Chapter 5.3: Insurance and Takaful Companies

The pandemic has led to muted premiums for both the life and non-life sectors of the insurance industry. However, while Net Claims for the life sector have increased due to a spike in Surrender Claims, Net Claims for the non-life sector have witnessed a decline mainly due to a drop in Motor Claims as a result of the imposition of lockdowns, which led to mobility restrictions. The low interest rate environment has prompted life and non-life insurers alike to recalibrate their portfolios away from term deposits. Given the uncertainty surrounding the domestic vaccination campaigns and the emergence of new strains of the virus, growth in the insurance sector will remain dependent upon the effective handling of the pandemic.

Overall Industry Snapshot

Even in the face of significant health challenges of COVID-19, which severely affected the economic and financial conditions in the economies, the insurance industry of Pakistan increased its asset base by 13.03 percent during CY20 (14.99 percent growth in CY19) to PKR 1,871 billion[172]. The growth was significant both in the non-life and in life sectors. Asset base of non-life sector grew by PKR 23 billion to PKR 232 billion while balance sheet footing of life sector, which dominates the overall market, grew by PKR 187 billion to reach PKR 1,563 billion in CY20. It is important to note that both life and non-life insurance sectors are quite concentrated in terms of asset base and premium revenue, though there are sufficient number of players.

Foreign ownership in the industry is insignificant…

Domestic stakeholders mainly own the companies operating in the insurance sector of Pakistan, while public sector also plays a leading role as it owns and controls some of the leading insurance companies.

Only one non-life insurer - with market share (in terms of asset base) of less than one percent of the combined non-life & General Takaful sector - is a wholly owned subsidiary of a foreign investment firm. While an international development agency has significant shareholding in one non-life insurer, which has market share of 7.98 percent, two other small-sized non-life companies (i.e. a non-life insurer and a General Takaful company) also have significant foreign shareholdings.

In the life sector, an insurer having 11.56 percent market share is the subsidiary of the same international development agency, which owns significant shareholding in the non-life insurer. In addition, one Family Takaful company - having limited market share in the combined Life & Family Takaful sector - has significant foreign shareholding.

Thus, risk of cross-border spillovers remain minimal for the industry.

The life insurance sector remains concentrated, as the largest public sector insurer dominates in terms of both asset base and premiums earned …

The Life sector consists of eight conventional life insurers including two public life insurers, with one[173] of these being granted license by the regulator recently.

The sector is heavily concentrated with the larger public life insurer constituting 74.85 percent and 55.03 percent of Total Assets and Gross Premiums of the sector, respectively.

[172] The analysis in the chapter (barring sections on concentration and foreign ownership) is based on the data of 5 life insurers and 24 non-life insurers covering approximately 97 percent and 81 percent of the life and non-life insurance sectors' assets, respectively. The analysis also covers the two Family Takaful companies, two General Takaful companies, and the sole reinsurer, thus, covering the entire insurance industry. The analysis covers data up to period ending December 31, 2020. Data has been estimated, where necessary. The financial close for insurers is December of the corresponding year. All growth ratios for flow items are on year-on-year basis.

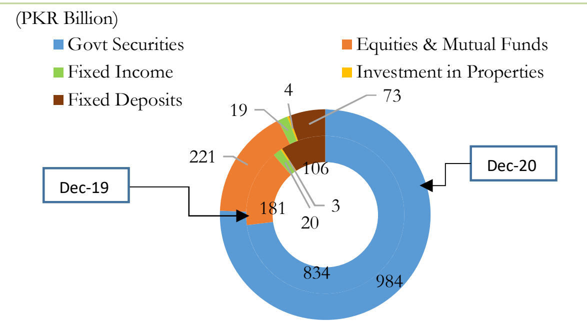
[173] Postal Life was granted license to undertake ordinary life business under Insurance Ordinance, 2000. Its financials are not available yet.

The concentration goes up if the top three life insurers are considered; they form 95.65 percent and 88.64 percent of Total Assets and Gross Premiums of the sector, respectively.

Life sector adjusted its assets and investment portfolios to changing risk dynamics and conditions of financial markets…

The Life sector became more risk averse during the year as indicated by growth in Investment in Government Securities, which grew by PKR 150 billion to PKR 984 billion in CY20. At the same time, the sector increased its Investments in Equities and Mutual Funds by PKR 40 billion to PKR 221 billion while decreasing its Deposits by PKR 33 billion to PKR 73 billion. Life insurers moved away from Term Deposits towards Equities and Mutual Funds in order to take advantage of the large dip in Pakistan Stock Exchange (**PSX**) in March 2020, which occurred immediately after the imposition of a nation-wide lockdown. This may also be an indication of evolving investment strategies as insurers seek better returns from their existing portfolios in a low interest rate environment (**Chart 5.3.1**).

