

Chapter 6.3: Insurance and Takaful Companies

Despite building macroeconomic challenges, the insurance industry continued to grow in 2022. The growth was led by the life insurance sector as the implementation of the government's health insurance programs by public life insurer gathered steam. However, the claims ratio for the sector witnessed an increase due to a rise in group claims as well as an increase in surrender claims by individuals. Nevertheless, since life insurers maintain most of their investments in government securities, the resulting higher investment income boosted their profitability. In non-life insurance sector, motor premiums drove the growth in net premiums as the cost of motor vehicles increased drastically during the year. However, torrential rains and flooding, some major fire incidents, and higher cost of repairing fixed assets contributed to the larger increase in claims. Accordingly, financial performance indicators for the non-life sector slightly deteriorated. Going forward, due to the prevailing slowdown in economic activities and stressed macro financial conditions, the growth trajectory in non-life premiums is expected to be uncertain while the growth in the life sector will continue to largely depend on traction in the health insurance programs.

Global insurance industry faced repricing of risks due to macroeconomic stresses and natural catastrophes ...

Economic losses from natural disasters remained high in 2022 (USD 275 billion) while insured losses covered 45 percent of the damages (USD 125 billion).¹⁵²

In addition, claims increased as high inflation increased the cost of repairing buildings, motor vehicles and other fixed assets that are usually covered by insurance. This led to continued rise in premium rates to cover the expenses. However, elevated interest rates augmented the investment income for insurers across the globe.

Pakistan's insurance industry posted growth despite building macroeconomic stresses in CY22 ...

The life insurance and Family Takaful segment continued to dominate the insurance industry

¹⁵² Swiss Re Institute - Sigma No. 1/ 2023 "Natural catastrophes and inflation in 2022: a perfect storm" (<https://www.swissre.com/institute/research/sigma-research/sigma-2023-01.html>)

¹⁵³ The analysis in the chapter is based on the data of 6 life insurers and 24 non-life insurers covering almost 100 percent and 82 percent of the life and non-life insurance sectors' assets, respectively. The analysis also covers two

of Pakistan¹⁵³ in terms of assets and gross premiums.

Despite building macroeconomic pressures characterized by dwindling foreign reserves, stabilization measures, slowdown in economic activity, etc. along with catastrophic floods affecting one-third of the country during the year under review, all segments of the industry continued to expand. This was the result of a combination of general factors affecting the whole insurance industry such as inflation leading to a rise in premium rates and idiosyncratic factors pertaining to the life and family Takaful segment (such as the rise in group claims due to the government's expansion of health insurance programs) and non-life and general Takaful segment. In addition, the low insurance penetration in the country results in no significant effect on the industry's growth despite the macroeconomic pressures (**Table 6.3.1**).

Family Takaful companies, two active General Takaful companies, and sole reinsurer, thus, covering the entire insurance industry. The analysis covers data up to period ending December 31, 2022. Data have 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.

The asset base of the overall industry increased by 14.8 percent in CY22 to PKR 2,459.9 billion particularly on the back of significant growth in the life insurance sector.

Description		Total Assets	Equity	Gross Premium	Net Premium	Net Claims
PKR million						
Life	Dec-21	1,805,383	34,681	277,793	273,236	175,072
	Dec-22	2,061,062	47,879	359,381	354,389	263,448
Family Takaful	Dec-21	39,384	1,995	12,033	11,478	6,568
	Dec-22	41,246	2,126	12,305	11,713	7,057
Non-Life	Dec-21	245,302	105,284	103,092	50,548	24,591
	Dec-22	286,980	103,401	131,571	60,095	32,945
General Takaful	Dec-21	5,659	1,245	3,252	1,596	1,178
	Dec-22	6,727	1,442	4,207	2,187	1,770
Reinsurance	Dec-21	46,806	13,072	20,994	7,226	3,778
	Dec-22	63,855	14,321	24,271	7,929	4,312

Source: Unaudited/ Audited accounts of Insurers

Gross premiums increased from PKR 417.2 billion in CY21 to PKR 531.7 billion in CY22 with life and family Takaful segment, and non-life and general Takaful segment posting increases of PKR 81.9 billion and PKR 29.4 billion, respectively. Life and family segment was boosted by the increasing outreach of government-sponsored social health insurance programs through a leading public sector insurer that increased health coverage to the low and middle-income strata of society.

