PAKISTAN'S LISTED GENERAL INSURANCE COMPANIES' PERFORMANCE ANALYSIS FOR THE YEAR ENDED 2020

July 07, 2021

Badri Management Consultancy is proud to have won the Strategic Partner of the Industry at the 7th Middle East Insurance Industry Awards 2020 conducted by Middle East Insurance Review.

The **award** is a reflection of the trust and loyalty of our esteemed clients, and the hard work and dedication of all our people at Badri.
Apart from excellence in core actuarial services, Badri has raised the bar in providing industry insights with market specific reports, trainings, newsletters, and data analytics with an aim to benefit the insurance industry at large.

Thank you Middle East Insurance Review and the judges for acknowledging all the efforts put in behind the scenes.

ABOUT BADRI MANAGEMENT CONSULTANCY

Badri Management Consultancy is the fastest growing Actuarial Consulting Firm in the Middle East, recognized for its collaborative approach to working with its clients as Profit Optimizing Partners. We are serving as Appointed Actuary for over 20 companies in the GCC. In addition, we are providing other services including IFRS17 Implementations, Development of ERM Framework, Specialized services for Medical Insurance and TPAs, Business Intelligence solutions and End of Service Benefits Valuations.

Vision

Solution architects strengthening our partners to optimize performance

MISSION

We help our clients be the best version of themselves by fostering partnerships, challenging norms and providing cutting edge solutions. We inspire our people to constantly evolve and chase excellence with integrity in a diverse, exciting and growth-oriented culture.

Core Values

Integrity

We uphold the highest standards of integrity in all of our actions by being professional, transparent and independent.

Chasing Excellence

Through our empowered teams, we raise the bar by challenging norms to provide cutting edge solutions to our partners.

Fostering Partnerships

We foster our partnerships with all our stakeholders through collaboration, empathy and adaptability.

Breeding Excitement

We value our people and create an exciting environment for them to develop.

Growth-Centric

We believe in creating a vibrant culture through continuous personal and professional growth of our people, while also growing the business.

Table of **Content**

2020

INDUSTRY HIGHLIGHTS - 2020

Gross Premium Written - Conventional	Gross Contribution Written - Window Takaful	Gross Loss Ratio	Retention Ratio
PKR 65.2 Bn 2019: PKR 65.3 Bn	PKR 8.5 Bn 2019: PKR 8.2 Bn	47% 2019: 40%	54% 2019: 54%

Net Loss Ratio	Combined Ratio	Investment Income	Profit Before Tax
51% 2019: 50%	91% 2019: 90%	PKR 6.4 bn 2019: PKR 5.4 Bn	PKR 10.1 bn 2019: PKR 10.4 Bn

Investment Return	Return on Equity	Insurance Density	Insurance Penetration
9% 2019: 8%	14% 2019: 15%	PKR 348 /capita 2019: PKR 352/capita	0.17% 2019: 0.18%

INSURER FINANCIAL STRENGTH RATINGS

	2019		2020	
Companies	JCR-VIS	PACRA	JCR-VIS	PACRA
AGIC	AA	AA	AA	AA
AICL		AA+		AA+
ASIC		A		A
ATIL		AA		AA
CENI	AA-		AA-	
CSIL		A-		A-
EFU	AA+	AA+	AA+	AA+
EWIC		AA-		AA-
HICL		A+		AA+
JGICL	AA+	AA+	AA+	AA+
PIL	BBB+		BBB+	
PINL		A-		A-
RICL	A		A	
SHNI		A		A
TPLI		A+		A+
UNIC		AA		AA
UVIC		A-		A-

Disclaimer: PRIC is excluded since it is unrated

PACRA Key

Rating	Description
AAA	Exceptionally Strong
AA+ AA AA-	Very Strong
A+ A A-	Strong
BBB+ BBB BBB-	Good.
BB+ BB BB-	Weak.
B+ B B-	Very Weak
CCC CC C	Very high credit risk
D	Distressed

JCR-VIS Key

Rating	Description
AAA	Exceptionally Strong
AA+, AA, AA	Very Strong
A+, A, A	Strong
BBB+, BBB, BBB	Strong
BB+, BB, BB	Weak
B+, B, B	Very Weak
CCC	Very high credit risk
CC	Very high credit risk
C	Distressed
D	Distressed

All companies have maintained their IFS ratings while only HICL has experienced an improvement.

INSURANCE DENSITY & PENETRATION

Year	Insurance Density (PKR)	Insurance Penetration
2016	281	0.18%
2017	310	0.19%
2018	331	0.19%
2019	352	0.18%
2020	348	0.17%

The Insurance Density measures the general Gross Written Premium per capita. The density for Pakistan lies in the range of PKR 250 to PKR 360 which is very low compared to countries such as India where the density is about PKR 2,880, Egypt where the density is PKR 1,600 and Indonesia where the density is PKR 3,200.

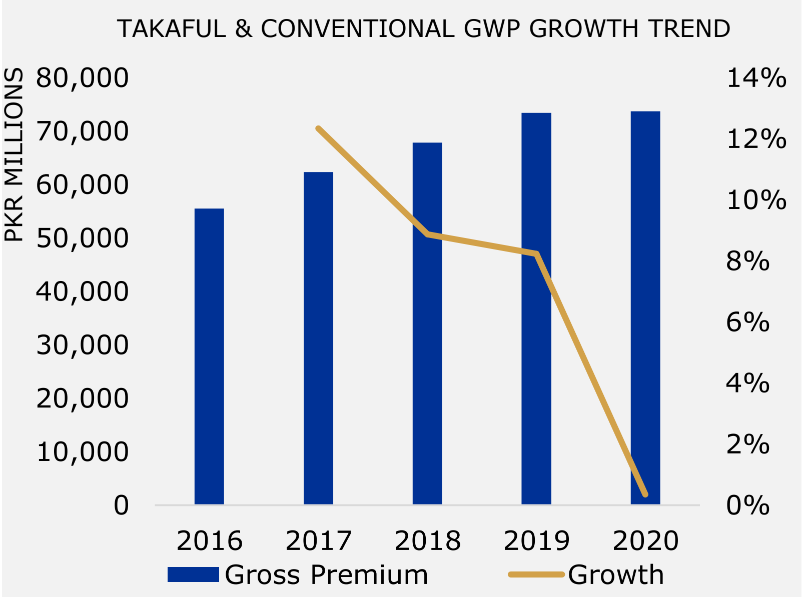
The Insurance Penetration ratio measures the proportion of GDP contributed by the written premium. The general insurance premiums contribute less than 0.2% to Pakistan's GDP compared to a ratio of 0.9% for India, 0.3% for Egypt and 0.5% for Indonesia.

The insurance industry plays a key role in managing the risks for individuals and large corporations included. However, this industry has not been able to materialize its' potential in Pakistan. A wider acceptance of insurance could be bolstered through government initiatives such as new types of compulsory insurance.

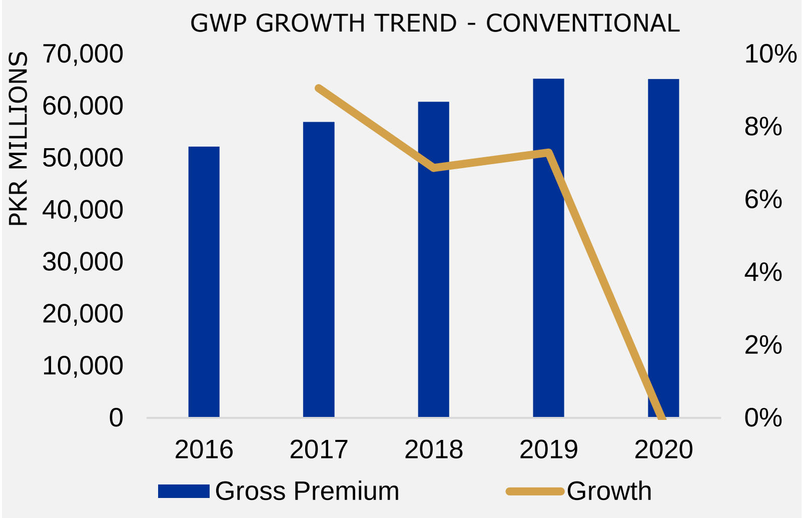
*Density and penetration numbers taken from the OECD database for countries besides Pakistan.

GROSS WRITTEN PREMIUM - MARKET

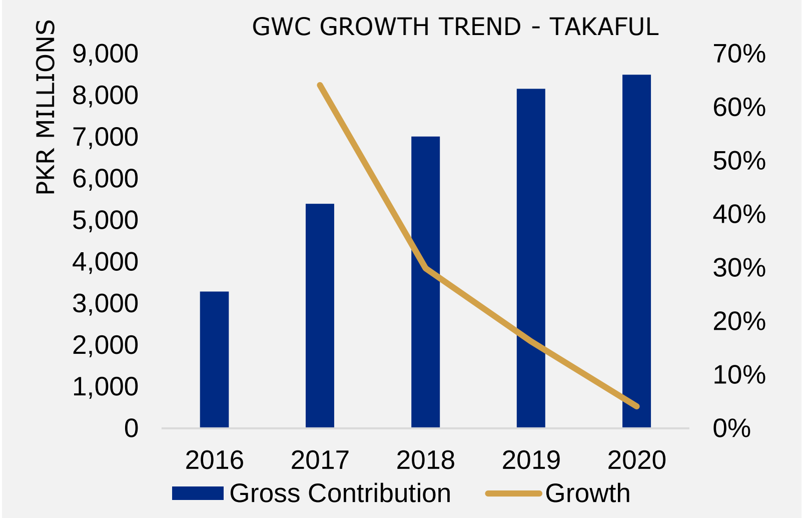
On an overall basis, the 18 listed companies of the general insurance industry of Pakistan showed negligible change in the gross written premium/contribution for the year ended December 2020. The highest growth for the last 5 years was witnessed in 2017 when the industry grew by 12% year-on-year. A positive but negligible growth has been experienced for the year ended December 2020. This can be attributed to the lockdowns and a decrease in business activity due to COVID-19.