Chart 5.3.1: Life Sector Investments & Properties



Source: Unaudited/ audited accounts of insurers

Overall, Total Investments increased by 13.72 percent to PKR 1,302 billion for the life insurance sector as of December 31, 2020.

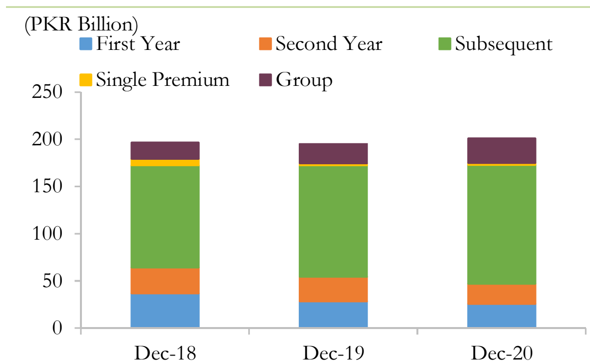
This helped boost the asset base for the sector by 13.58 percent to PKR 1,563 billion for the corresponding period.

Group Premiums were the main driver of growth in Life Premiums …

Despite the onset of the pandemic, Gross Premiums for the life insurance sector managed to increase by 2.94 percent (PKR 6 billion) to PKR 201 billion during CY20. A disaggregated analysis indicates that the impetus was provided by growth in Group Premiums, which increased by PKR 5 billion to PKR 26 billion in CY20. This 25.59 percent YOY increase in Group Premiums occurred on the back of expansions carried out by the public life insurer in the National Health Insurance Program and Khyber Pakhtunkhwa's Sehat Sahulat Program.

Individual Premiums remained more or less stable at PKR 175 billion in CY20. The breakdown of Individual Premiums show that barring Subsequent Year Premiums, which increased by PKR 8 billion, there were significant decreases in the remaining components of Individual Premiums **(Chart 5.3.2).**

Chart 5.3.2: Gross Premiums for Life Sector



Source: Unaudited/ audited accounts of insurers

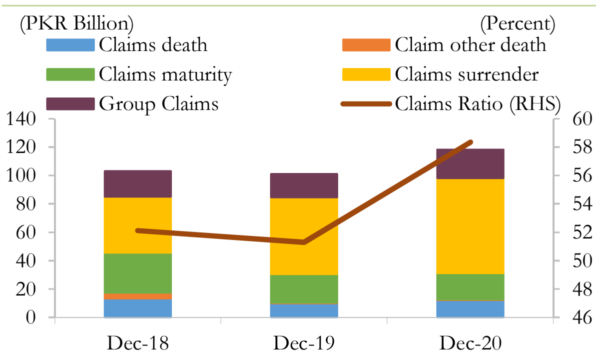
Overall, the sector witnessed a decline in the sale of new Individual Life policies…

First Year, Second Year, and Single Premiums under Individual Life policies decreased by PKR 3 billion (9.62 percent), PKR 5 billion (18.38 percent), and PKR 0.2 billion (9.40 percent), respectively, during the year under review. The public Life insurer restructured and consolidated its business distribution channel to control renewal expense ratio, which contributed to the decline in Second Year Premiums. The restructuring occurred in the previous year; thus, the decrease (of PKR 5 billion) in Second Year Premium in CY20 was in line with the significant decline (of PKR 8 billion) in First Year Premium in CY19. Overall, the sector witnessed a decline in the sale of new Individual Life policies (First Year and Single premiums) due to the imposition of the lockdown as distribution channels were unable to reach out to clients e.g. Bancassurance was affected due to limited banking activities.

Claims ratio rose indicating that customers faced strain in their disposable income while pandemic also marked its effects…

The Gross Claims increased by 17.02 percent to PKR 118 billion during CY20. The main driver for the significant uptick was the increase in Surrender Claims, which increased by PKR 13 billion to PKR 67 billion over the corresponding period. Further, there was a 23.07 percent (or PKR 2 billion) increase in Death Claims to PKR 12 billion, which may be directly associated with COVID-related deaths **(Chart 5.3.3).**

