Insurance & Takaful Companies 6.3

The insurance sector exhibited growth in CY23 despite stressed macro-financial conditions. For the non-life sector, growth mainly came from the increase in fire and property damage premium charges as inflationary pressures drove up the price levels of machinery and property, prompting the insurers to increase premium charges. In the life segment, growth was mainly contributed by group premiums mainly on the back of government health insurance initiatives through public life insurers. However, similar to the previous year, the sector experienced an uptick in the claims ratio, attributed to an increase in group claims and surrender claims by individuals. However, the segment's bottom line was augmented by an increase in investment income. Looking ahead, while the dynamics of ongoing geopolitical tensions may have a significant impact on the non-life segment, and public health insurance program for life segment, the overall performance of the insurance sector will largely depend upon the emerging macro-financial conditions with regard to inflationary pressures and level of economic activity.

6.3 Insurance & Takaful Companies

Pakistan's insurance sector[1] is dominated by the Life and Family Takaful segment with 85.3 percent share of total assets and 66.0 percent share in total gross premiums of the industry.

The segment remained resilient in the face of stressed macro-financial conditions and registered decent growth in all the segments in terms of assets.

The asset base of the industry expanded by 19.9 percent in CY23 to reach Rs 2,948.9 billion, as compared to 14.8 percent in CY22. Although this growth was mainly contributed by the life segment owing to its large market share, non-life segment also posted notable growth in CY23 (**Table 6.3.1**). Gross premiums of the whole insurance industry increased by 15.1 percent to Rs 611.8 billion in CY23.

6.3.1 Non-life Insurance and General Takaful Segment

The asset base of the non-life insurance sector expanded by 20.8 percent in CY23 to reach Rs 346.6 billion, against a growth 17.0 percent in CY22. This growth was primarily contributed by the premiums, which grew by 28.3 percent. Accordingly, on the liability side, provisions for unearned premium also increased by 29.0 percent to Rs 71.4 billion in CY23 and provisions for outstanding claims increased by 14.1 percent to Rs 72.6 billion during the year under review, to cover the estimated claims expense.

Investments posted notable growth over the year, as non-life insurers inclined towards the equity market due to its revival in H2CY23…

The overall investment portfolios of the non-life segment posted notable growth of 23.5 percent in CY23 to reach Rs144.1 billion contrary to the last year's contraction of 3.4 percent.

Snapshot of Insurance Industry **Table 6.3.1**

million Rupees

Description		Total Assets	Equity	Gross Premium	Net Premium	Net Claims
Life	Dec-22	2,061,062	47,879	359,381	354,389	263,448
	Dec-23	2,462,707	62,169	385,415	379,888	313,981
Family Takaful	Dec-22	41,246	2,126	12,305	11,713	7,057
	Dec-23	53,600	2,250	18,226	17,583	11,653
Non-Life	Dec-22	286,980	103,401	131,571	60,095	32,945
	Dec-23	346,551	124,127	168,850	70,233	37,713
General Takaful	Dec-22	6,727	1,442	4,207	2,187	1,770
	Dec-23	9,144	2,046	5,366	3,044	2,473
Reinsurance	Dec-22	63,855	14,321	24,271	7,929	4,312
	Dec-23	76,887	18,136	33,969	9,323	4,707

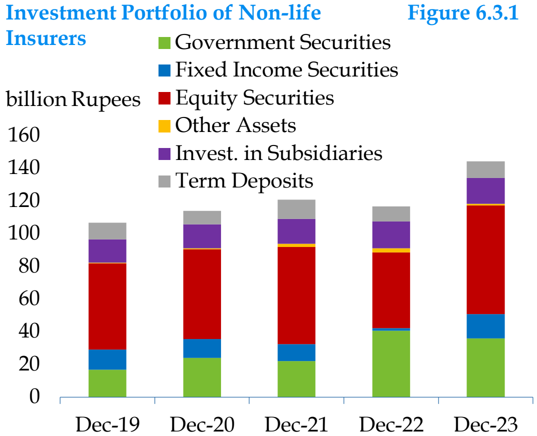
Source: Unaudited/audited Accounts of Insurers

[1] The analysis in the chapter is based on the data of 6 life insurers and 24 non-life insurers covering almost 100 percent and more than 80 percent of the life and non-life insurance sectors' assets, respectively. The analysis also covers two Family Takaful companies, two active General Takaful companies, and sole reinsurer, thus, covering almost the entire insurance industry. The analysis covers data up to period ending December 31, 2023. Further, data has also 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.