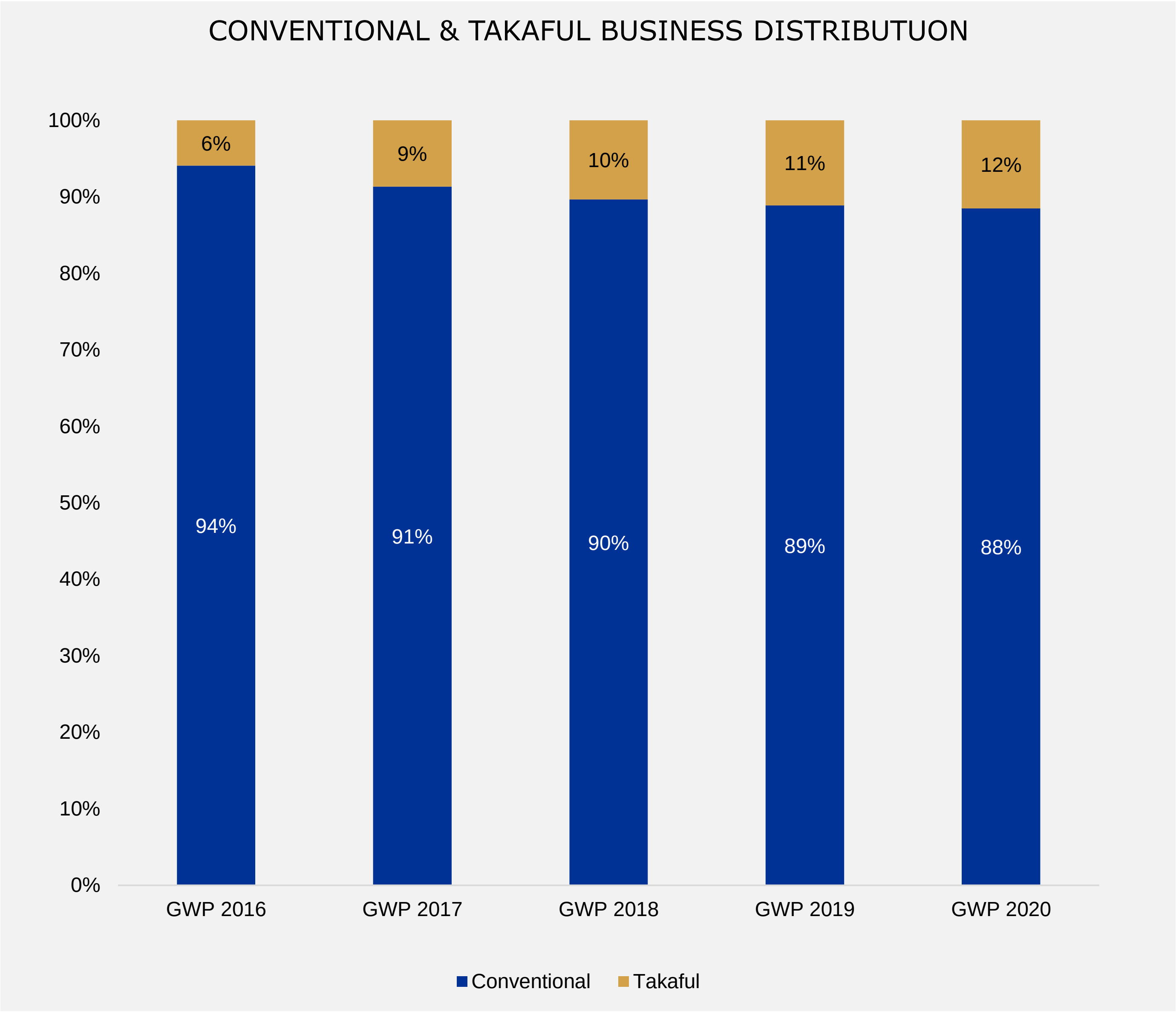
Conventional business is the main contributor to the industry; almost 90% of the Gross Written Premium is contributed by the conventional business. On the basis of written premium growth, the twelve months period ended December 2020 showed negligible change. The highest growth of 9% was seen in 2017.



The listed Takaful companies displayed growth year on year over the 5-year period, but the growth was at a decreasing rate. The twelve months period ended December 2019 showed a growth of 16% while 2020 shows a significantly lower growth of 4%. Growth in window takaful seems to have stabilized now after the massive double-digit growth observed in the initial years after inception.



CONVENTIONAL VS TAKAFUL



Out of the 18 listed companies, 14 operate window takaful operations following the approval given by SECP in 2014. While the majority of the business is still conventional, the takaful proportion can be observed to show a consistent increase throughout the 5-year period. The share of takaful stands at 12% for the year ended 2020.

Most of the growth in takaful has come from the conversion of conventional business to Takaful. The takaful segment has seen an increase in GWP on all lines of business except for motor, which experienced a decline of 3%.

GROSS WRITTEN PREMIUM - COMPANIES

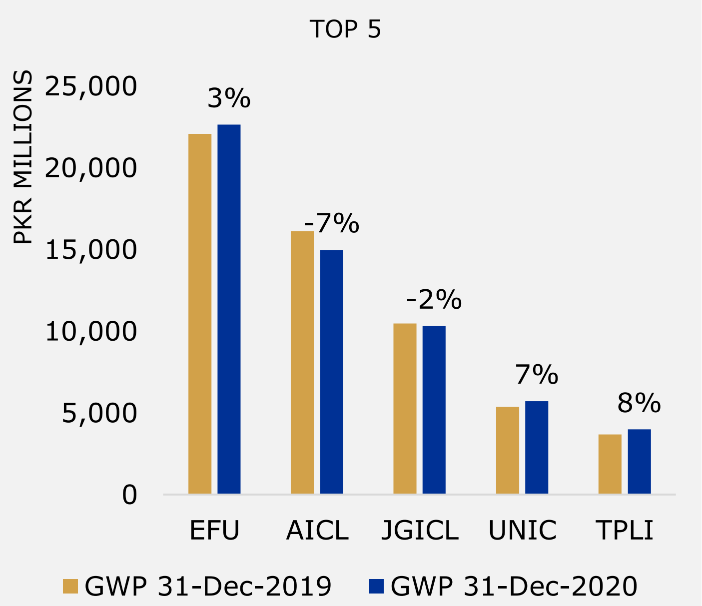
The top 5 companies contributed PKR 58 Billion out of the PKR 74 Billion premium which constitutes 78% of the market.

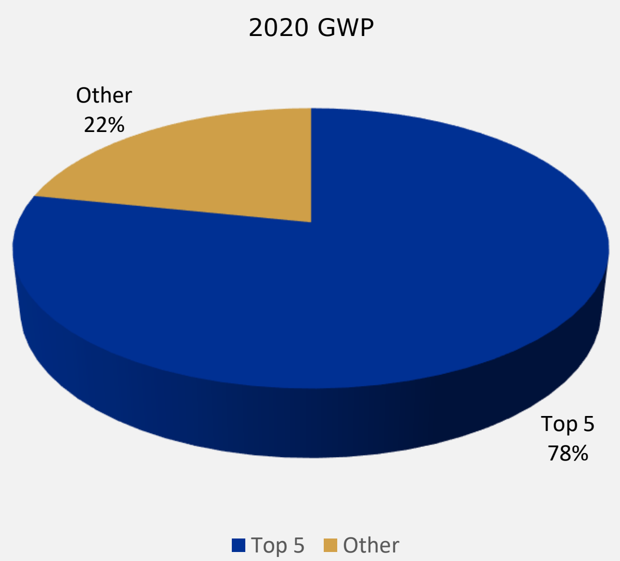
EFU can be seen as the market leader in general insurance based on GWP with a market share of 31% for the year ended December 2020 followed by AICL and JGICL at 20% and 14% respectively. EFU has shown a positive growth while the growth for both AICL and JGICL have been negative.

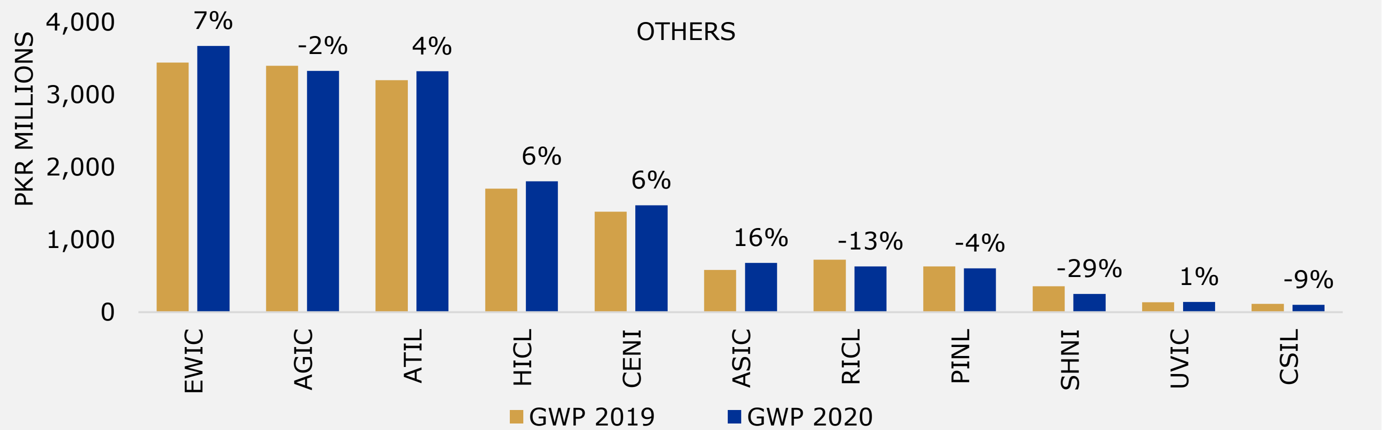
For Others, the highest growth was shown by ASIC of 16% whereas the biggest decline was shown by SHNI with a drop of 29% in GWP. ASIC experienced increased premiums in all lines except for Agriculture and Miscellaneous line while SHNI experienced a fall in premiums in all lines except for Health & Accident and Marine, Aviation and Transport. Most medium-sized companies exhibited single digit positive or negative growth.

Overall, out of the 18 listed companies, 9 companies showed an increase in premium while the remaining showed a decline in business.

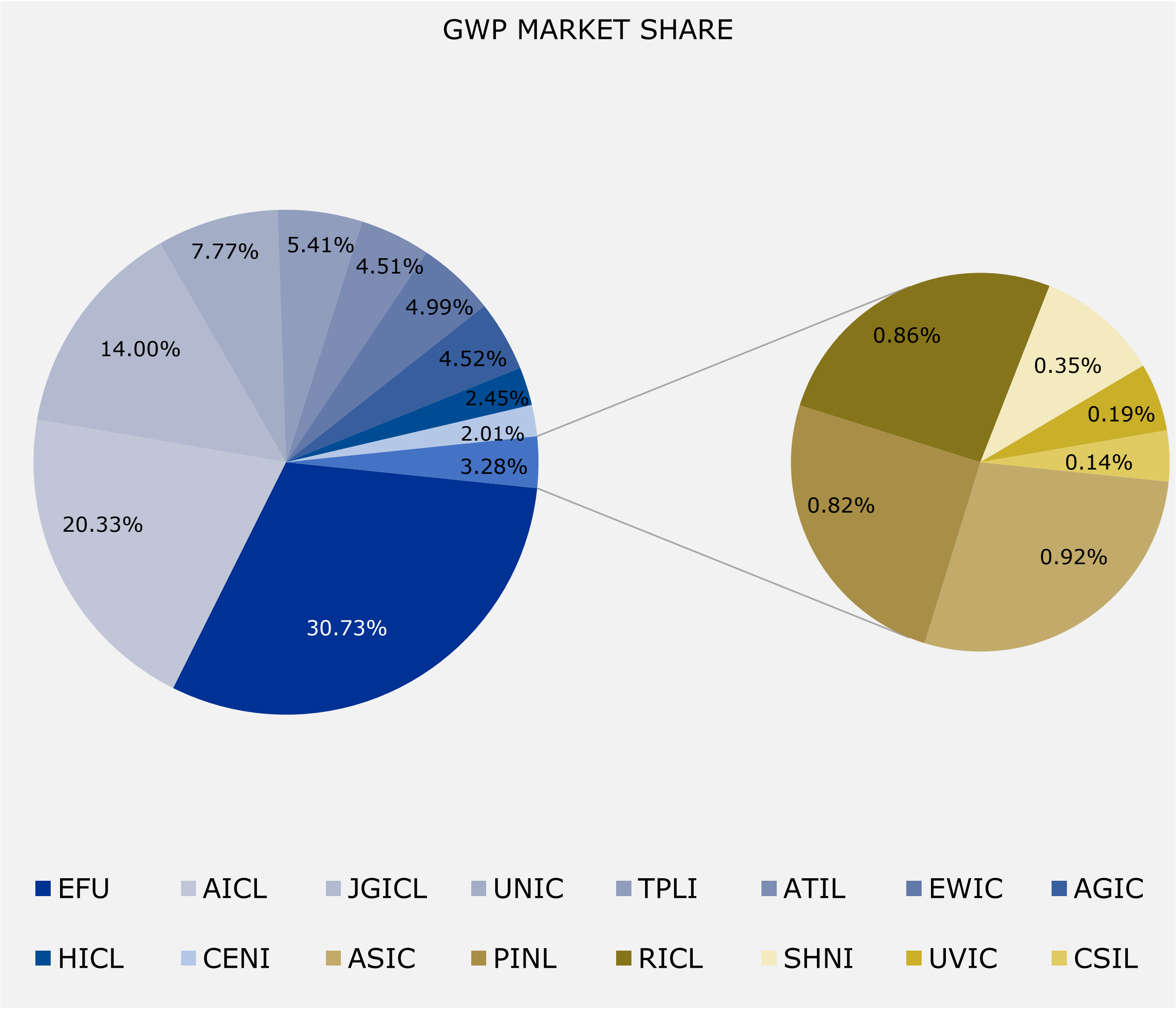
PKGI, PRIC and PIL have not written any business over the last 2 years
*****AICL includes business underwritten inside Pakistan only***