Chart 5.3.3: Gross Claims for Life Sector



Source: Unaudited/ audited accounts of insurers

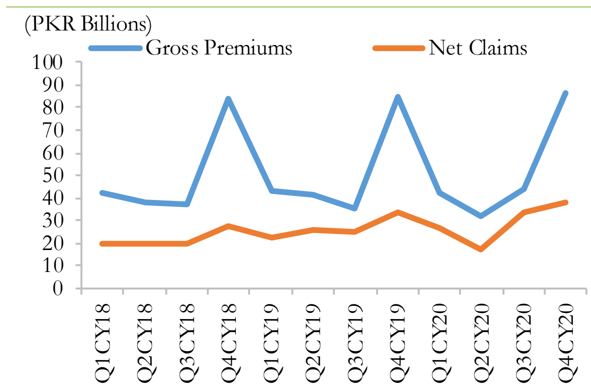
The contraction in sales of new Individual policies along with increase in Surrender Claims indicates the possibility that policyholders faced constraints in disposable income that led them to not buy new policies or surrender existing policies. The findings of the Pakistan Bureau of Statistics (PBS) Survey to Evaluate Socio Economic Impact of COVID-19 confirm that income for many households decreased due to COVID-19.

Currently, the increase in Claims is within the mortality fluctuation tolerance levels set by insurers. However, COVID-19 can be considered as a significant health catastrophe, which may reverse Pakistan's improving mortality rate trend for a few years. This could lead to increasing Claims over the next few years, which may worsen the Underwriting Results of life insurers.

QOQ Analysis indicates that the pandemic has affected the growth trajectory of life Premiums and Claims …

The Quarter-on-Quarter (**QOQ**) analysis of past years indicates elements of seasonality in Gross Premium and Net Claims for the life insurance sector. The analysis of CY20 data shows that that this pattern of seasonality has been affected, which can be ascribed to the pandemic **(Chart 5.3.4).**

Chart 5.3.4: Quarterly Change in Gross Premiums and Net Claims of Life Insurers



Source: Insurance Association of Pakistan (IAP) data

Life Premiums traditionally witness a significant uptick in Q4 of each calendar year. This may be partly because agents obtain Renewal Premiums in the last quarter of each year as next year's premiums become due. This suggests that most policies' year-end falls in the last quarter as indicated by upswings in First Year and Renewal Premiums in Q4 of each year suggesting an increase in sales push by agents to prospective and current clients. In CY20, the distribution channels were unable to reach out to retail clients due to imposition of lockdown in Q2 and Q3; however, the sales force was able to make a positive recovery in Q4 as lockdown was lifted.

Quarterly analysis of Net Claims indicates that usually there is an uptick in Claims in Q4 of each calendar year. However, in CY20, Net Claims first experienced a dip in Q2 and then started a relatively sharp rise in Q3 followed by a more gradual increase in Q4. This phenomenon coincides with the implementation and lifting off lockdown in Q2 and Q3, respectively. This may be partly due to fact that, generally, households possibly did not feel the strain in their disposable incomes until Q3, which led to these households encashing their savings then (resulting in an increase in Surrender Claims associated with unit-linked products and short-term investments). In addition, due to the abrupt nature of the first lockdown at the end of March 2020, the reporting/ processing of some claim cases may have been delayed to the next quarter. However, the continuing increase in payments to policyholders in Q4 points to COVD-related claims (death and otherwise). These dynamics resulted in a sharp increase in the Claims ratio at the end of CY20.

Profit before Tax increased for the life sector on the back of impressive growth in Investment Income…

Despite the increasing Claims ratio, profitability (Profit after Tax) for the life insurance sector increased by 62.64 percent to PKR 9 billion for the year ended December 31, 2020 on the back of impressive growth in Investment Income. This coincides with the significant increase in Total Investments & Properties mentioned earlier. Despite the decrease in policy rate, Investment Income from government securities was the main driver for growth in Total Investment Income on the back of the 18.01 increase in Investments in Government Securities in CY20.

Table 5.3.1: Soundness of Life Insurance

	Dec-18	Dec-19	Dec-20
		Percent	
Claims Ratio	52.1	51.3	58.3
Equity to Assets	2.0	2.0	1.70
Expense Ratio	26.6	25.8	22.2
Return on Equity	41.3	31.3	45.3

Source: Unaudited/ audited accounts of insurers and IAP data.