Although, there was some volatility in the capital markets over the last year, the domestic equity market experienced a surge of about 54.5 percent in CY23. As such, non-life insurers seemed to be inclined towards equity investments which increased by 43.3 percent while their investments in government securities declined slightly from year end CY22 levels.

Accordingly, the share of equities in investments increased from 39.7 percent in CY22 to 46.0 percent in CY23, while the share of government securities declined to 24.9 percent from 34.8 percent. Additionally, the share of fixed income securities also increased from 1.3 percent in CY22 to 10.3 percent in CY23 (**Figure 6.3.1**).

Investment Portfolio of Non-life Insurers **Figure 6.3.1**



Source: Unaudited/ audited Accounts of Insurers

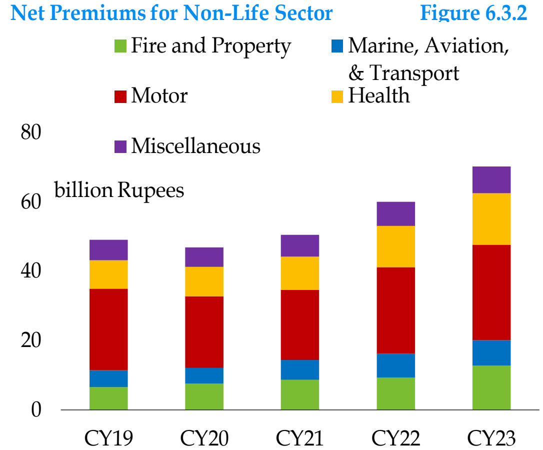
Growth in gross premiums and net premiums was mainly driven by fire and property damage premiums, while health and auto premiums also augmented net premiums…

Gross premiums for the non-life sector, similar to the previous year, posted a significant growth of 28.3 percent in CY23 to reach Rs 168.8 billion. This growth was primarily contributed by fire and property damage premiums, which posted a growth of 41.4 percent, followed by marine & aviation, and health with growths of 22.0 percent and 21.8 percent, respectively. The surge in gross premiums within the property and fire damage insurance segment can be largely attributed to the impact of inflation and the escalating costs of machinery and properties. Inflationary pressures inherently drive up the replacement and repair costs associated with damaged properties.

However, the net premiums of the non-life sectors only increased by Rs 10.1 billion in CY23 to reach Rs 70.2 billion, as a significant proportion of the gross premiums was ceded to reinsurers by insurers to protect themselves by spreading their risks. Consequently, the premium retention ratio declined to 41.6 percent in CY23 (45.7 percent in CY22 and 49.0 percent in CY21).

Increase in the net premiums for the non-life sector was mainly contributed by fire and property damage, health and auto premiums. Net premiums increased by 37.5 percent for fire and property damage, 25.1 percent for health, and 10.1 percent for motor. Motor premiums mainly increased due to the increase in prices of vehicles over the year leading to an increase in premium amounts (**Figure 6.3.2**).

