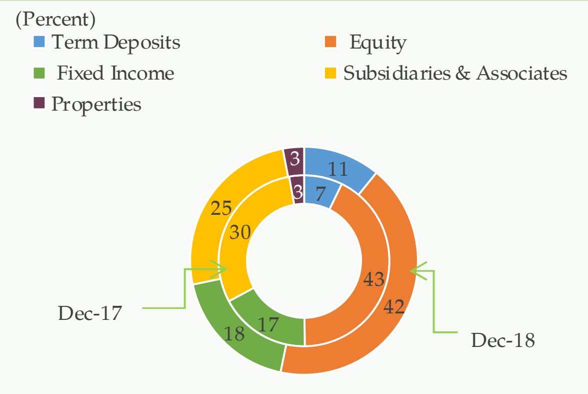
In addition, Family Takaful companies have posted a Profit before tax of PKR 243 million in CY18.

Non-life sector has witnessed an increase in profitability in CY18…

The asset base for the non-life sector grew from PKR 191 billion in CY17 to PKR 196 billion in CY18 mainly due to an increase of 46.81 percent in investments in term deposits to PKR 12 billion in CY18.

The non-life sector has reduced its overall investments portfolio from PKR 109 billion in CY17 to PKR 106 billion in CY18 as it has divested investments of about PKR 6 billion from subsidiaries and associates (to PKR 27 billion as of CY18). The sector still maintains a significant portion of investments in equity securities (42.34 percent of Total investments and properties portfolio in CY18). (**Chart 4.3.4**).

Chart 4.3.4: Non-life investments & properties

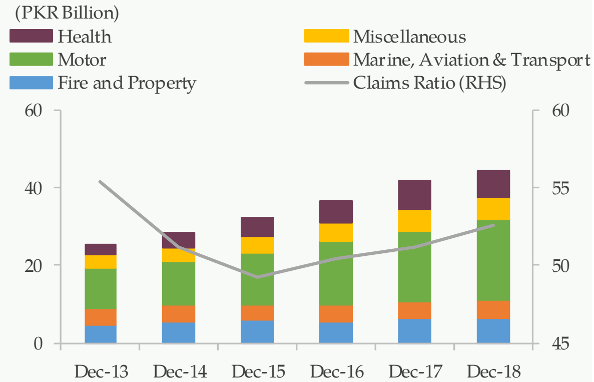


Source: Unaudited/audited financial statements of non-life insurers

The sector witnessed a 6.45 percent increase in Gross Premiums to PKR 79 billion in CY18 with Fire & Property Damage and Motor segments being the main contributors of growth.

Net Claims for the Non-life sector grew by 10.06 percent to PKR 23 billion in CY18 mainly due to an increase in Claims against the Motor segment of less than PKR 1 billion. However, the Claims ratio for the Motor segment has declined from 55.06 percent in CY17 to 52.67 percent in CY18, indicating that the absolute increase in motor segment claims is due to an increase in underwriting business for the Motor segment. (**Chart 4.3.5**)

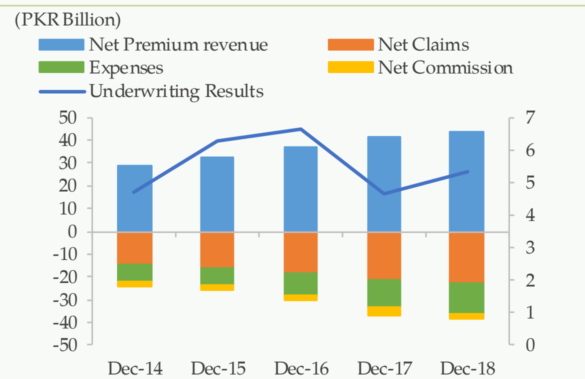
Chart 4.3.5: Non-life net premiums flows and claims ratio