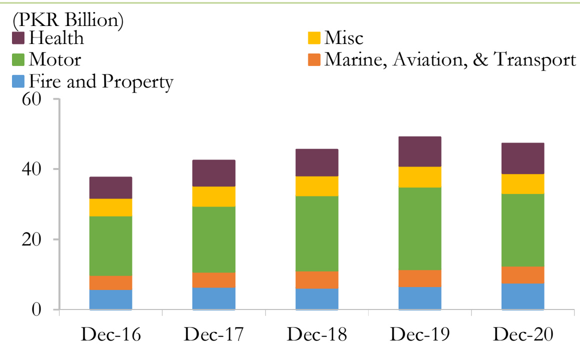
Despite pressures on sales and claims, life sector posted improvement in ROE as Management Expense was curtailed…

Consequently, the life sector showed improvement in Return on Equity (**ROE**) as the Management Expense ratio also went down. This efficiency was partly due to the public life insurer's efforts to curb the renewal expense ratio. Moreover, the leverage (i.e. liabilities to total assets ratio) of the sector slightly increased that also prompted the ROE **(Table 5.3.1).**

The pandemic led to a decrease in Premiums and Claims for the non-life sector…

Due to the imposition of lockdown, Net Premiums for non-life sector declined by a small margin i.e. by PKR 2 billion to PKR 47 billion for the year ended December 31, 2020; mainly driven by a decline in Motor Premiums.

Chart 5.3.5: Net Premiums for Non-Life Sector



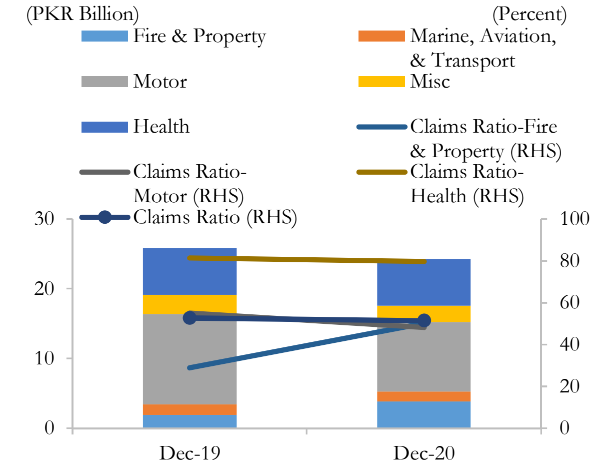
Source: Unaudited/ audited accounts of insurers

Due to lockdowns and slowdown in economic activity, there was a slowdown in both production and sale of vehicles, and lesser volume of import of high-value vehicles that resulted in lower demand for Motor Premium coverage. Accordingly, Motor Premiums decreased from PKR 24 billion in CY19 to PKR 21 billion in CY20 (a 12.10 percent YOY decline) – being the main driver of the decline in overall Net Premiums. Further, the economic slowdown resulted in lower trading activities and steep fall in oil and commodity prices, which affected the Marine, Aviation & Transport portfolio **(Chart 5.3.5).**

Unexpectedly, Fire & Property Premiums registered a YOY increase of 15.90 percent (PKR 1 billion) in CY20, which somewhat reduced the decline in Net Premiums. In addition, Health Premiums increased by 2.56 percent to PKR 8 billion as entities concerned with the medical cost implications of COVID-19 obtained coverage during the year.

Net Claims stood at PKR 24 billion in CY20 on the back of significant decline in Motor Claims, which decreased by PKR 3 billion to PKR 10 billion. As stated above, there was a fall in the business underwritten for the Motor segment, which led to lower Motor Claims. In addition, due to the implementation of mobility restrictions there was low road traffic density resulting in fewer traffic accidents, which may have led to lower claim lodgments. However, Fire & Property Claims registered a massive increase of 102.06 percent to PKR 4 billion in CY20, partly due to the damage caused by torrential rains and floods in Karachi and other areas in August 2020, however, the quantum of these claims remains relatively low. Health Claims, however, remained stable in CY20 at PKR 7 billion **(Chart 5.3.6).**

Chart 5.3.6: Net Claims and Claims Ratio



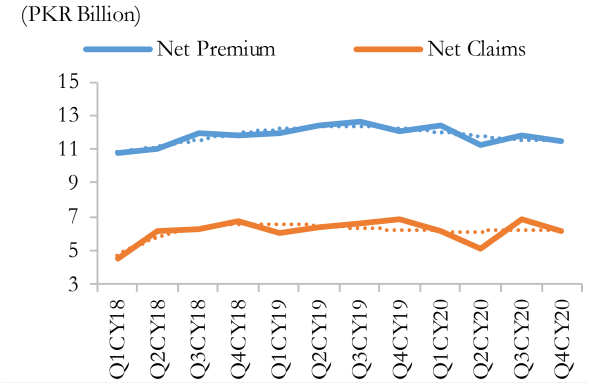
Source: Unaudited/ audited accounts of insurers