Net Premiums for Non-Life Sector **Figure 6.3.2**

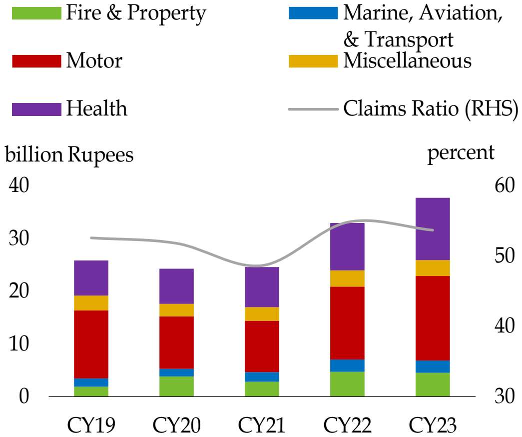


Source: Unaudited/audited Accounts of Insurers

Growth in net claims slowed down in CY23 compared to CY22, leading to decline in claims ratio…

The net claims grew by 14.5 percent in CY23 as compared to 34.0 in CY22. The slowdown in growth of net claims was primarily contributed by lower fire and property damage claims which contracted by 4.1 percent in CY23. This was in contrast to 69.0 percent growth in last year due to elevated economic activity, some fire incidents and severe weather events like torrential rains and flooding. Net claims also slowed down for marine & aviation and motor, while the net claims for the health segment registered growth (**Figure 6.3.3**).

Net Claims and Claims Ratio **Figure 6.3.3**



Source: Unaudited/audited Accounts of Insurers

Consequently, profitability of the non-life insurers improved as underwriting results and investment income registered notable growth…

As the claims expense slowed down and the claims ratio declined, the underwriting results for the sector increased by 45.8 percent in CY23 as compared to a 36.9 percent contraction in CY22. Further, investment income also registered notable growth in CY23, increasing by Rs 8.5 billion from Rs 8.8 billion in CY22 to Rs 17.3 billion in CY23.

Accordingly, non-life insurers' profit-before-tax increased by 75.5 percent to Rs 27.4 billion and profit-after-tax increased by 61.6 percent to Rs 17.2 billion in CY23.

Accordingly, key performance indicators remained more or less steady for the non-life sector…

The key financial indicators of the non-life insurers remained more or less steady in CY23 after deteriorating in CY22 when there were stressed macroeconomic conditions, torrential monsoon rains and flooding leading to increased claims expenses as well as disrupting business activities (**Table 6.3.2**).

Soundness of Non-Life Insurance **Table 6.3.2**

percent

Description	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23*
Capital to Assets	11.8	10.9	10.6	9.5	8.1
Claims Ratio	52.6	51.8	48.6	54.8	53.7
Combined Ratio	91.0	92.3	87.8	92.7	92.1
Premium Retention	54.0	50.1	49.0	45.7	41.6
Return on Assets	6.6	5.9	7.5	5.9	8.7

*Estimated Figures
Source: Unaudited/audited Accounts of Insurers.

Dedicated Takaful Operators posted notable growth in asset base…

The two dedicated General Takaful operators (DTOs) increased their asset base by Rs 2.4 billion to Rs 9.1 billion in CY23. However, in terms of net premium, the DTOs constitute only 4.2 percent of the combined non-life and general Takaful segment.

Their investments increased by a strong growth rate of 91.0 percent to Rs 1.6 billion in CY23, mainly emanating from an increase in investments in equity instruments.

Participants' Takaful Fund (PTF) profitability for the DTOs increased from Rs 27.4 million in CY22 to Rs 228.3 million in CY23, driven by a 39.2 percent increase in net premium. However, Shareholders' Fund (SHF) profitability declined from Rs 283 million in CY22 to Rs 240 million in CY23 owing to increased commission and management expenses and muted growth in Wakala fee.

The net contributions of this sub-segment increased from Rs 3.3 billion in CY22 to Rs 4.3 billion in CY23, marking a growth of 28.7 percent. On the other hand, net claims increased by 39.7 percent CY23 slightly outpacing the growth in net premiums. However, the underwriting results for the DTOs increased from Rs 9.3 million in CY22 to Rs 159.5 million in CY23 posting increase of Rs 150 million.