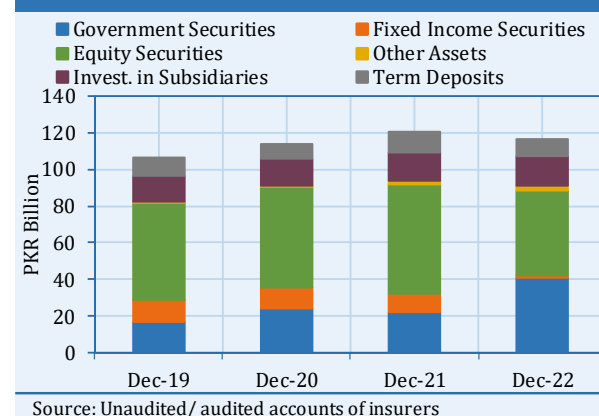
Non-Life Insurance and General Takaful Segment

Asset base of non-life insurers grew on the back of underwriting of new business while they shifted their asset mix from equities to government securities ...

The asset base of the non-life insurance sector increased by 17.0 percent over the year under review to PKR 287.0 billion, mainly on the back of growth in gross premiums which grew by around 28 percent. This growth was also reflected in the increase in provision for unearned premium (on the liabilities side) from PKR 44.0 billion to PKR 55.4 billion over the year. In addition, provision for outstanding claims increased from PKR 40.8 billion to PKR 63.6 billion as the estimated claims expense rose over the year.

With regards to investments, due to hike in interest rates and lackluster performance of capital market, non-life insurers divested part of their holdings in equity stocks and increased their investments in government securities. Accordingly, the share of equities in investments declined from 49.3 percent in CY21 to 39.7 percent in CY22 while the share of government securities rose from 18.3 percent to 34.8 percent (**Chart 6.3.1**).

Chart 6.3.1: Investment portfolio of non-life insurers



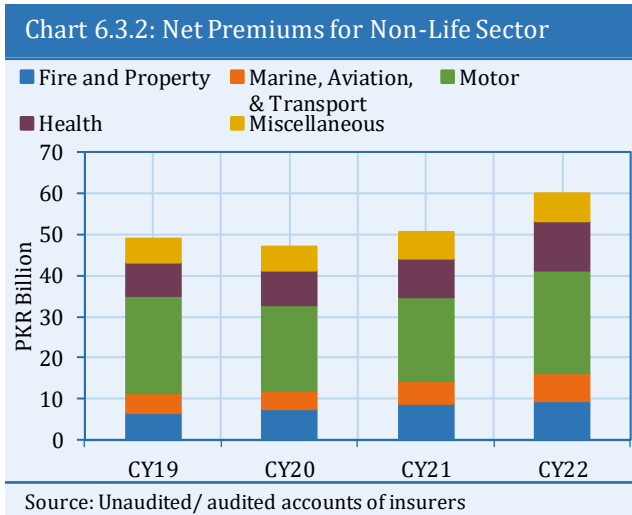
Source: Unaudited/ audited accounts of insurers

Overall, investments, however, declined slightly by PKR 4.1 billion to PKR 116.6 billion in CY22. This was in part due to the increase in insurance receivables from PKR 25.0 billion to PKR 51.8 billion, limiting the available funds for investments.

While fire and property damage premiums drove the growth in gross premiums, motor and health premiums were the main drivers of growth for net premiums ...

Gross Premiums for the non-life sector posted healthy growth in CY22 mainly on the back of increase in premium for the fire and property damage business segment.