Quarterly Analysis points to a dip followed by a surge in Net Claims for the non-life sector in Q2 and Q3, respectively …

Quarterly analysis indicates that Net Premiums and Net Claims for the Non-Life sector tend to follow a pattern over the quarters with Net Claims generally witnessing a slight uptick in Q4 of each calendar year **(Chart 5.3.7).**

However, in CY20 - like Net Claims for the life sector - the Net Claims for non-life sector witnessed a dip in Q2 before witnessing an increase in Q3 of CY20. Here the similarity ends as Q4CY20 registered another dip. The fluctuation may be the result of the imposition of lockdown at the end of Q1, which resulted in slowdown of economic activity (both at global and local levels) and mobility restrictions. The mobility restrictions led to e.g. less Motor Claims due to decrease in business underwritten and low road traffic density in Q2. However, the lifting of lockdown (which led to increased economic activity) and the urban flooding in Sindh in Q3 led to an increase in the amount of Net Claims (particularly for the Fire & Property segment) during the quarter. In Q4, provincial governments once again imposed lockdown in certain parts of the country resulting in another dip in Net Claims.

Chart 5.3.7: Quarterly Growth in Net Premiums and Net Claims of Non-Life Insurers



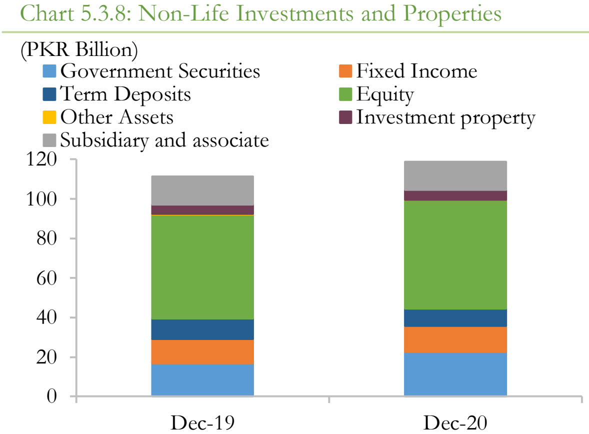
Source: Insurance Association of Pakistan (IAP) data

Underwriting results slightly slackened…

In the backdrop of changes in flow of premiums and claims, the overall Claims ratio slightly decreased from 52.59 percent in CY19 to 51.37 percent at the end of CY20. Segment-wise, Claims ratio for Fire & Property increased from 28.77 percent in CY19 to 50.16 percent in CY20 while Claims ratio for Motor decreased from 54.97 percent in CY19 to 48.07 percent in CY20 **(Chart 5.3.6).**

Consequently, Underwriting results (i.e. premium earned minus claim costs and expenses) for the Non-Life Insurance sector have decreased from 4.3 billion in CY19 to PKR 4.0 billion in CY20, as the subdued Net Premiums were also burdened by an increase in Commission Expense by 12.78 percent to PKR 4 billion.

Chart 5.3.8: Non-Life Investments and Properties



Source: Unaudited/ audited accounts of insurers

Non-Life insurers adjusted their investment portfolios in the wake of low interest rate environment and heightened risks …

The balance sheet footing of the non-life insurers increased by 10.74 percent to PKR 232 billion during the year under review. Investment & Properties which constitute major part of Non-Life insurers' asset base increased by PKR 7 billion (a 6.67 percent overall increase) to PKR 119 billion. In the backdrop of uncertain and low interest rate environment, non-life insurers recalibrated their investments portfolio to balance the returns with underlying risks and liquidity requirements. They reduced their investment in Term Deposits (which offer lower returns) by PKR 1.43 billion during the year, while increasing their investments in Equities (increase of PKR 2 billion) and Government Securities (increased of PKR 6 billion). (**Chart 5.3.8**). Equities, whose relative share in investment portfolio has slightly decreased from 47.36 percent in CY19 to 46.27 percent in CY20, still constitutes the major proportion of Investments followed by Government Securities, which has increased from 15.07 percent to 19.13 percent in CY20.

Besides increase in total Investments & Properties, Insurance/Reinsurance Receivables and Prepayments contributed to the increase in Total Assets of the non-life sector. The former increased by PKR 6 billion (25.04 percent increase) to reach PKR 31 billion while the latter increased by PKR 5 billion (a 26.61 percent increase) to reach PKR 24 billion at the end of CY20.

While the Insurance/ reinsurance receivables represent potential future cash flows, the longer the pandemic lasts (along with the ensuing uncertainty and economic slowdown) the greater is the risks for an increase in impairment of these receivables.