MARKET SHARE OF COMPANIES

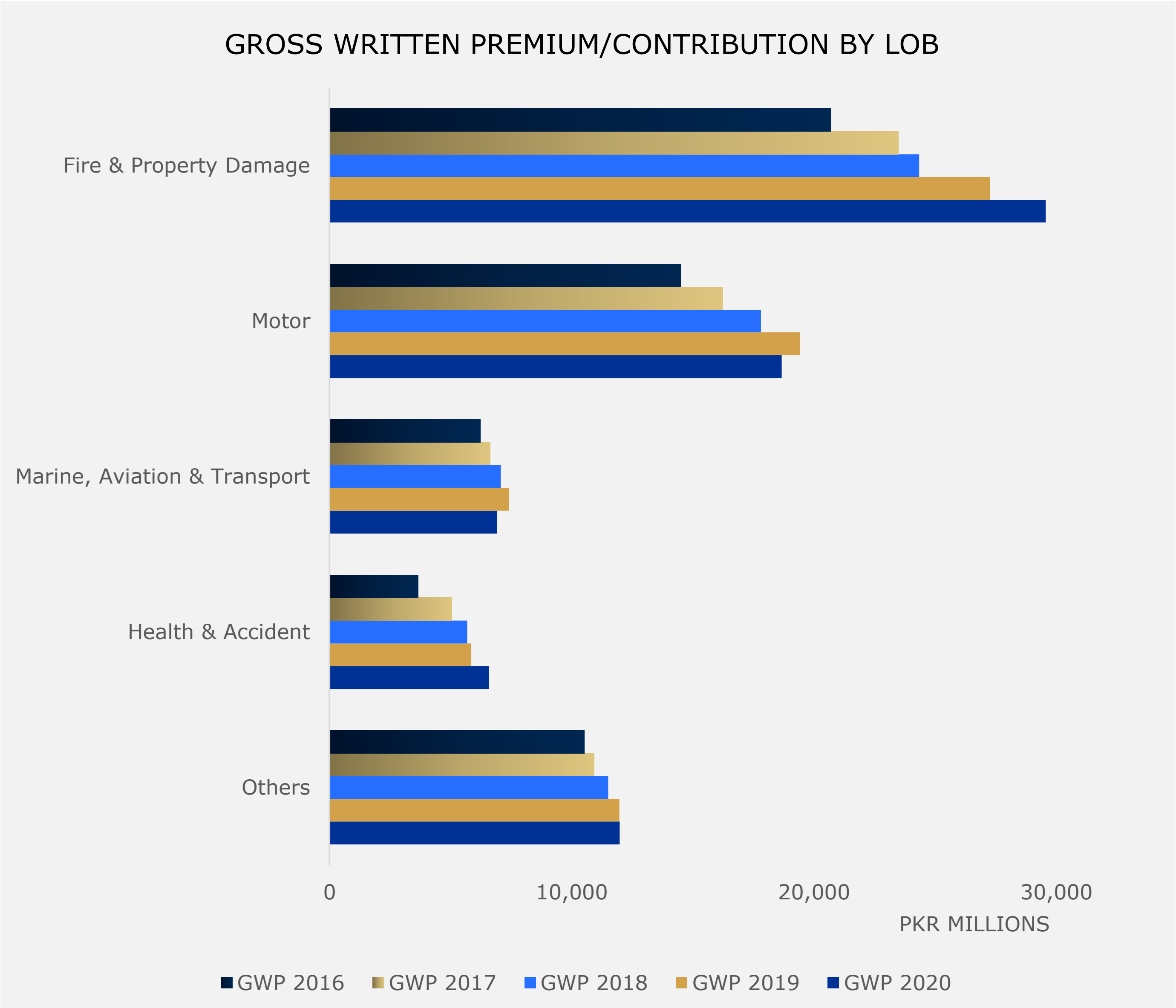


The GWP for the market shows combined numbers for the conventional and takaful business.

EFU can be seen as the market leader in general insurance based on GWP with a market share of 30.7% for the year ended December 2020 followed by AICL at 20.3% and JGICL 14.0% respectively. The pie chart shows companies with decreasing market shares as you go from the left chat to the right.

PKGI, PRIC and PIL have not written any business over the last 2 years
*****AICL includes business underwritten inside Pakistan only***

GROSS WRITTEN PREMIUM BY LINE OF BUSINESS

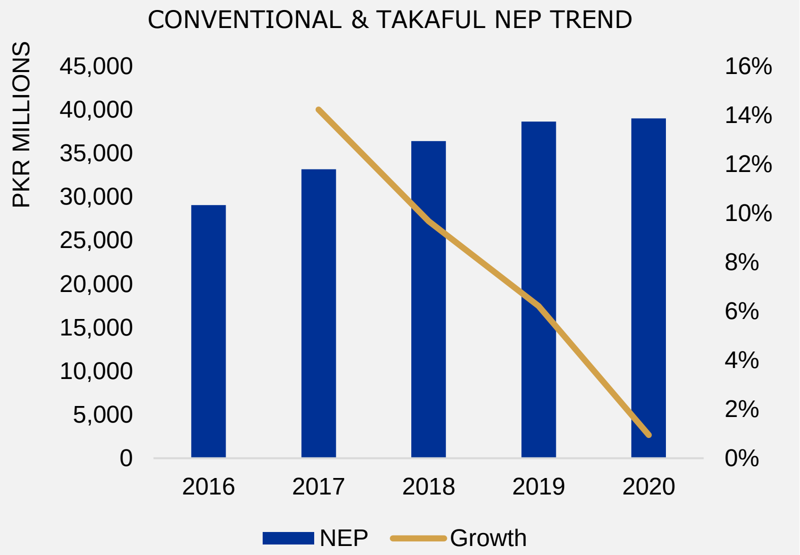


2020 has been a peculiar year in terms of the COVID-19 situation yet the highest premium over the last 5 years of PKR 74 billion has been written in this period.

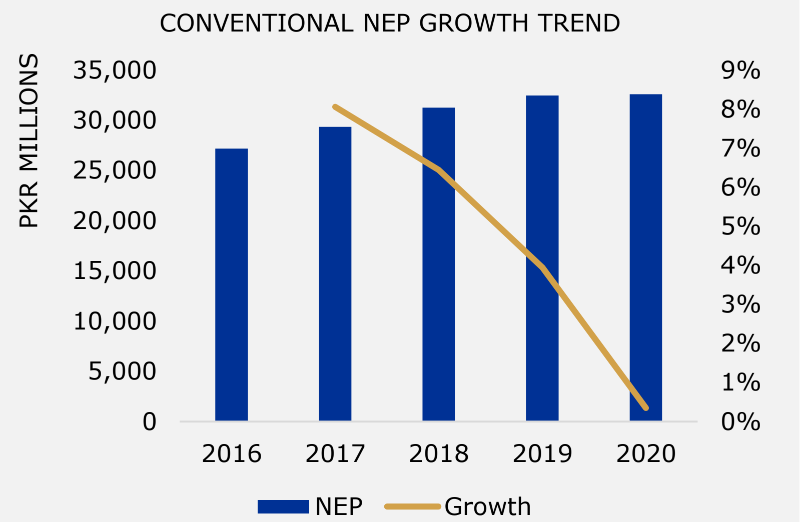
The motor and Marine line saw a decline due to the lockdowns imposed at different times of the year. The Others segment saw a negligible increase while the Fire and Health lines experienced a relatively sharper increase. This could be because people are opting more for medical insurance as they have seen the damage done by the pandemic. Furthermore, a lot of businesses (especially tech companies) have expanded and increased their capacities which would attract an increase in the Fire line.

NET EARNED PREMIUM - MARKET

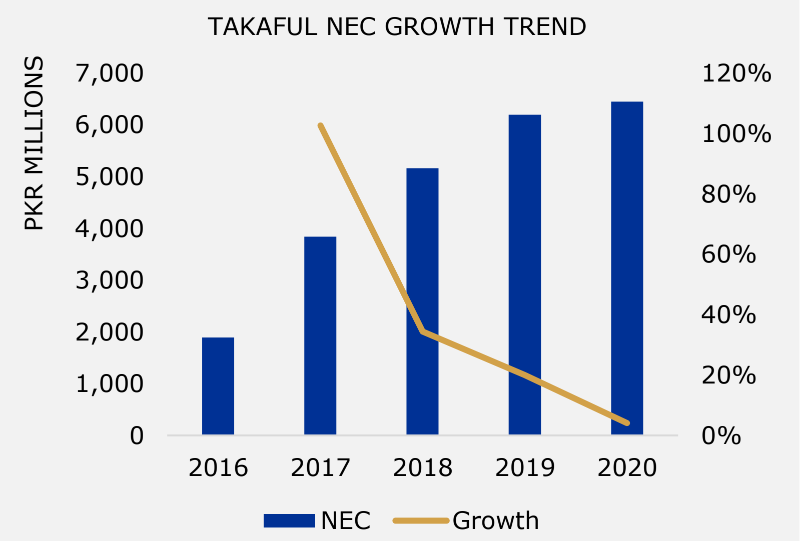
The total net earned premium for the conventional and takaful business combined amounted to PKR 39 billion for the year ended 2020, an increase of 1% compared to 2019. The 5-year trend shows a consistent increase but at a decreasing rate. This corresponds with the slowing economic growth in Pakistan over recent years.



The conventional insurance business contributed PKR 32 billion to the net earned premium of the market which amounts to a proportion of 83%. The premium growth rate has decreased year over year and stands at 0.3% for the year ended 2020.



The takaful insurance business has been growing in terms of the net earned premium with the highest growth rate experienced in 2017. The growth rate has experienced a decline since then. The growth for the window takaful operations can be seen to be tapering off since its' inception in 2015.



NET EARNED PREMIUM - COMPANIES

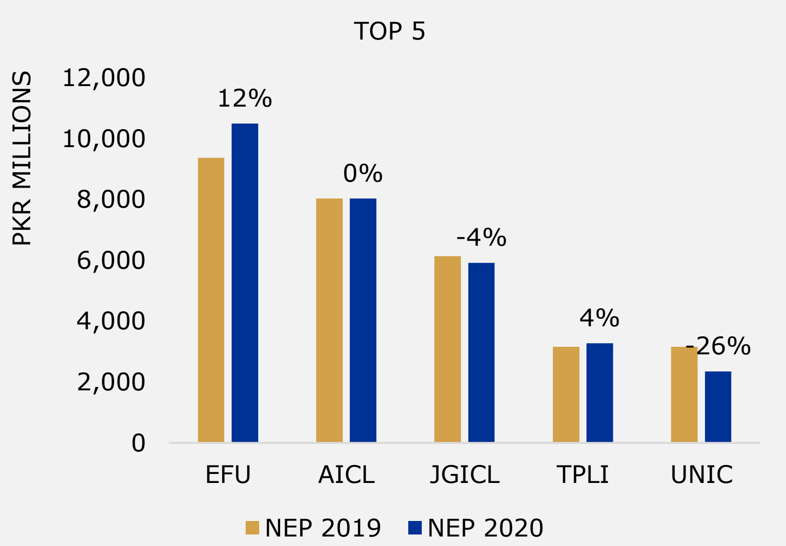
The net earned premium for the top 5 companies amounted to PKR 30 Billion with a market share of 77% and showed an increase of 1% when compared to 2019.