Profitability of the non-life reinsurer improved significantly in CY23…

The underwriting profit of the non-life reinsurer improved significantly in CY23, posting a growth of 14.6 percent against a contraction of 5.2 percent in CY22. The steady earnings of the non-life insurer are on the back of strong growth of 78.6 percent in investment income in CY23 (36.3 percent growth in CY22). Accordingly, the non-life reinsurer posted profits of Rs 5.1 billion in CY23 as compared to Rs 3.6 billion in CY22.

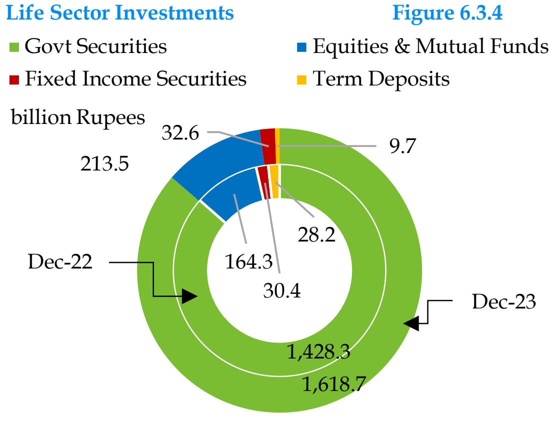
6.3.2 Life Insurance and Family Takaful Segment

The asset base of the life insurance segment increased by 19.5 percent to Rs 2,462.7 billion in CY23. Due to the long-term horizon of the life insurance business, this segment has largely remained immune from downturns in economic activity and stressed financial conditions.

High interest rate environment has slightly altered the investment mix…

The life insurance segment increased its total investments by 13.5 percent to Rs 1,874.5 billion in CY23. Due to the high interest rate environment, the life insurance sector increased its already significant market share in government securities as a percentage of total investments (which increased from 78.5 percent in CY22 to 86.5 percent in CY23) (**Figure 6.3.4**).

Life Sector Investments **Figure 6.3.4**



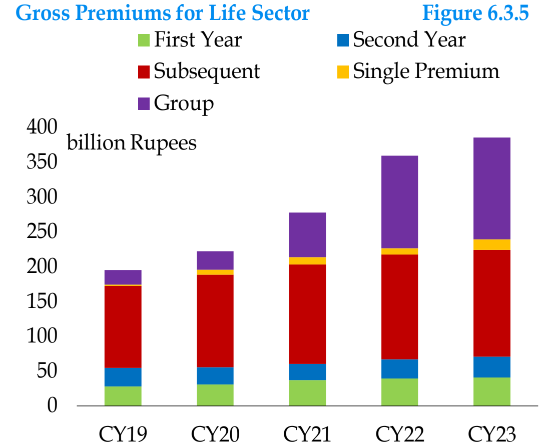
Source: Unaudited/audited Accounts of Insurers

Investments in equities increased by 29.9 percent to Rs 185.7 billion, its share has slightly increased from 8.7 percent in CY22 to 9.9 percent in CY23.

The stressed economic conditions suppressed growth in overall gross premiums…

Gross premiums posted an increase of 7.2 percent to Rs 385.4 billion in CY23 due to the relatively longer production cycle of life insurance. This growth could have been higher, however, the prevalent stressed macroeconomic conditions led to muted growth in first year and second year premiums, indicating pressures on policyholders' financial position and purchasing power. This is supported by the significant increases in surrender claims of 27.3 percent and 31.1 percent in CY22 and CY23, respectively (**Figure 6.3.5**).