With adjustments in investments, non-life insurers managed to slightly increase their investment income though macro-financial environment remained challenging…

Investment Income has increased slightly by PKR 0.4 billion (a 4.91 percent increase) to PKR 8 billion in CY20, though the prospect of investment income were dampened due to decline in policy rate of 625 basis points and a slowdown in dividend income on some equity investments as distributions from the investee firms slackened during the year.

Table 5.3.2: Soundness of Non-Life Insurance

	Dec-17	Dec-18	Dec-19	Dec-20*
		Percent		
Capital to Assets	12.6	12.6	11.8	11.0
Claims Ratio	51.4	52.0	52.6	51.4
Combined Ratio	89.1	88.6	91.0	91.3
Premium Retention	55.1	54.4	54.0	50.4
Return on Assets	6.7	6.5	6.6	6.0

Source: Unaudited/ audited accounts of insurers.
*Estimated Figures

The key financial indicators represent quite stable performance of non-life sector…

Though the Claims ratio slightly came down during CY20, the overall Combined ratio[174] slightly inched up during the year. This slight increase was due to an increase in Commission Expense. However, this increase in Combined ratio is not necessarily a worrisome trend as it may indicate increasing competition in the sector. Besides, there is still sufficient cushion available for the non-life insurers in their underwriting business **(Table 5.3.2).**

Other soundness indicators have slightly deteriorated in CY20, but are still not cause for significant concern. For instance, the Premium Retention ratio decreased as one significant non-life insurer underwrote the PIA fleet business for the first time resulting in a 67.57 percent YOY increase in overall Gross Premiums for the Marine, Aviation and Transport segment. This particular insurer's general practice is to cede (i.e. to yield business to reinsurers/insurers) a significant portion of its premiums, which does not result in as significant a jump in its Net Premiums.

Nevertheless, there are financially weak insurers, which could represent a buildup of systemic risk in the sector. However, given their small size in comparison to the overall non-life sector (constituting approximately 1.77 percent of total assets), they do not pose any significant risk. Besides, most of these insurers have been directed by the regulator to cease from entering into new insurance contracts, thus limiting their share in Net Premiums and containing any possible contagion to the financial system that, incidentally, is quite minute due to small size of these insurers.

Non-Life insurance sector remained concentrated in terms of market share and earnings …

Despite the presence of more than thirty non-life insurers, the sector is heavily concentrated with the top three insurers, which hold around half of total asset base of this sector and contribute half of its total Net Premiums in CY20. Similarly, the top five insurers hold 70.29 percent of total Assets and contribute 61.22 percent of total Net Premiums.

This includes the public sector non-life insurer, which is a significant insurer at the domestic level; the public non-life company needs to publish its financials for recent years in the interests of market discipline and transparency to gauge its financial health.

The Takaful segment has expanded in recent years …

The Takaful segment over the years has emerged as a promising sector and first choice for Shariah-observant businesses and households. The Family

[174] Claim Ratio means claims cost as percent of premium earned, while Combined Ratio represents both claims costs and operating expenses as percent of premium earned.

Takaful and General Takaful segments now hold 13.31 percent and 13.52 percent market share in Net Premiums/ Net Contributions for the overall Life sector (including Family Takaful) and Non-Life sector (including General Takaful), respectively. In terms of market structure, there are five dedicated (or full-fledged) Takaful companies - two Family Takaful and three General Takaful companies[175]. In addition, about twenty-nine (29) Window Takaful Operators or WTOs (i.e. registered conventional insurers authorized under Takaful Rules to carry on Takaful business as window operations in addition to conventional insurance business) operate in the segment.

Family Takaful posted increase in income, which was mainly driven by the WTOs …

The Family Takaful segment comprises two Dedicated Takaful Operators (**DTOs**) and seven Window Takaful Operators (**WTOs**).[176]

Net Contributions for the Family Takaful segment has increased by PKR 2 billion (increase of 8.09 percent) to PKR 28 billion in CY20 on the back of significant increases in the Renewal Contributions for the WTOs. This signifies the growing importance of the WTOs.