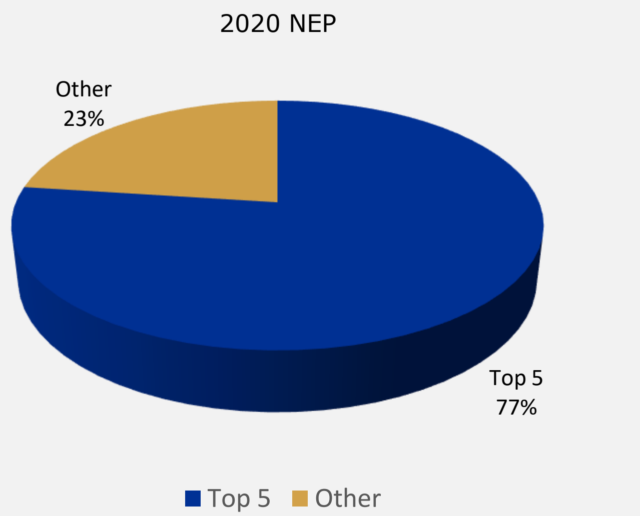
EFU leads the general insurance industry with a market share of 27% followed by AICL and JGICL with market shares of 21% and 15% respectively for the year ended December 2020.

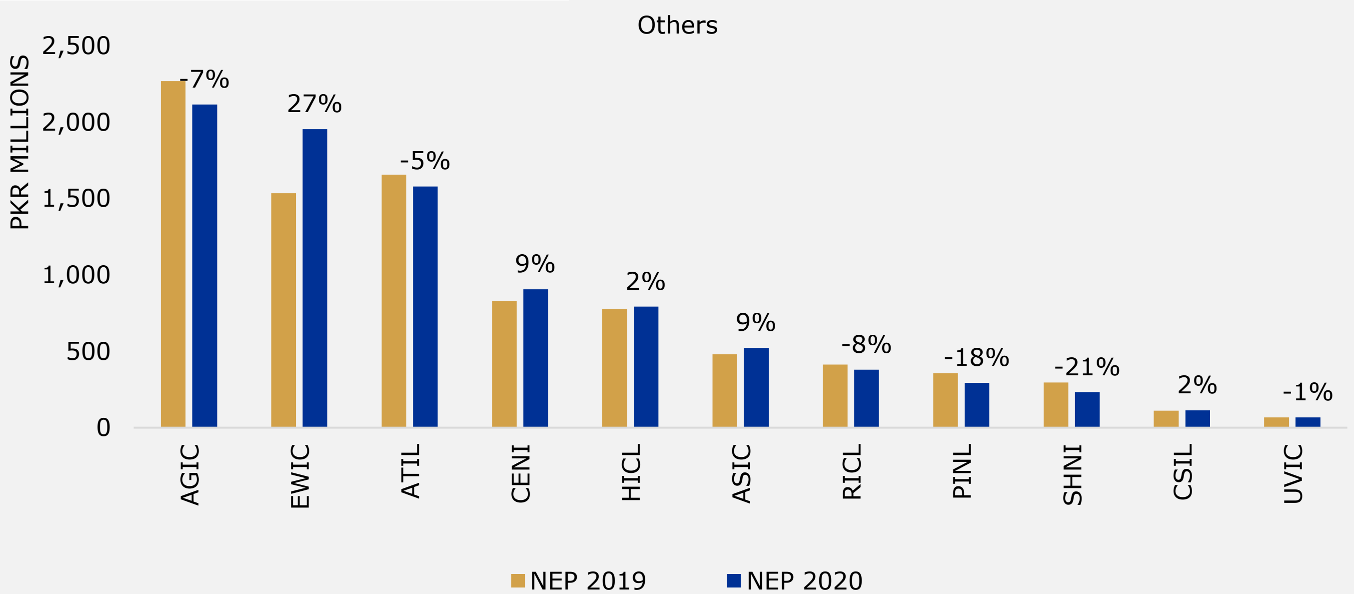
EFU was the top gainer in terms of net earned premium with a growth seen of 12% year-on-year between 2019 and 2020. While UNIC's NEP fell by 26%.

For Others, the highest growth was seen for EWIC of 27% while the biggest decline was seen in the financials of SHNI of 21%.

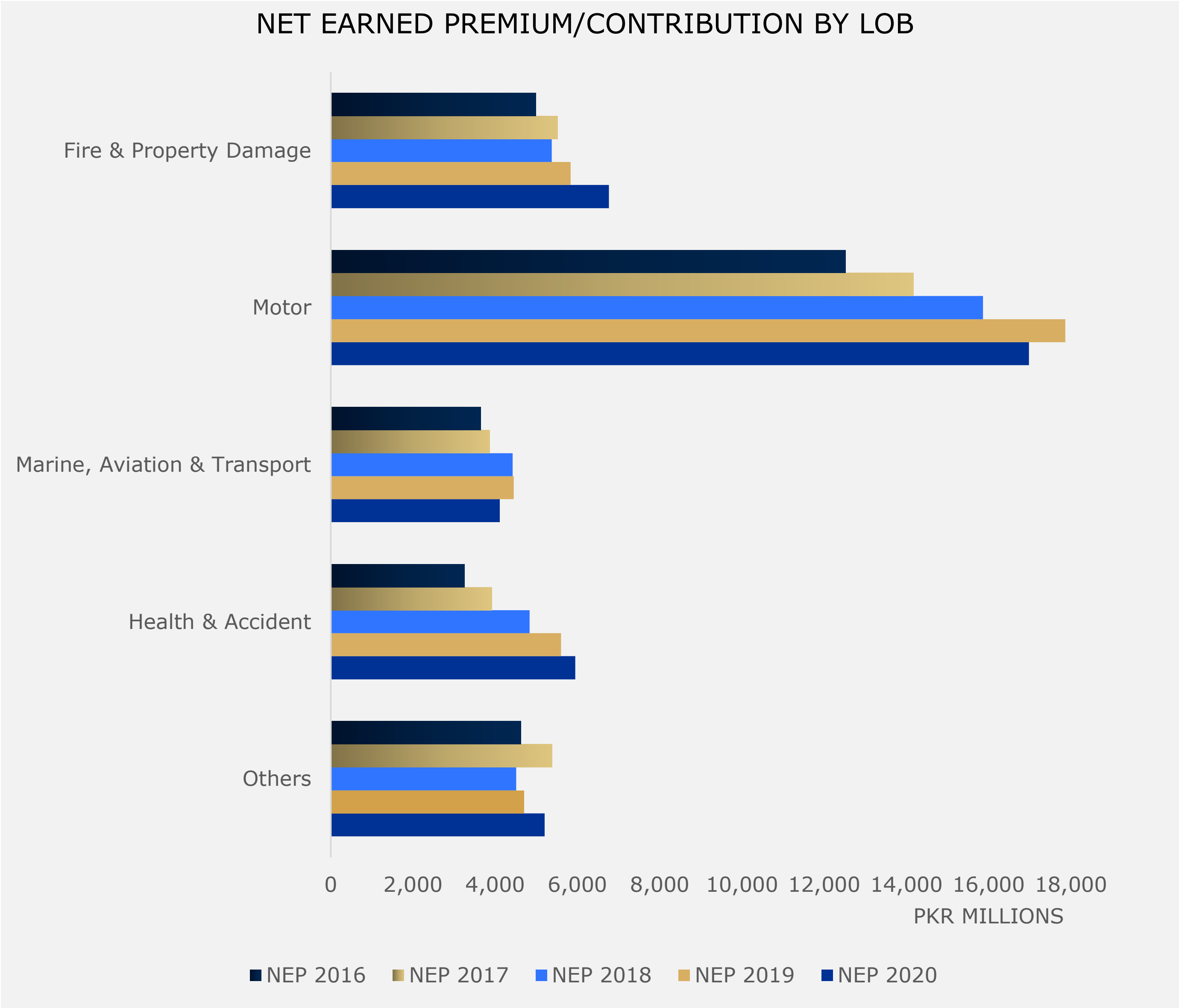
****PKGI, PRIC and PIL have not written any business over the last 2 years***
*****AICL includes business underwritten inside Pakistan only***







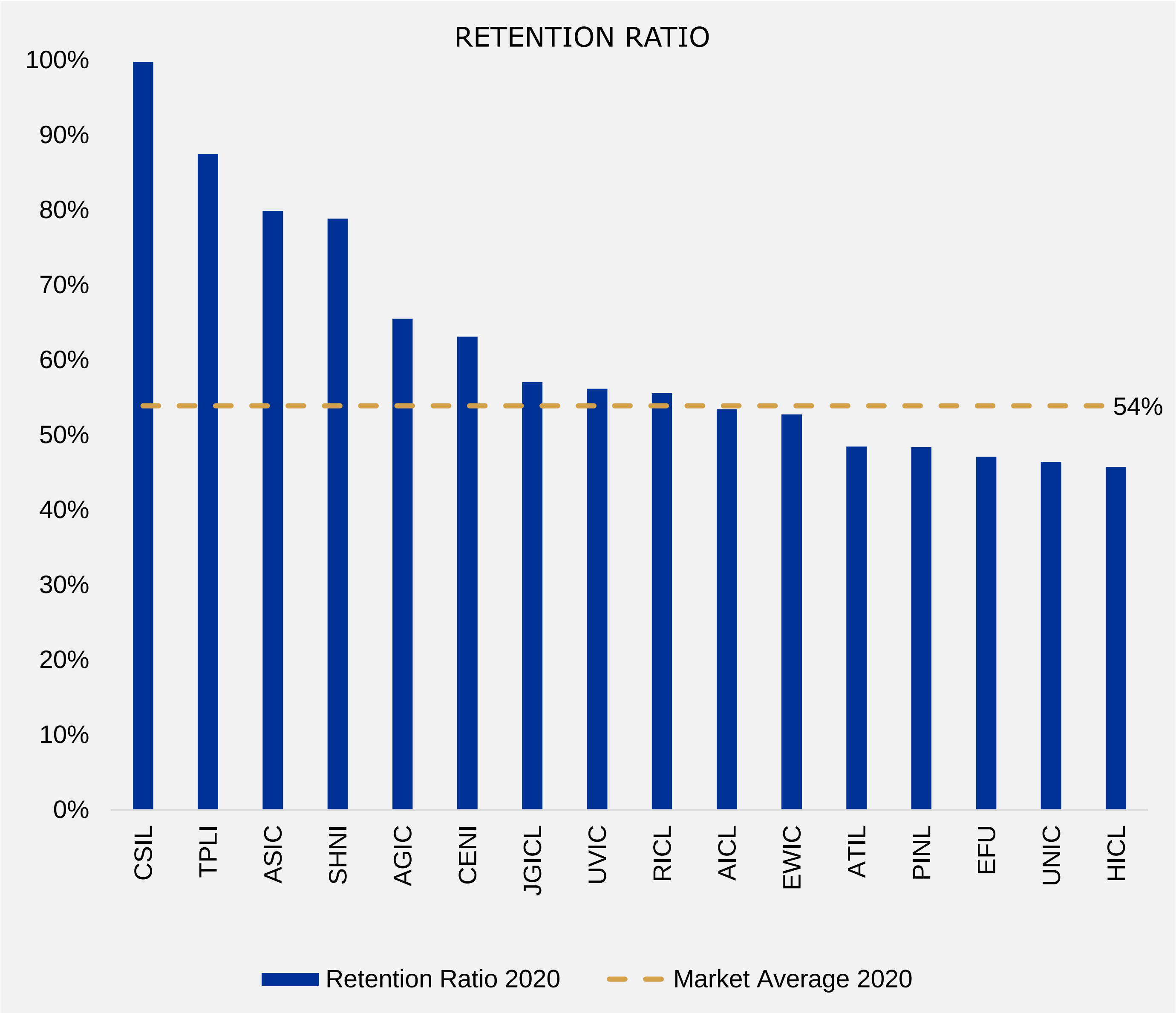
NET EARNED PREMIUM BY LINE OF BUSINESS



It can be observed that a significant proportion of the Fire & Property Damage line has been reinsured which is due to the nature of the risk profile for this line. The highest net premium has consistently been earned in the Motor line of business. Health & Accident continues to be a primarily retained line.