Gross Premiums for Life Sector **Figure 6.3.5**



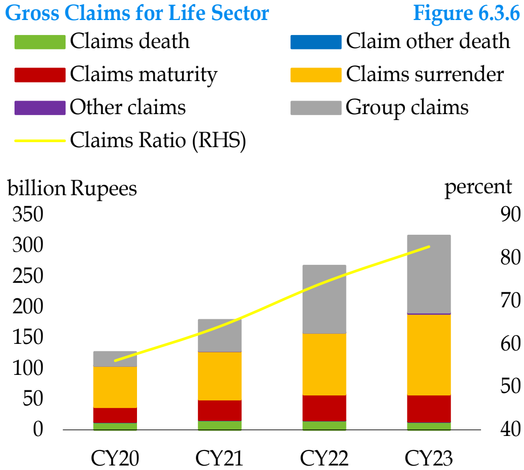
Source: Unaudited/audited Accounts of Insurers

Nevertheless, the overall increase of Rs 26.0 billion in gross premiums in CY23 (an increase of Rs 81.6 billion in CY22) was mainly driven by the rise of Rs 13.5 billion in group premiums during year under review compared to increase of Rs 68.6 billion in CY22. Group premiums have expanded rapidly in recent years due to the government's funding of public health insurance schemes through the public life insurer. However, any policy reversal on part of the government may have implications for further outlay on such health insurance schemes in the future, which, in turn, may put pressure on group premiums in CY24. Nevertheless, one of the major life insurers is planning steps like entering into corporate health insurance segment, introducing new plans like term insurance for government employees, expanding Bancassurance and Bancatakaful operations which may contribute in growth of life insurance segment going forward.

Claims under group policies have increased in tandem …

The increase in Surrender Claims and Group Claims have led to an increase in gross claims from Rs 266.9 billion in CY22 to Rs 316.3 billion in CY23 (**Figure 6.3.6**).

Gross Claims for Life Sector Figure 6.3.6



Source: Unaudited/audited Accounts of Insurers

While Group Claims have increased in tandem with the hike in group premiums, the significant increase in Surrender Claims for the second consecutive year may be a sign that the stressed economic conditions such as high inflation and low economic activity may be affecting the disposable income of policyholders.

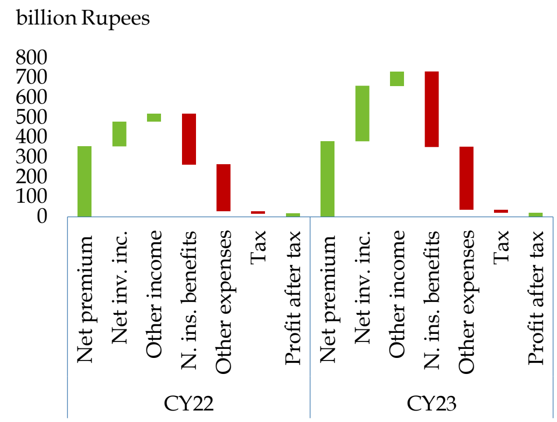
It may be noted that the increase in group claims is within the expected levels as they mostly pertain to the health insurance business.

Net insurance benefits have dented the bottom line of the life insurance sector…

The two main sources of income for the life segment are premium revenue and investment income. While premium revenue has not increased substantially compared to the previous year (with a growth of Rs 81.2 billion in CY22 and Rs 25.5 billion in CY23), the significant investments in government securities (as discussed above) coupled with the high interest rate environment has boosted investment income. Investment income (excluding trading and fair value gains/losses) has increased from Rs 160.7 billion in CY22 to Rs 227.3 billion in CY23.

However, net insurance benefits, which mostly comprises of claims expense, has constrained substantial increase in the bottom line. Net insurance benefits increased by Rs 124.5 billion to Rs 380.9 billion in CY23 (**Figure 6.3.7**).

Earnings Components for Life Figure 6.3.7



Source: Audited/unaudited Accounts of Insurers

In addition, due to inflationary pressures there have been increases of 14.9 percent and 26.1 percent in acquisition and administration expenses, respectively over the previous year. Consequently, pre-tax profit has only increased from Rs 27.4 billion in CY22 to Rs 34.4 billion in CY23. Accordingly, pre-tax return on assets (ROA) inched up to 1.5 percent in the year under review (1.4 percent in CY22).