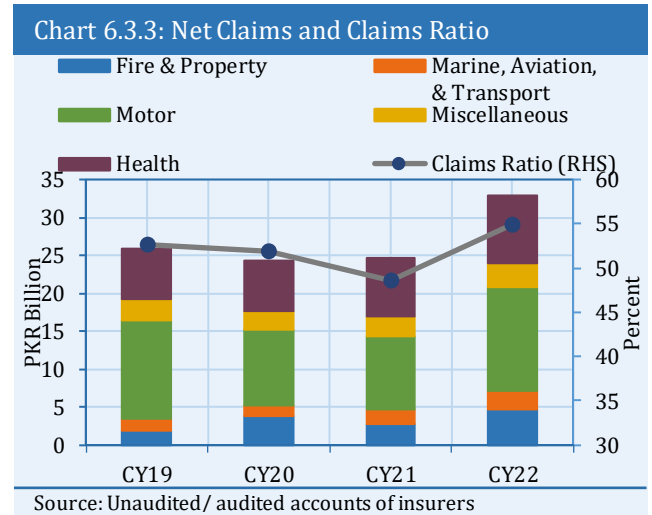
However, a significant portion of premiums was ceded to reinsurers. Accordingly, net premiums only increased by PKR 9.5 billion to PKR 60.1 billion in CY22. Accordingly, premium retention ratio also declined.



This growth in net premiums was mainly driven by motor and health premiums which increased by PKR 4.8 billion and PKR 2.4 billion over the year under review to PKR 25.0 billion and PKR 11.9 billion, respectively. Motor insurance segment continued to dominate the non-life sector with 41.6 percent contribution in net premium. Motor premiums increased partly due to the increase in cost of vehicles and their parts thus increasing the value of insurance coverage as well as premium amounts (**Chart 6.3.2**).

However, net claims increased at a faster pace than premiums ...

As the cost of repairing fixed assets increased worldwide due to inflation and other macroeconomic stresses, so too did the cost of repairing motor vehicles and other fixed assets increased in Pakistan. Overall net claims increased substantially by 34.0 percent to PKR 32.9 billion, as all segments of the non-life business faced increases in claims (**Chart 6.3.3**).



While motor claims increased by 41.5 percent to PKR 13.8 billion in CY22, fire and property damage claims posted a bigger increase of 69.0 percent to PKR 4.7 billion, however, these claims formed a relatively small proportion of overall claims expenses. Besides the prevailing stressed macroeconomic conditions, insurers incurred losses due to torrential monsoon rains and flooding, which disrupted business activities and damaged fixed assets. Moreover, there occurred some major fire loss events in the first half of the year contributing to an increase in claims for the fire and property damage segment. Accordingly, the claims ratio of non-life segment increased over the year.

Therefore, profitability of non-life sector declined due to contraction in underwriting results while investment income also slightly decelerated ...

With the substantial rise in claims expense, along with an increase in management expenses, the underwriting results for the non-life insurance sector declined in CY22 to PKR 3.8 billion from PKR 6.0 billion in CY21.

In addition, due to decline in dividend income and revaluation losses on securities, investment income was marginally lower compared to the previous year.

Accordingly, profit before tax of non-life insurers declined to PKR 15.6 billion in CY22 (from PKR 17.8 billion for CY21) and after-tax profit lowered to PKR 10.7 billion (PKR 12.8

billion in CY21). Bottom line indicator of pre-tax ROA came down to 5.9 percent, and after-tax ROE to 10.2 percent (12.6 percent in last year).

Accordingly, key performance indicators for the non-life sector slightly deteriorated ...

Due to the stressed macroeconomic conditions and torrential monsoon rains and flooding that disrupted business activities and raised costs, key FSIs of the non-life insurance segment slightly deteriorated (**Table 6.3.2**).

Description	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22*
	Percent				
Capital to Assets	12.6	11.8	10.9	10.6	9.5
Claims Ratio	52.0	52.6	51.8	48.6	54.8
Combined Ratio	88.6	91.0	92.3	87.8	92.7
Premium Retention	54.4	54.0	50.1	49.0	45.7
Return on Assets	6.5	6.6	5.9	7.5	5.9

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

With the increase in combined ratio, insurers are expected to reprice their products in the coming months.