Source: Unaudited/audited financial statements of non-life insurers

Overall, the Non-Life sector has witnessed a slight increase in Profitability to PKR 12 billion for the year ended December 31, 2018 (an increase of 0.84 percent over last year) as the underwriting performance for the sector has improved by 13.52 percent to PKR 5 billion in CY18. The improvement in its core business profitability is due to a 42.90 percent reduction in commission expense to PKR 2 billion. However, investment income has slightly decreased by 3.48 percent to PKR 6 billion in CY18 as the non-life sector maintains 42.34 percent share of its investment portfolio in equities, which has been affected by the volatility in the financial markets. (**Chart 4.3.6**)

Chart 4.3.6: Underwriting results for the non-life sector



Source: Unaudited/audited financial statements of non-life insurers.

Accordingly, the Return on Investment (ROI) has decreased. The Claims ratio for the non-life sector has slightly increased due to a relative increase in Net Claims. Overall, the Non-life sector is stable based on its financial soundness indicators. (**Table 4.3.5**)

Table 4.3.5 Soundness of non-life insurance

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18*
			Percent			
Capital to Assets	12.63	13.33	12.98	12.48	12.14	12.24
Claims Ratio	55.34	51.22	49.24	50.45	51.19	52.59
Combined Ratio	88.48	83.61	80.57	82.08	88.90	87.30
Premium Retention	50.72	50.40	51.79	55.07	56.03	56.38
Return on Investment	12.56	11.04	12.63	13.51	6.90	6.43
Return on Assets	7.55	8.03	11.29	10.10	6.55	6.19

Source: Unaudited/Audited published financial statements of non-life insurance companies.
*Estimated Figures

The claims ratio for general takaful segment has declined in CY18…

Window Takaful Operators (WTOs) have led to a 31.96 percent jump in the asset base of the General Takaful segment[201] to PKR 11,476 million as of December 31, 2018. (**Table 4.3.6**)

The Gross Premiums for the segment have increased from PKR 6,430 million in CY17 to PKR 7,872 million in CY18. Net Claims for the sector have increased by PKR 769 million to PKR 3,008 million in CY18. The 34.31 percent YOY increase in Net Claims is still less than the 87.26 percent increase in Net Premiums, which bodes well for the segment.

This has led to a decline in the Claims Ratio for the overall General Takaful segment; it has declined from 86.83 percent in CY17 to 62.28 percent in CY18. The Claims ratio is expected to decline to the levels witnessed by the non-life sector (52.59 percent in CY18) as the segment is expected to continue its impressive growth trajectory for the next year which will help spread risks over more customers (thus, reducing the claims ratio).

[201] This section covers both WTOs and full-fledged General Takaful companies. In the rest of the chapter, WTOs operating in the General Takaful segment are included in the consolidated financials of the conventional insurers.

Table 4.3.6: Overview of general takaful segment

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18*
	PKR Million				
Assets	2,960	3,746	6,353	8,697	11,476
Investment	368	509	1,158	1,552	2,428
Equity	1,445	1,094	1,648	1,836	2,205
Gross Premium	2,145	2,960	4,774	6,430	7,872
Net Premium	918	1,306	2,264	2,580	4,831
Net Claims	1,016	1,128	1,653	2,240	3,008
Profitability	(221)	393	(13)	224	422
	Percent				
Claims Ratio	110.68	86.33	73.02	86.83	62.28

Source: Unaudited/Audited published financial statements of General Takaful companies.
*Estimated Figures

Profitability for the General Takaful segment has improved from PKR 224 million in CY17 to PKR 422 million in CY18 mainly due to a 108.60 percent increase in Net Contribution for WTOs to PKR 4,277 million.

In addition, the WTOs have been able to reduce their Claims ratio from 81.21 percent in CY17 to 55.95 percent in CY18, as WTOs have been able to exploit economies of scope of their conventional companies, which has helped them increase their gross premiums. Consequently, the share of WTOs in the General takaful segment profitability has increased from 40.01 percent in CY17 to 69.72 percent in CY18.