Financial performance and soundness indicators presented a mixed picture…

Due to the hike in overall claims expense, the claims ratio has increased from 74.3 percent in CY22 to 82.7 percent in CY23. This, coupled with muted growth in first year and second year premiums along with the rise in expense ratio explain the slow growth in the bottom line of the life segment (**Table 6.3.3**).

Performance Indicators of Life Insurers **Table 6.3.3**

						percent
Description	CY18	CY19	CY20	CY21	CY22	CY23
Claims Ratio	52.2	51.8	56.1	64.1	74.3	82.7
Expense Ratio	26.3	26.0	22.9	21.6	18.6	20.7
Equity to Assets	2.0	1.9	2.1	1.9	2.3	2.5
ROA pre tax	0.7	0.6	0.8	0.8	1.4	1.5

Source: Unaudited/audited Accounts of Insurers

Asset base of the dedicated takaful operators (DTOs) expanded in CY23, although the new business growth remained muted…

The Family Takaful Segment consists of three Dedicated Takaful Operators (DTOs)[2] and seven Window Takaful Operators. DTOs' asset base grew by approximately 30.0 percent to Rs 53.6 billion in CY23 against a growth of 4.7 percent in CY22.

DTOs' gross contributions surged by 48.1 percent, reaching Rs 18.2 billion in CY23 as compared to a muted growth of 2.3 percent in CY22. This growth was primarily driven by exponential growth in top-up contributions, followed by a 13.1 percent rise in group contributions. However, the first- and second-year premiums of family DTOs' posted contractions while the subsequent year premiums remained flat.

The net contributions for PTF increased by 50.1 percent in CY23 whereas the net claims for PTF increased by 57.0 percent, reflecting muted underwriting results for the DTOs.

PTF's surplus before tax declined from Rs 267.2 million to Rs 147.6 million in CY23, owing to increase in net takaful benefits. However, SHF pre-tax profit posted a slight growth of 5.9 percent reaching Rs 249.1 million in CY23 from Rs 235.2 million in CY22, mainly due to offsetting declines in wakala fees and acquisition expenses.

Surrender claims for the family DTOs' posted a significant growth of 83.7 percent in CY23 as compared to 6.1 percent growth in CY22. They were followed by group claims which posted a growth of 28.4 percent in CY23, similar to the previous year. Consequently, claims ratio increased from 63.4 percent in CY22 to 66.3 percent in CY23. However, the profitability indicators remain comfortable, reflecting the DTOs' financial strength and operational resilience. The expense ratio has decreased as acquisition costs declined in line with muted new business growth (**Table 6.3.4**).

Soundness of Dedicated Family Takaful Operators **Table 6.3.4**

				percent
Description	CY20	CY21	CY22	CY23
Return on Assets	0.9	0.7	0.6	0.5
Return on Equity	16.1	13.6	11.4	11.3
Claims ratio	55.6	57.2	63.3	66.3
Expense ratio	31.5	29.5	28.9	17.3
Contribution Retention	94.9	95.3	95.1	96.4

Source: Unaudited/audited Accounts of Dedicated Family Takaful Operators

Outlook hinges on evolving market conditions…

Looking ahead, the performance of the insurance sector hinges on emerging macroeconomic conditions, geopolitical conflicts, and companies' capabilities to adjust to the evolving market conditions.

Premium rates may rise in 2024, prompted by factors such as high inflation, geopolitical tensions, and any severe weather events, as Pakistan ranks among the countries which are highly vulnerable to climate change. Further, an increase in reinsurance rates offered by international re/insurers may potentially increase reinsurance expenses for insurers in Emerging Markets and Developing Economies

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

(EMDEs), particularly for non-life insurers which have extensive reinsurance arrangements.

On the other hand, the life insurance business, with its longer-term focus, is anticipated to remain relatively resilient to prevailing macroeconomic pressures. The growth in this sector is also partly contingent on the continuity of government health insurance programs that have significantly supported the premium growth over the last couple of years. Nevertheless, any changes in macro-financial conditions in terms of inflationary pressures and economic activity are likely to have concomitant effects on the segment.