Net Claims ratio further increased during the year …

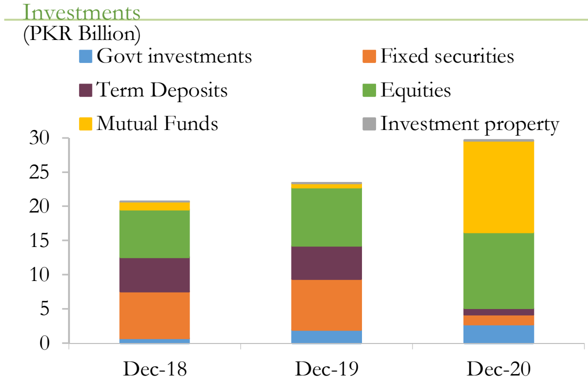
Net Claims for the Family Takaful segment increased by PKR 2 billion to PKR 10 billion in CY20, due to an increase in Net Claims for WTOs; thus, the Claims ratio for the Takaful segment rose to 35.02 percent in CY20 from 29.98 percent in CY19.

Both WTOs and DTOs helped boost the asset base of the Family Takaful segment …

On the back of robust growth in both WTOs and DTOs, the balance sheet footing of the family Takaful segment increased by 26.65 percent during CY20 to PKR 75 billion.

On a standalone basis, the two full-fledged Takaful operators, which hold around half of the segment's assets, increased their asset base by PKR 6 billion to PKR 37 billion at the end of CY20. This growth was driven by investments which increased by PKR 6 billion, while other assets contracted. In an easy monetary policy environment, the Takaful companies recalibrated their assets and investment portfolios, i.e. by divesting majority of investments in Fixed Income securities (decrease of PKR 6 billion) and Term Deposits (decrease of PKR 4 billion), and increasing investments in Mutual Funds (increase of PKR 13 billion) and Equities (increase of PKR 3 billion) which offered higher returns, particularly towards the end of CY20. **(Chart 5.3.9)**

Chart 5.3.9: Dedicated Familty Takaful Operators' Investments



Source: : Unaudited/ audited accounts of DTOs

In the Policyholders' Fund, the Surplus reserve for the year increased by 4.82 percent to PKR 0.3 billion in CY20 on the back of a significant increase in Net realized gains on investments, which covered the increases in Net Takaful Benefits and other Expenses.

[175] However, new business of one dedicated General Takaful company is ceased.

[176] This section cover the two full-fledged Family Takaful companies and WTOs of the five life insurers covered earlier to keep the financial analysis consistent with the rest of the chapter.

Profits of the Family Takaful improved as fee incomes supported the bottom line…

On the other hand, the Profit before Tax for the Shareholders' Fund increased by PKR 0.2 billion to PKR 0.3 billion in CY20; this was mainly due to increases of PKR 0.1 billion each in Wakala Fees and Takaful Operator Fees. Consequently, ROE for the DTOs has jumped from 7.55 percent in CY19 to 16.01 percent in CY20.

General Takaful segment witnessed a decline in Net Contributions on the back of contraction in WTOs' receipts …

Net Contributions for the General Takaful Segment[177] decreased from PKR 7.5 billion in CY19 to PKR 6.6 billion in CY20. A detailed analysis shows that while Net Contributions for the full-fledged General Takaful companies or DTOs increased by PKR 0.6 billion in CY20, the same decreased by PKR 1.5 billion for WTOs. Thus, the decrease in Net Contributions for the WTOs resulted in an overall decrease for the segment. On the other hand, Net Claims for the segment have increased from PKR 4.8 billion to PKR 5.2 billion in CY20 on the back of increased Health claims (by PKR 0.4 billion) for a DTO.

As a result, the Claims ratio for the General Takaful segment has increased from 63.66 percent in CY19 to 78.65 percent in CY20, which is a significant increase.

DTOs in the General Takaful segment have expanded their investment portfolios…

With the new business of one dedicated General Takaful company being ceased, only two Dedicated Takaful Operators are actively underwriting business in the General Takaful segment. In addition, around 22 insurers have been authorized to undertake Takaful business as WTOs.

On a standalone basis, the two full-fledged Takaful companies have increased their asset base from PKR 2.8 billion in CY19 to PKR 3.6 billion in CY20 – an increase of 27.77 percent. The increase was driven by increases in Investments (of PKR 0.3 billion), Deferred Wakala Fees (of PKR 0.2 billion), and Cash and Bank (of PKR 0.2 billion), among others.

Net Contributions contributed to Underwriting Profits of Dedicated General Takaful Operators…

After registering an Underwriting loss in the previous year, the sub-segment posted an Underwriting Profit of PKR 26 million in their Participants' Takaful Fund (**PTF**) on the back of substantial gains in Net Contribution Revenue.