The pressure on equity prices and high interest rates may also pressurize insurers to recalibrate their investment portfolios further towards short-term government securities.

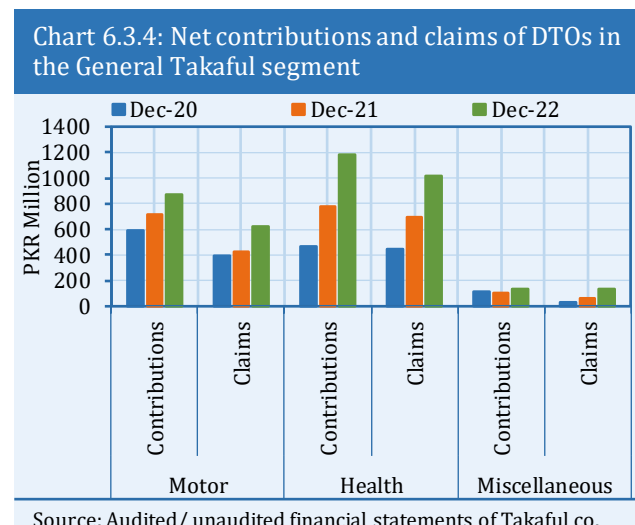
Increasing claims lowered the surplus in the PTF of the DTOs operating in the General Takaful segment ...

The two dedicated General Takaful operators (DTOs) increased their asset base by PKR 1.1 billion to PKR 6.7 billion in CY22. However, in terms of gross premium, the DTOs constitute only 3.1 percent of the combined non-life and general Takaful segment.

Profitability for the DTOs increased from PKR 0.16 billion in CY21 to PKR 0.28 billion in CY22 on the back of increased Wakala fee.

Detailed analysis shows that these two DTOs mainly focus on Motor and Health business lines. Their net contributions increased from PKR 1.6 billion to PKR 2.2 billion in CY22,

spurred by growth in health contributions. However, net claims also saw an increase of PKR 0.6 billion to PKR 1.8 billion on the back of increasing health claims (**Chart 6.3.4**).



Thus, claims ratio for the DTOs increased from 73.8 percent to 80.9 percent in CY22.

Accordingly, the underwriting result for the Participants' Takaful Fund (PTF) declined from PKR 58.8 million in CY21 to PKR 9.3 million in CY22.

Non-life reinsurer posted steady earnings on the back of improved investment income ...

While underwriting profit of the non-life reinsurer declined by 5.2 percent to PKR 1.7 billion in CY22, increase in investment income by 36.3 percent to PKR 1.4 billion gave support to the bottom line. Consequently, the reinsurer registered profits of PKR 3.6 billion in CY22 (similar to the previous year).

Life Insurance and Family Takaful Segment

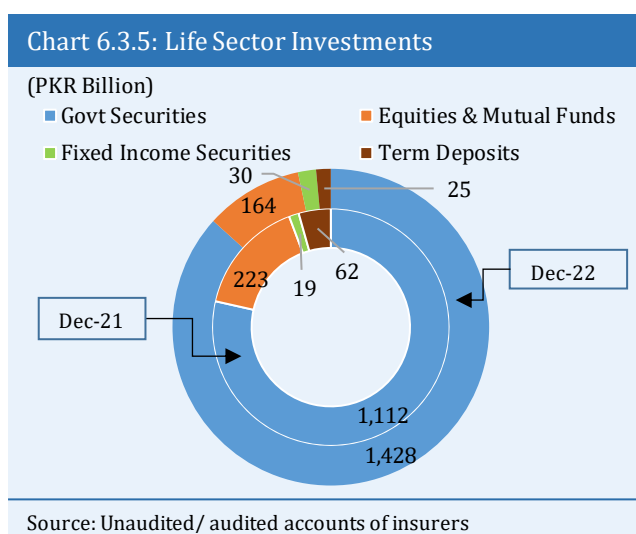
Life insurance sector increased its asset base in CY22 ...

Due to its longer-term horizon of business dynamics and investment strategies, life insurance sector remained largely immune from the macroeconomic stresses that prevailed during the year under review. The sector in fact posted marked improvement in

operating performance that was well supported by investment income.