Motor and Marine lines have experienced a fall in NEP in 2020 while the rest of the lines have seen an increase compared to the level in 2019.

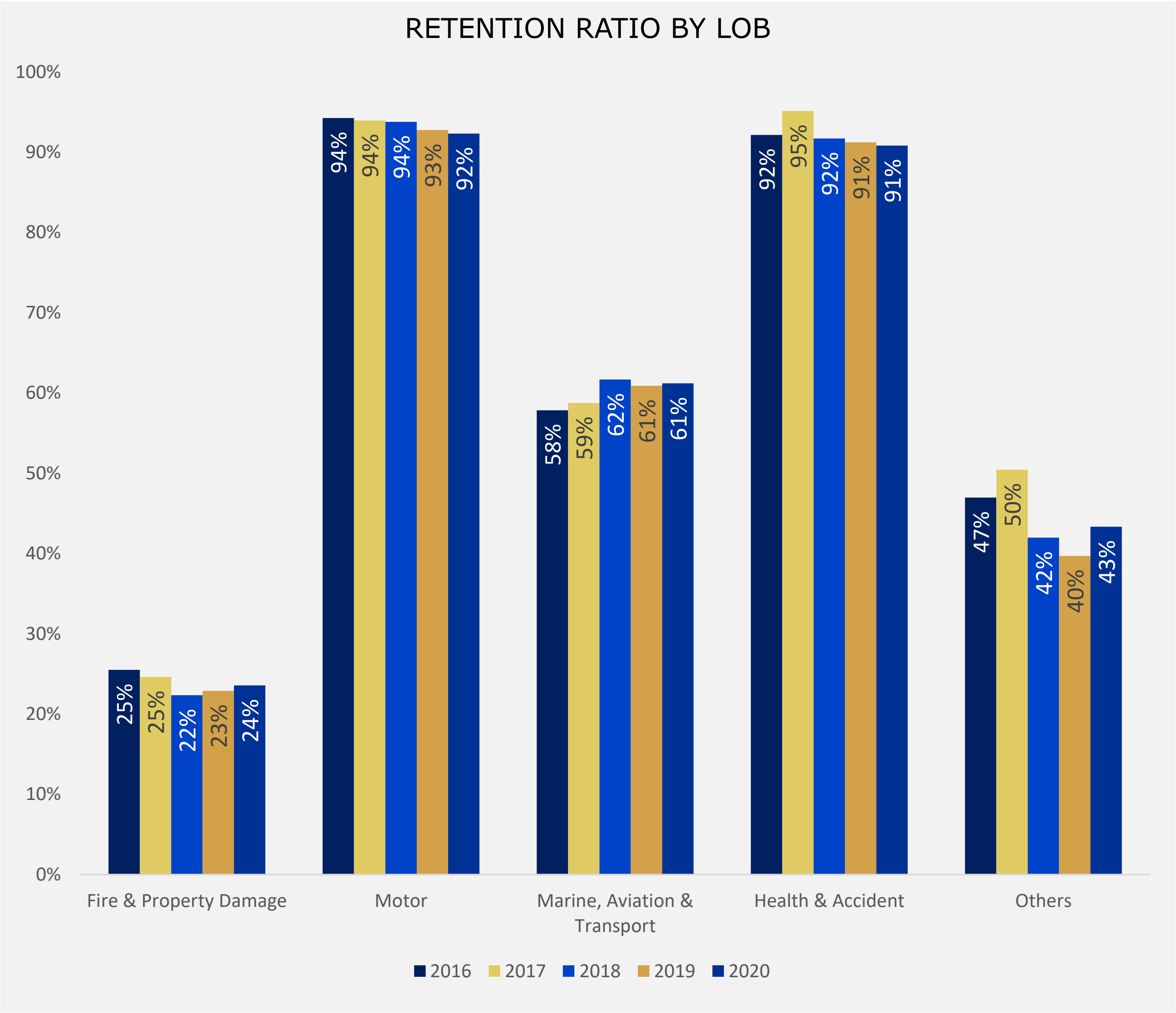
RETENTION RATIO



The retention ratio has been calculated as the ratio of net earned premium to gross earned premium using gross of wakala expense numbers for the takaful segment. The market retention ratio is the weighted average ratio for the year ended December 2020 and serves as a reference point for comparison in our analysis.

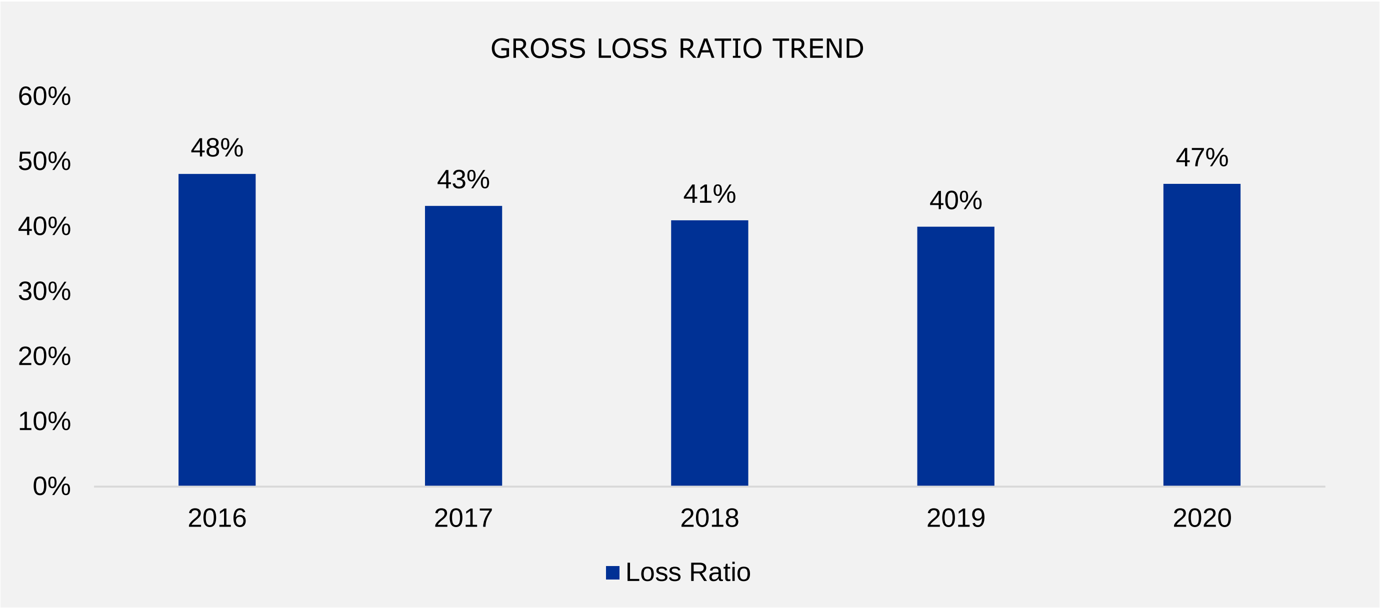
The highest retention ratio of around 100% is reflected for CSIL and has a major proportion of the business in the Credit and Suretyship line while the lowest ratio was reflected by HICL at 46%. Retention ratios are generally reflective of the portfolio mix; Motor and Health generally tend to have higher retention ratios, while commercial lines such as Fire and Engineering have lower retention ratios.

RETENTION RATIO BY LINE OF BUSINESS



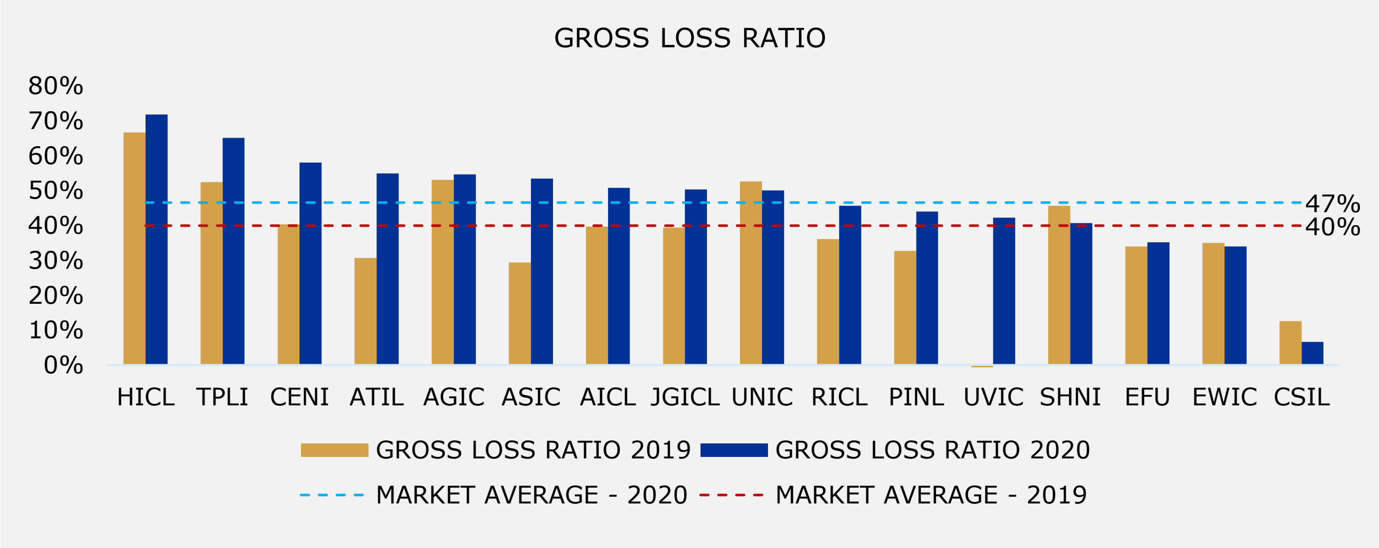
The retention ratio is the percentage of business earned by insurance companies that is not reinsured. High frequency/low severity lines like Motor and Health have a high retention ratio as expected. On the other hand, volatile lines like Fire and Marine where the risk sizes may be bigger have a low retention ratio. Capital and capacity issues mean most large property risks in Pakistan are ceded out to the foreign reinsurance market.