However, due to increases of PKR 91 million and PKR 66 million in Management Expense and Commission Expense, respectively, the sub-segment's Shareholders' Fund registered lower profits (at PKR 35 million) in CY20 (CY19: PKR 44 million). Consequently, ROE for the two Dedicated General Takaful Operators decreased from 4.87 percent in CY19 to 4.09 percent in CY20.

The reinsurance company posted healthy Underwriting Profits in CY20…

The domestic reinsurance sector comprises a public non-life reinsurer.

Despite a YOY decrease in Gross Premium, the company posted healthy Underwriting results (with an increase of 89.81 percent), partly due to a decrease in the Claims ratio **(Table 5.3.3).**

[177] This section cover the two active full-fledged General Takaful companies/ Dedicated Takaful Operators and Window Takaful Operators (WTOs) of the 24 non-life insurers covered earlier to keep the financial analysis consistent with the rest of the chapter.

Table 5.3.3: Snapshot of Reinsurance Company

	Dec-17	Dec-18	Dec-19	Dec-20	growth
			PKR millions		
Equity	10,506	9,408	9,829	10,242	4.2%
Investment	9,223	8,634	10,942	12,035	10.0%
Total Assets	24,341	24,459	35,807	35,765	-0.1%
Gross Premium	8,036	10,734	17,655	16,896	-4.3%
Net Premium	5,006	5,464	6,905	6,709	-2.8%
Net Claims	3,740	2,990	4,259	3,924	-7.9%
Underwriting Results	(677)	583	628	1,192	89.8%
Profit Before Tax	2,876	1,730	2,189	1,972	-9.9%
			Percent		
Claims Ratio	**74.71**	**54.72**	**61.68**	**58.49**	

Source: Unaudited/ Audited financial statements of reinsurance company.

However, the healthy increases in Underwriting Profit, Investment and Rental Income and contraction in Claim Ratio, could not stop the decline in Profit before Tax of 9.91 percent in CY20 as the amount of Other Income remained lower than last year. Incidentally, last year's Other Income comprised substantial one-off gains, which bolstered the profits in that year. Accordingly, the deceleration in profitability during CY20 may not reflect deterioration in operating efficiency.

Direct linkages between the insurance sector and the banking sector are minimal…

Besides having WTOs, some insurers are interconnected with other insurers and banks. The relationships for the subject insurers can range from being a bank's associate, to another insurer's subsidiary, to being part of the same financial group/ conglomerate along with other financial institutions.

Detailed assessment of insurance sector's intra- and inter-sectoral interlinkages indicates that no life or non-life insurer can be classified as a bank's subsidiary as it not permitted under the law. Barring one bank (having 18.50 percent shareholding in one life insurer), banks do not have significant shareholdings in the life sector; however, around six banks have material shareholdings (of 9% to 30%) in non-life insurance companies.

While one life insurer is a subsidiary of its associated non-life insurer, five life insurers are subsidiaries/ associates of their parent companies' financial groups (along with their non-life counterparts). The public life insurer also has shareholding of 24.41 percent in the non-life reinsurer. Two non-life insurers have significant shareholdings (more than 20 percent shareholding) in their associated life insurers. At least two non-life insurers have material shareholdings in each other's share capitals (approximately 8% and 14%).

Besides direct equity participation in the share capital of insurance firms, banks have provided financing of PKR 6 billion to the insurance sector in CY20, which constitutes only 0.06 percent of total gross loans of the banking sector.

Given the small size of bank's ownership and exposure in the insurance sector, the risk of contagion from this channel may be considered minimal. However, many banks and insurers are associated entities belonging to the same financial groups and can be a conduit for transfer of contagion risks due to reputational issues. Moreover, any overall weakening of group's financial standing could impair the sponsors' ability to support the prudentially regulated firms. In addition, a moral hazard exists that the banks may prefer their associated insurance firms while insuring assets obtained as collateral against loans and financing. Although, in such cases, banks' primary exposure is on the borrowers and the same exposure is well diffused; further, the banks are required to deal at arm's length basis and have adequate risk management policies to address any concentration issues.

Growth and performance in near future will depend upon the dynamics of pandemic and general economic conditions…

Given the uncertainty surrounding the domestic vaccination campaign and the emergence of new strains of COVID-19, it is expected that economic activity (and thus, insurance growth) will remain dependent upon the situation of the pandemic and nature of precautionary measures. Since COVID-19 is a significant health catastrophe, Net Claims are expected to remain elevated in life insurance, in the near future. Moreover, in the wake of any surge in the pandemic and lockdowns, the insurance markets are expected to harden resulting in higher premium rates, particularly for the non-life sector. The increase in combined ratio for the non-life sector substantiates this claim.