The life sector expanded its balance sheet footing by 14.2 percent to PKR 2,061.0 billion. The asset base was supported by growth in business revenues as gross premium and investment income registered significant increases.

Investment portfolio of life insurers increased by 16.4 percent to PKR 1,647.6 billion in CY22. Most of the life sector's investments are in government securities (share of 78.5 percent), that, in the wake of the rise in policy rate during CY22 and lackluster performance of capital market, led to a further increase in preference for government securities. Accordingly, the growth in these securities remained pronounced i.e. PKR 316.5 billion or 28.5 percent while investment in equities and mutual funds declined by PKR 58.8 billion or 26.3 percent (Chart 6.3.5).

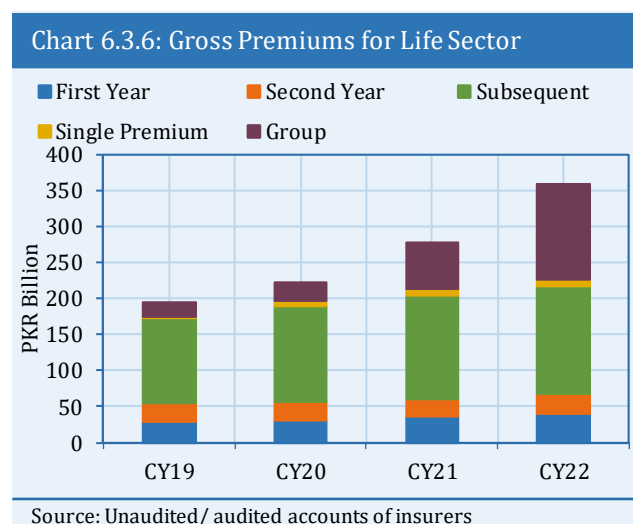


Gross premium of life sector posted strong growth mainly on the back of group premiums ...

Gross premium of life-insurance sector increased by PKR 81.6 billion to PKR 359.4 billion. Group premium, which rose by PKR 68.6 billion in CY22, contributed to the overall increase. Their growth, in turn, was supported by the implementation of government's national- and provincial-level health insurance

programs through the public life insurer in recent years.

Besides growth in group premiums, the first year, second year, and subsequent year premiums of individual life policies also increased during CY22. However, there was deceleration in the growth of first year premiums (6.1 percent growth for CY22 against 20.3 percent increase in CY21) indicating that life insurers slightly struggled to underwrite new individual life policies possibly due to the stressed macroeconomic conditions, as inflation and slowdown in economic activities affected the purchasing power of households (Chart 6.3.6).

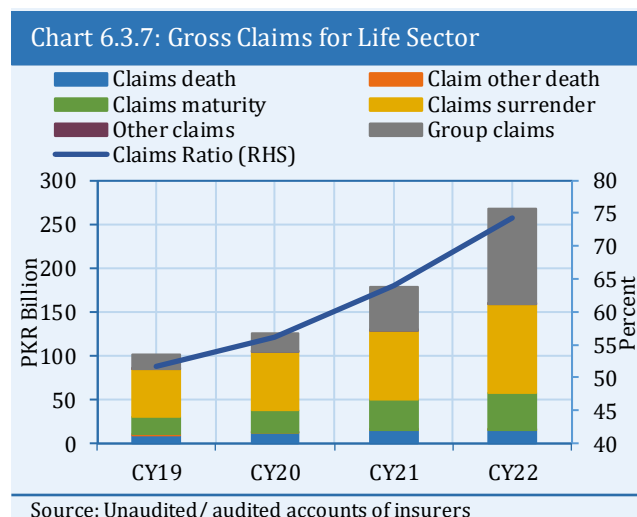


Income from core business activity of life sector slightly deteriorated due to strong increase in group claims and higher surrenders in individual policies....