The reinsurance company has posted healthy underwriting results in CY18…

Section 41 of the Insurance Ordinance, 2000 requires insurers to maintain reinsurance arrangements for insurance risk management as mentioned in the Ordinance.

The Pakistani insurance industry has only one public reinsurer, which caters to the non-life sector. To meet their reinsurance needs, the Pakistani insurance industry has reinsurance arrangement with leading international reinsurers such as Hanover Re, Swiss Re, Munich Re, etc.

The public reinsurer has increased its asset base from PKR 24,342 million in CY17 to PKR 24,831 million in CY18. Gross Premium has increased from PKR 8,036 million in CY17 to PKR 10,734 million in CY18 as all segments (including Treaty business and Facultative business) were profitable. Gross Premium for treaty business, which forms 41.57 percent of the total portfolio, increased by 32.44 percent to PKR 4,462 million in CY18. (**Table 4.3.7**)

The Claims Ratio for the reinsurer has decreased from 74.71 percent in CY17 to 54.76 percent in CY18 due to a 9.15 percent increase in Net Premiums and a 20 percent decrease in Net Claims over CY18, which is a PKR 748 million decline in overall Net Claims. Net Claims for the Engineering segment was the main contributor to the decline as it fell from PKR 500 million in CY17 to PKR 60 million in CY18.

Table 4.3.7: Snapshot of reinsurance company

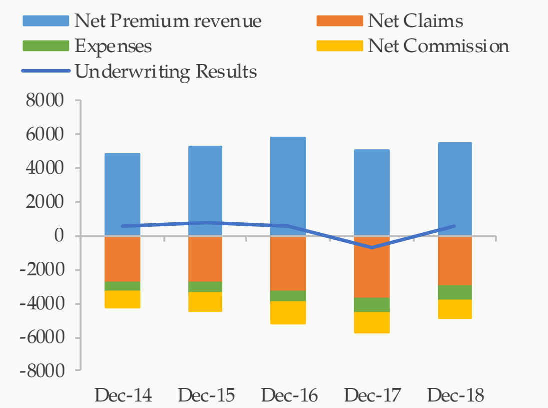
	CY13	CY14	CY15	CY16	CY17	CY18
	PKR Million					
Equity	6,571	6,981	6,938	12,316	10,506	9,871
Investment	6,513	6,650	6,318	13,375	9,223	8,634
Total Assets	16,306	17,621	17,388	25,983	24,341	24,831
Gross Premium	8,659	8,661	8,135	8,807	8,036	10,734
Net Premium	4,724	4,784	5,219	5,802	5,006	5,464
Net Claims	2,831	2,793	2,775	3,336	3,740	2,992
Underwriting Results	453	515	722	545	(677)	581
Profit Before Tax	1,706	1,565	1,772	1,427	2,876	1,740
	Percent					
Claims Ratio	59.9	58.4	53.2	57.5	74.7	54.8

Source: Unaudited/Audited published financial statements of reinsurance company.

The underwriting results for the reinsurer have registered a profit of PKR 581 million in CY18 after registering a loss of PKR 677 million in CY17. Despite an improved underwriting performance, the reinsurer's overall profitability registered a decrease to PKR 1,740 million in CY18 compared to PKR 2,876 million in CY17. This was due to a one-off Gain on sale of NIT units worth PKR 2,791 million in CY17, which inflated the profits for that year. (**Chart 4.3.7**)

Chart 4.3.7: Underwriting results for the reinsurance company

(PKR Million)



Source: Unaudited/audited published financial statements of reinsurer.

Overall, the non-life sector has ceded reinsurance worth PKR 35,540 million in CY18 (PKR 32,014 million in CY17). The ratio of Reinsurance Expense to Net Premium for the non-life sector has remained stable around 74.73 percent in CY18 (74.7 percent in CY17).