GROSS LOSS RATIO



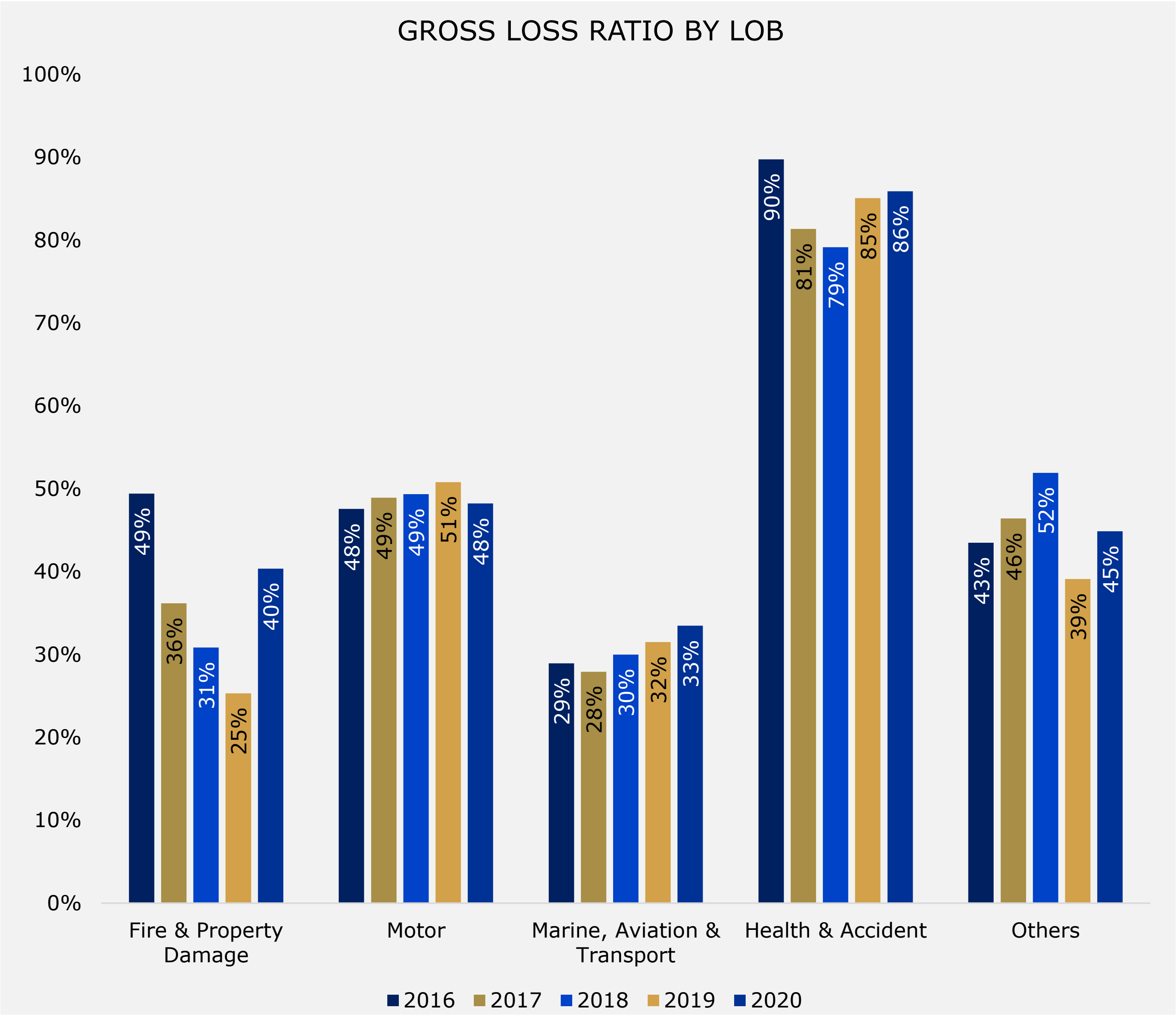
The gross loss ratio has been calculated as the ratio of gross incurred claims to gross earned premium. This ratio is calculated for conventional and takaful business combined.

The market gross loss ratio exhibits a decreasing trend till 2019 while it picked up in 2020 with an increase of 7%. This increase is due to fire losses in the second quarter and urban flooding in Sindh during the month of August and September. Fire business is a major portion of the total market premium thus these losses were noticeably reflected in the market loss ratio. Profitability of the business written during the COVID-19 lockdown will be fully ascertained by mid of 2021.



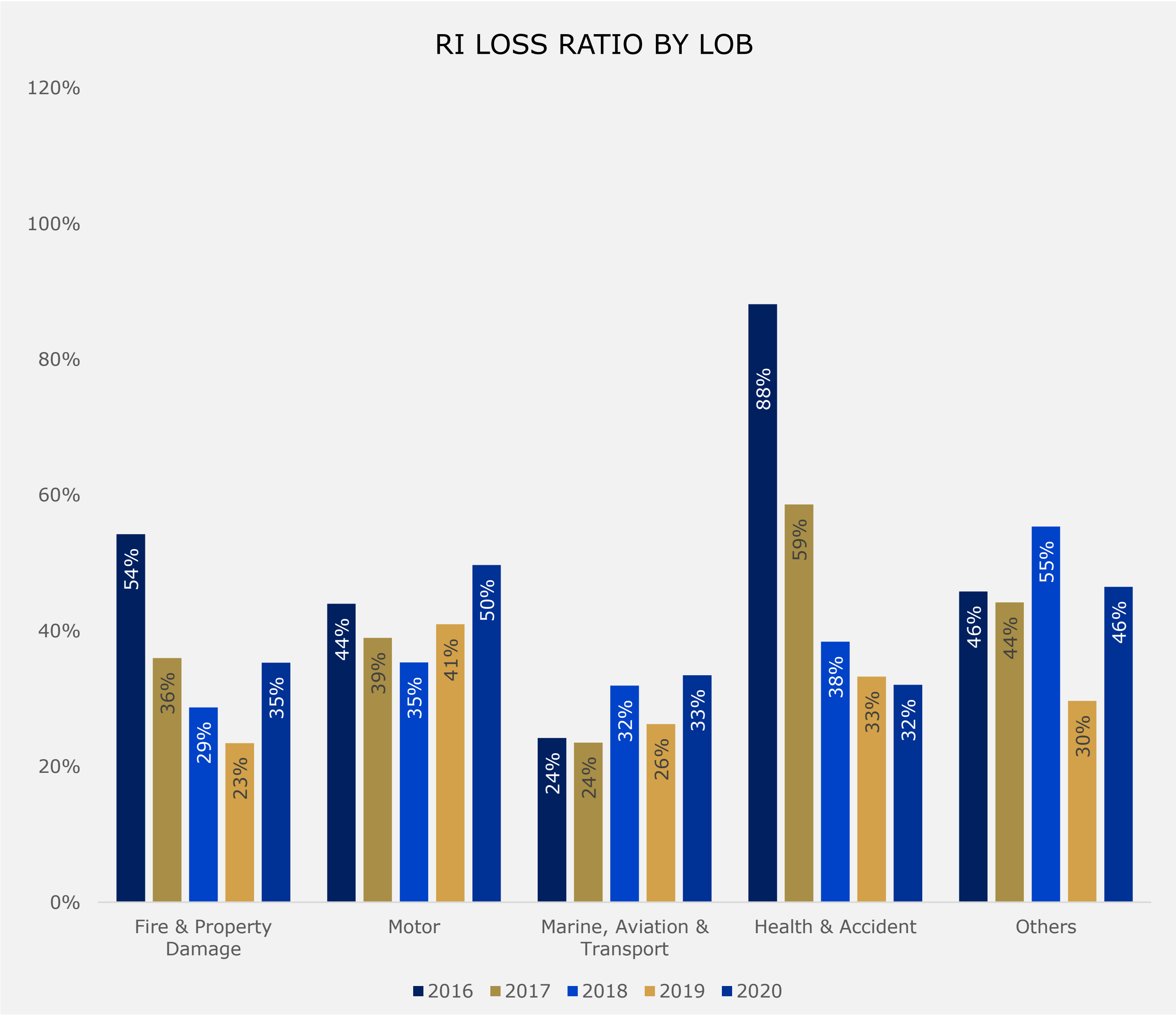
Overall, the gross loss ratio is higher for most listed companies for the year ended 2020 when compared to 2019. EFU and EWIC were able to almost maintain their gross results. The highest ratio was depicted by HICL with a ratio of 72% while CSIL had the lowest gross loss ratio at 7%. ATIL, ASIC and UVIC saw substantial increase in gross loss ratios as compared to the previous year.

GROSS LOSS RATIO BY LINE OF BUSINESS



The gross loss ratios have trended up for Fire and Others in 2020. Motor and Health have remained fairly stable over the years. Motor line might have benefited from the COVID lockdown when less cars were on the road. Furthermore, the Health loss ratio was expected to increase due to COVID but this did not happen potentially since the insured postponed non-essential and non-urgent medical surgeries and visits to prevent the risk of infection.