Since the public health insurance scheme mainly provides health coverage to low-income segments of society, these segments increasingly utilized this coverage to seek medical care which was generally not freely available and accessible to them before the scheme. Accordingly, group claims for the life sector increased from PKR 50.5 billion in CY21 to PKR 108.6 billion in CY22.

Moreover, there was a marked increase (i.e. 27.3 percent) in surrender claims which rose to PKR 100.6 billion during the year under review.

The increase in surrender claims can be ascribed to pressures on consumers' disposable income that led to higher surrenders of individual policies by policy holders for unlocking their funds for personal uses. Besides, some consumers also surrendered their policies to tap more attractive returns on new policies and other avenues in the light of the hike in policy rate (**Chart 6.3.7**).



Overall, gross claims of life-insurers increased to PKR 266.9 billion during CY22 (PKR 178.9 billion in CY21), while claims ratio increased from 64.1 percent to 74.3 percent in CY22. Accordingly, premiums net of claims and acquisition expenses (at PKR 56.4 billion) for CY22 remained 5.5 percent lower compared to previous year's level.

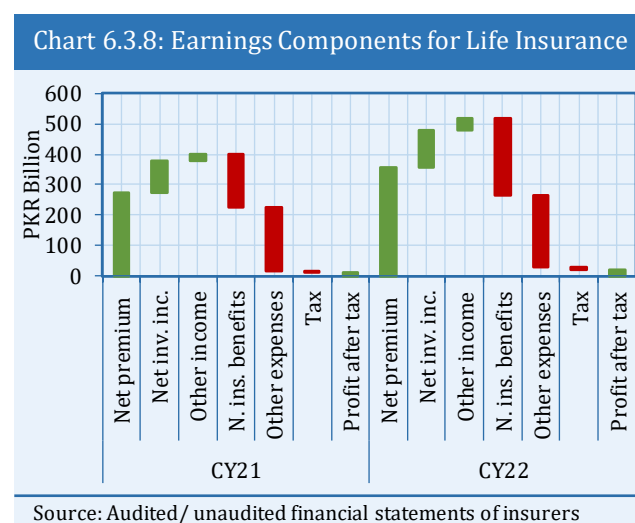
However, profitability of life sector marked significant improvement on the back of investment income ...

While the increase in net premium revenue was neutralized by the increase in claims expense, the increase in investment income in CY22 boosted the bottom line of life sector (**Chart 6.3.8**).

As the sector has high reliance on government securities for generating consistent streams of income, it significantly benefited from increase

¹⁵⁴ Policyholders pay premiums upfront, and contractual payments are generally made by insurer only if and when an insured event has occurred.

in interest rates. Income on government securities increased to PKR 135.3 billion during CY22 (31.4 percent higher than the last year's income), which augmented the overall growth in investment income. On the other hand, there was an increase in fair value losses on financial assets, however, it had only a slight impact on overall investment income, as the life insurers tend to hold major part of investments till maturity in line with their long-term perspective in investment strategy.



Accordingly, pre-tax profits of the life sector increased to PKR 27.4 billion in CY22 (from PKR 13.4 billion in CY21), and bottom line indicators of ROA and ROE posted marked improvements.

Capital and liquidity position of life sector improved over the year...

With the growth in earnings, capital to total asset ratio improved over the year under review. In the backdrop of inherent inverted-production cycle¹⁵⁴ and long-term horizon of life insurance business along with the strategic decision of investing around 70 percent of assets in risk-free government securities, life sector faces contained liquidity risk as well as solvency challenges from fall in value of assets (**Table 6.3.3**).

Table 6.3.3: Performance Indicators of Life Insurers

Description	CY18	CY19	CY20	CY21	CY22
	Percent				
Claims Ratio	52.2	51.8	56.1	64.1	74.3
Expense Ratio	26.3	26.0	22.9	21.6	18.6
Equity to Assets	2.0	1.9	2.1	1.9	2.3
ROA pre tax	0.7	0.6	0.8	0.8	1.4

Source: Unaudited/ audited accounts of insurers

Gross contributions of DTOs in the Family Takaful155 segment inched up ...

There are three Dedicated Takaful Operators (DTOs)¹⁵⁶ along with seven Window Takaful Operators (WTOs) in the family Takaful segment.