Life insurers have ceded reinsurance worth PKR 2,570 million in CY18, which is up from PKR 2,167 million in CY17. The Premium Retention ratio of 98.73 percent indicates that the life insurance sector cedes little reinsurance premium to reinsurers. The associated reinsurance risk may be mitigated as most life insurers maintain adequate capital and Statutory Fund balances to absorb losses from a rise in claims or contingencies. In addition, many private life insurers are part of large corporate groups, which can help mitigate the risks from unexpected losses. However, some life insurers still need to improve their underwriting performance.

The public sector insurer still dominates the life insurance sector…

There are significant public insurers in the life, non-life and reinsurance sectors of the economy. One public life insurer still has more than 60 percent share in the asset base of the total insurance sector while the public non-life insurer (along with a few private non-life insurers) are significant players in the non-life sector. In order to mitigate systemic risk, these firms may need to undergo enhanced supervision and regulation.

Pakistan has witnessed rising volatility in the domestic financial markets in CY18; this has led to increased market risks for insurers. This has resulted in insurers increasing their investments in relatively risk-free categories i.e. government and fixed income securities. However, the increasing interest rate environment leads to a lower revaluation of fixed income securities (interest rate risk). Despite this risk, life insurers tend to invest in long-term government bonds to match the duration of their policyholder's liabilities (to mitigate maturity mismatches).

The economic and geopolitical risk is high which leads to adverse business conditions, which might impede the growth for the sector. In addition, the economy is expected to grow at a slower pace in CY19; this, coupled with the India–Pakistan border skirmishes in early 2019 indicates that the economic and political risk will remain high in CY19. The insurance sector is expected to adopt a cautious approach, cut costs, and improve underwriting performance to mitigate such risks.

In addition, while all life insurers are solvent, at least five[202] non-life insurers do not meet the solvency requirements. One of these insurers has recently undergone a change in management and may be able to turn around its position, while another insurer is in the process of merging its operations with another firm. A few other insolvent insurers need to prepare and implement viable recovery plans (including improving their profitability, capital adequacy and solvency margins) or consider consolidation with other insurers, as they may also not be able to

[202] There may be additional non-life insurers, which are insolvent. However, nothing concrete can be said about their health, as these insurers have not shared their financial information.

comply with enhanced regulatory capital requirements.

The insurance regulator has strengthened the industry's regulatory framework…

The Securities and Exchange Commission of Pakistan (SECP), the insurance regulator, took the following major initiatives[203] in CY18 to strengthen the regulatory regime after the issuance of the Insurance Rules in CY17:

- Notification of the Credit and Suretyship (Conduct of Business) Rules, 2018 w.r.t. insurance guarantees
- Amendments to the Insurance Rules, 2017
- Issuance of Circular on dollar-denominated insurance policies
- Initiatives taken under the National Financial Inclusion Strategy (NFIS) e.g. reducing the verification services' cost for micro insurance policies

All of these efforts are expected to provide insurers a conducive environment for growth in the future.

Gross Premiums are expected to grow at a slightly lower rate in CY19…

Going forward, the main drivers of growth include the increasing purchasing power of the middle class, the use of bancassurance, Window Takaful Operations, government's health insurance expansion initiatives, launch of micro-insurance products, etc. Accordingly, the insurance industry's asset base is expected to expand further in CY19.

As Insurance Premiums and economic growth have a positive correlation[204], it is expected that Gross Premium will increase at a decelerating pace in CY19.

The insurance regulator's capital requirements may lead to consolidation in the insurance industry with some insurers expected to merge or acquire smaller insurers. This is expected to contribute to the stability of the industry.

The Health segment premiums are expected to receive a boost as the government plans to expand its National Health Insurance Program. The Program is also expected to increase the share of dominant public life insurer in the Health segment as the government will provide national-level health coverage through the public life insurer; the government has previously used the public life insurer to launch a similar program in KPK. In addition, it is expected that overall claims for the public life insurer (and, in turn, for the life insurance sector) will rise as new business is underwritten for the Health Insurance Fund, which has a claims ratio of 83.78 percent in CY18.

[203] SECP Annual Report 2018

[204] Rudolf (2000), "The S-Curve Relation between per-capita income and Insurance"