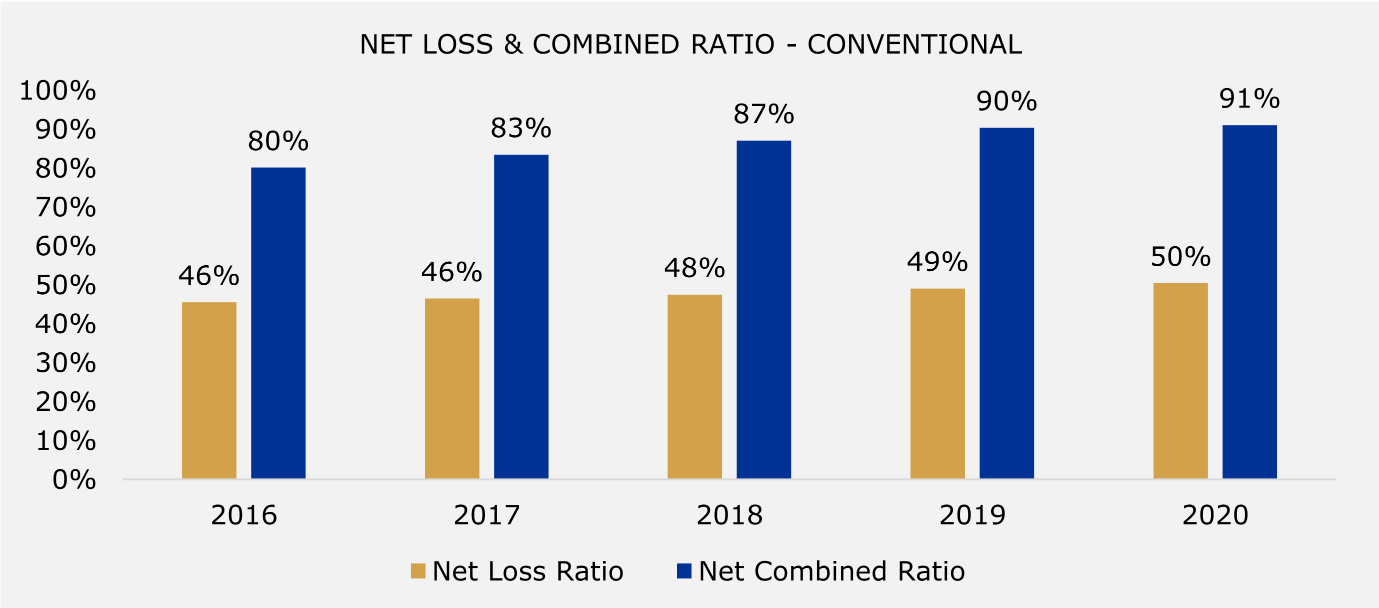
RI LOSS RATIO BY LINE OF BUSINESS



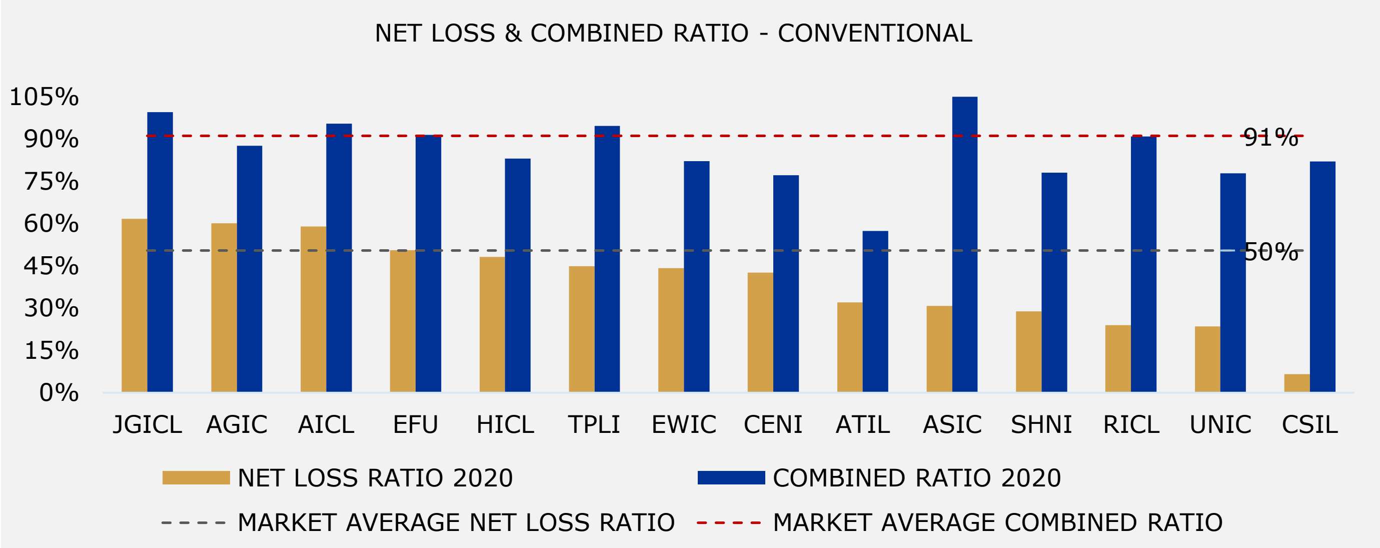
The RI loss ratio is calculated as the reinsurance claims over the reinsurance earned premium. Gross of wakala numbers are used for the takaful reinsurance earned premium.

RI loss ratios have moved up in 2020 for all lines of businesses except Health. Apart from this, there is no clear trend seen in the above ratios. This is expected since reinsurance is bought to absorb volatility enabling the cedant to smoothen their results across years.

NET LOSS & COMBINED RATIO - CONVENTIONAL



The net loss and combined ratio has witnessed a gradual and consistent increase over the last 5-years and stand at 50% and 91% respectively for the year ended 2020.

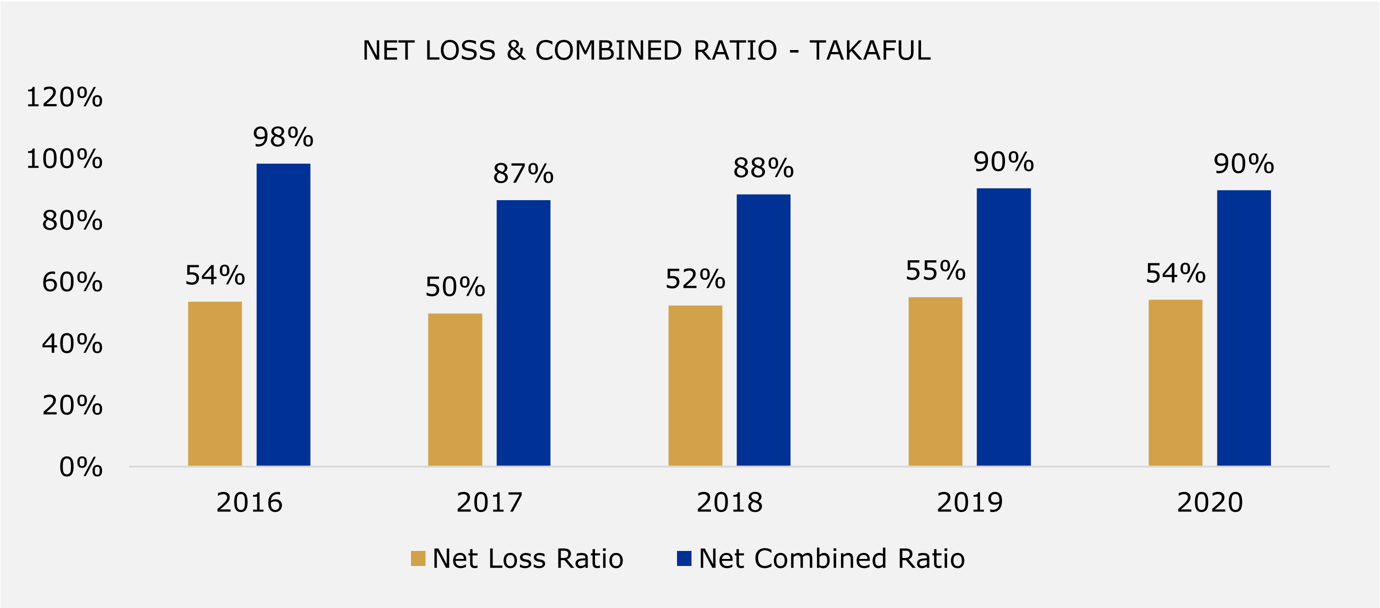


The net loss ratio is the ratio of net incurred claims over the net earned premium while the combined ratio includes management expenses and net commission as well. The market net loss ratio is the weighted average net loss ratio and the market combined ratio is the weighted average combined ratio.

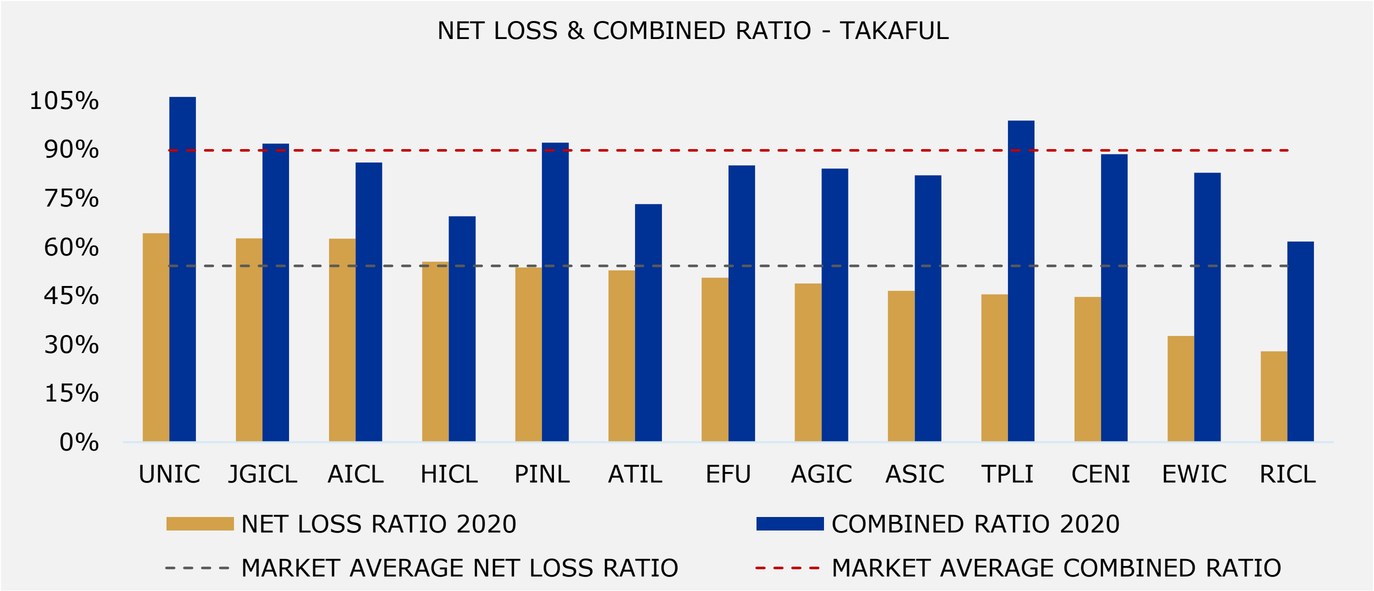
JGICL has the highest net loss ratio of 62% while CSIL has the lowest net loss ratio of 7%. UVIC, PINL and ASIC have combined ratios in excess of 100%. Any combined ratio greater then 100% translates into a net underwriting loss.

Disclaimer: PINL & UVIC have combined ratio in excess of 190%. Hence, they have been excluded from the graph.

NET LOSS & COMBINED RATIO - TAKAFUL



The net loss ratio has remained at a stable level over the last 5-years in the range of 50%-55%. The combined ratio has also remained stable during the last 4 years in the range of 87% to 90% with 2016 being an anomaly year with a combined ratio of 98%. Where as, the conventional business had a combined ratio of 80% for 2016.

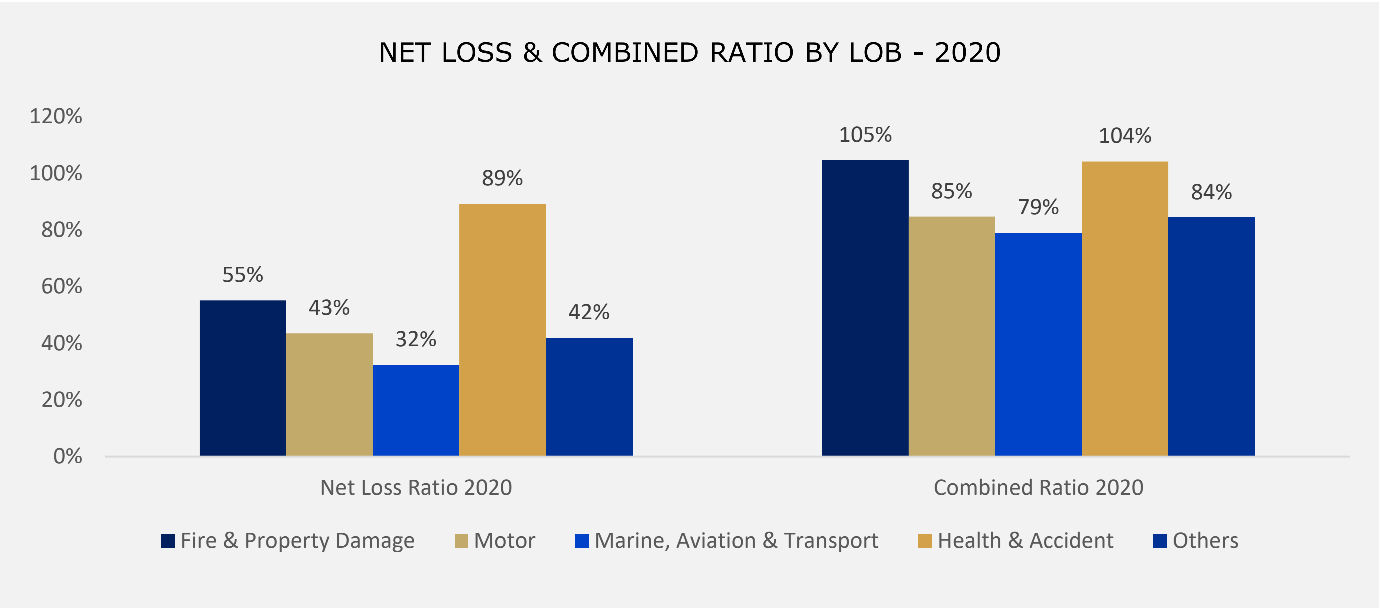


The market net loss ratio is the weighted average net loss ratio which stands at 54% while the market combined ratio stood at 90% for the year ended 2020.

SHNI has the highest net loss ratio of 62% while RICL has the lowest net loss ratio of 28%. UNIC and SHNI have combined ratios in excess of 100%. Any combined ratio greater then 100% translates into a net underwriting loss.