The DTOs contribute around 3.3 percent of the combined premiums and contributions of the life and Family Takaful segments.

The DTOs increased their asset base by 4.7 percent to PKR 41.2 billion in CY22 - compared to 14.2 percent overall growth in family Takaful and life insurance segment which was, however, significantly supported by pickup in business of the public life insurer due to the government's public health insurance schemes.

Gross contributions of DTOs segment inched up by 2.3 percent to PKR 12.3 billion during CY22, and net contribution revenues posted concomitant growth. Detailed analysis shows that there was a reduction of PKR 0.3 billion in individual contributions, particularly in first year contributions. Overall, gross contributions of the segment were supported by an increase in group contributions of PKR 0.5 billion.

On the other hand, gross claims increased by PKR 0.6 billion to PKR 7.5 billion in CY22, on the back of increases in surrender and death claims.

¹⁵⁵ This section covers the two full-fledged Family Takaful companies only. The information pertaining to the Window Takaful Operators (WTOs) of life insurers has been discussed on a consolidated basis under the life section.

However, due to an increase in net investment income in CY22, the participants' Takaful fund (PTF) posted an increase in surplus during CY22 (**Table 6.3.4**).

Table 6.3.4: Participants' Takaful Fund of DTOs in Family Takaful segment

	Dec-20	Dec-21	Dec-22
	PKR Million		
Net Contribution revenue	6,899.1	8,688.6	9,083.7
Investment Income	3,642.2	239.4	676.1
Surplus Income	141.0	285.6	199.0
Net Income	10,682.4	9,213.6	9,958.7
Net Takaful Benefit	(5,212.9)	(6,774.0)	(7,639.3)
Change in Takaful liabilities	(4,545.1)	(1,672.3)	(1,343.1)
Other Expenses	(610.3)	(681.0)	(709.0)
Surplus/ (Deficit)	314.0	86.3	267.3

Source: Unaudited/ audited accounts of DTOs

Outlook

Going forward, insurance sector's performance is contingent upon emerging macroeconomic conditions, geopolitical developments and firms' ability to withstand attendant shocks ...

Globally, it is expected that there will be premium rate hardening in 2023 in response to the high inflation, geopolitical tensions, natural catastrophe and financial market losses of 2022.

These global insurance developments will lead to increases in reinsurance rates offered by international re/insurers which, coupled with the exchange rate depreciation, may lead to increase in reinsurance expense for insurers in EMDEs, particularly non-life insurers that have extensive reinsurance arrangements with international reinsurers. The rate hardening along with the elevated policy rate is expected to influence insurers' financial performance in the near term. Global premiums are expected to

¹⁵⁶ One DTO has recently entered the family Takaful segment and is not covered in this chapter due to non-availability of financials.

grow at 2.1 percent in real terms (on average) in 2023.¹⁵⁷

Given that non-life insurance is correlated with economic growth¹⁵⁸ and latest data indicating that Pakistan's economy will significantly slow down in 2023, accordingly the growth trajectory of non-life premiums in Pakistan could face pressures. However, if inflation remains elevated, then there could further rate hardening leading to an uncertain growth trajectory for non-life premiums. Furthermore, in the backdrop of elevated interest rates, non-life insurers may also consider recalibrating their investment portfolios in order to pad the bottom line.

Life insurance business, with a longer time horizon, is expected to remain relatively immune to the prevailing macroeconomic pressures. The growth in this sector is now partially dependent on the continuity of the government's health insurance programs.

¹⁵⁷ Swiss Re Institute - Sigma No. 6/ 2022 "Economic stress reprices risk: global economic and insurance market outlook 2023/24"
(<https://www.swissre.com/institute/research/sigma-research/sigma-2022-06.html>)

¹⁵⁸ Gine, X., Barboza Ribeiro, B., & Wrede, P. F. W. (2019). Beyond the S-curve: Insurance penetration, institutional

quality and financial market development. *World Bank Policy Research Working Paper*, (8925).

For details, please visit

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