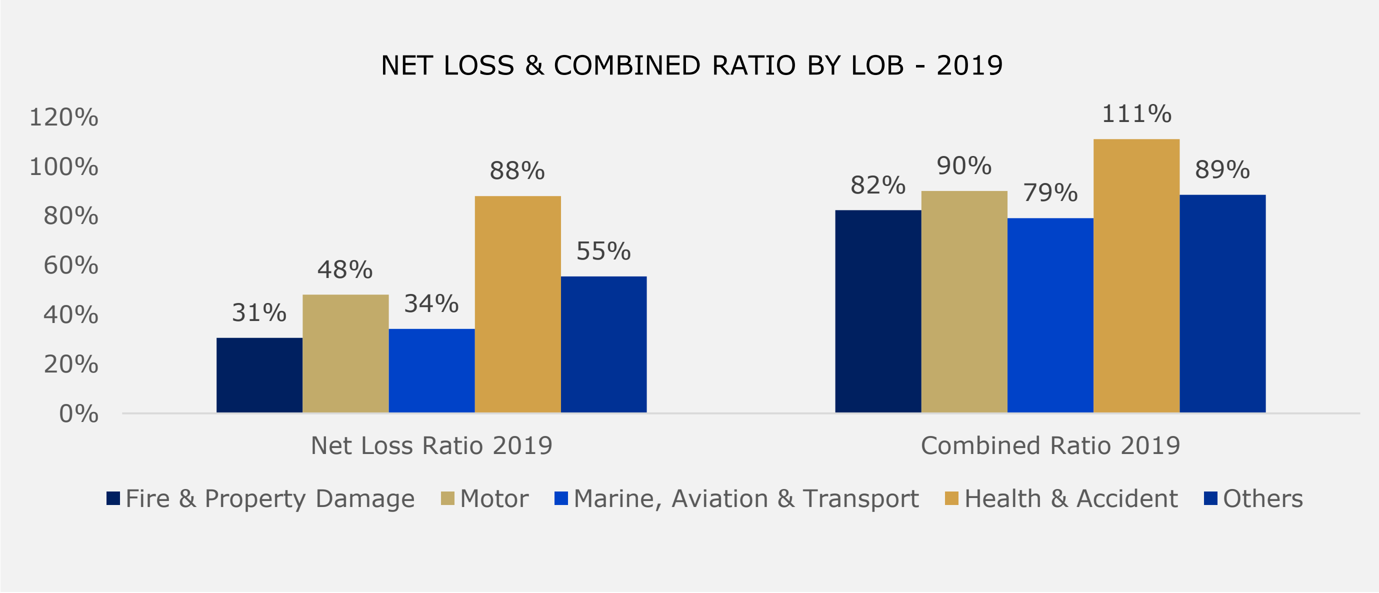
Disclaimer: SHNI has been removed from the graph since it has a combined ratio greatly in excess of 100%

NET LOSS & COMBINED RATIO BY LINE OF BUSINESS



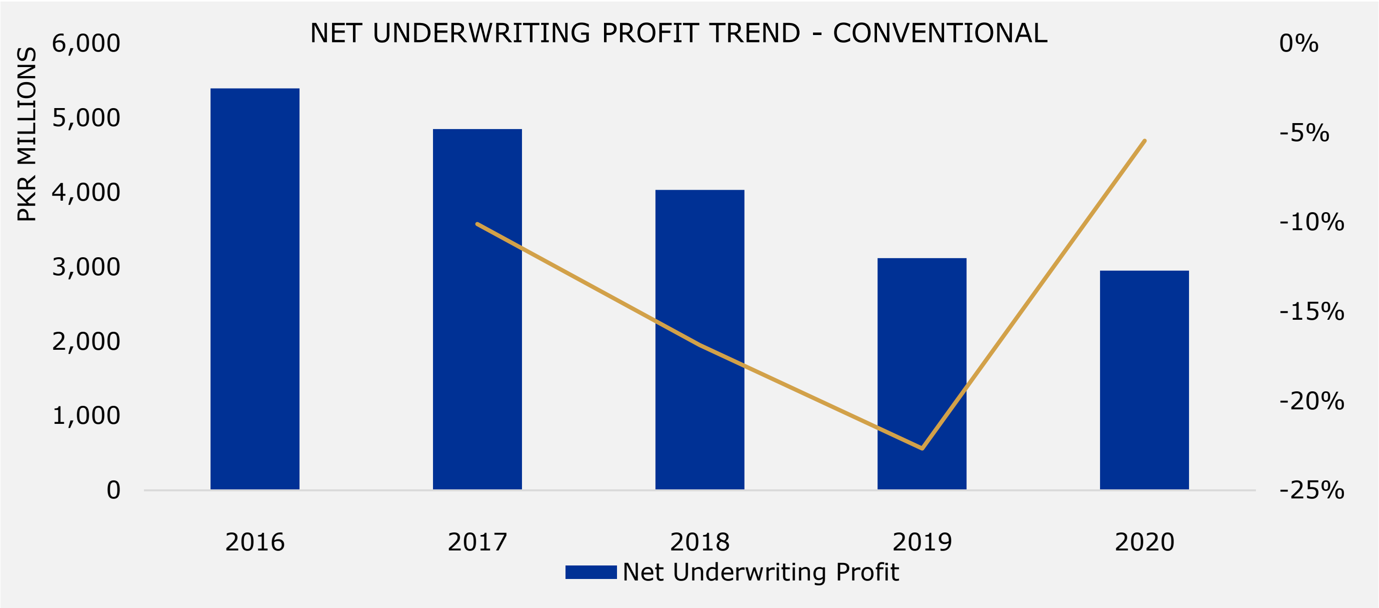
The bar chart shows the net loss and combined ratios across the various business lines for conventional and takaful segments combined. The overall net loss ratio was almost similar in 2020 to the level in 2019. However, there is a change in the split of the ratios. The Fire line has increased to 55% with a slight increase in the Health line as well. While the Motor, Marine and Other line has been on a decline.

Similarly, the overall combined ratio has also remained almost similar for both the years; however, there is a change in the ratio split between the lines. The Fire line has experienced a significant increase while all the other lines except for Marine have experienced a moderate decrease.

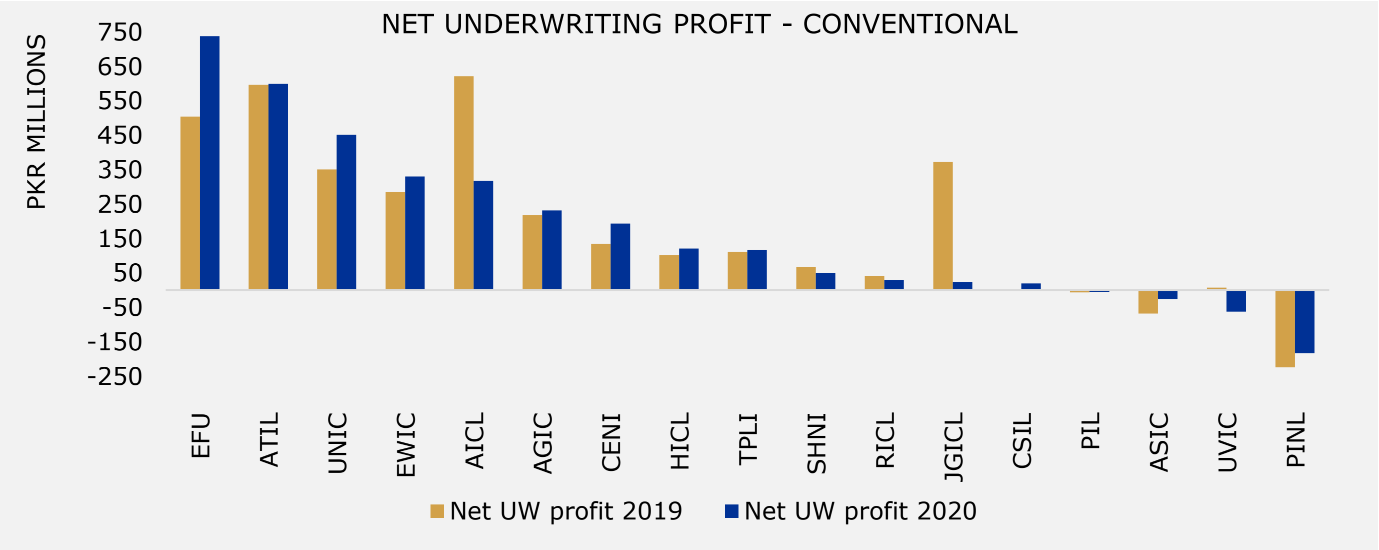


Expense ratios have not changed much year-on-year for most lines as can be seen in the difference between net and combined ratio bars. However, for health & Accident the expense ratio has reduced by about 8% while for the Other line, the expense ratio has increased by 8%

NET UNDERWRITING PROFIT - CONVENTIONAL



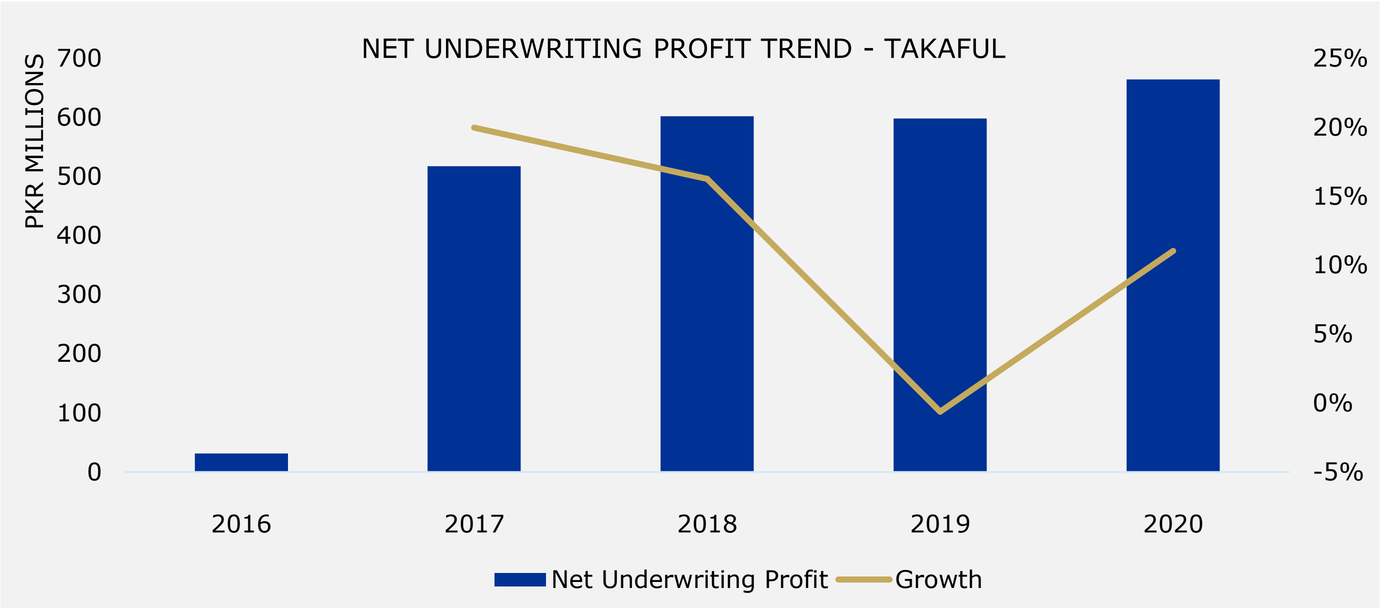
The net underwriting profit for the market has consistently fallen since 2016 and stands at PKR 2.9 billion for 2020. This corresponds with the combined ratio trend mentioned previously where the figure has increased from 80% to 91% for the same period.



The bar graph for the net underwriting profit shows EFU as the top company with an underwriting profit of PKR 739 million while PINL shows the highest underwriting loss at PKR 184 million.

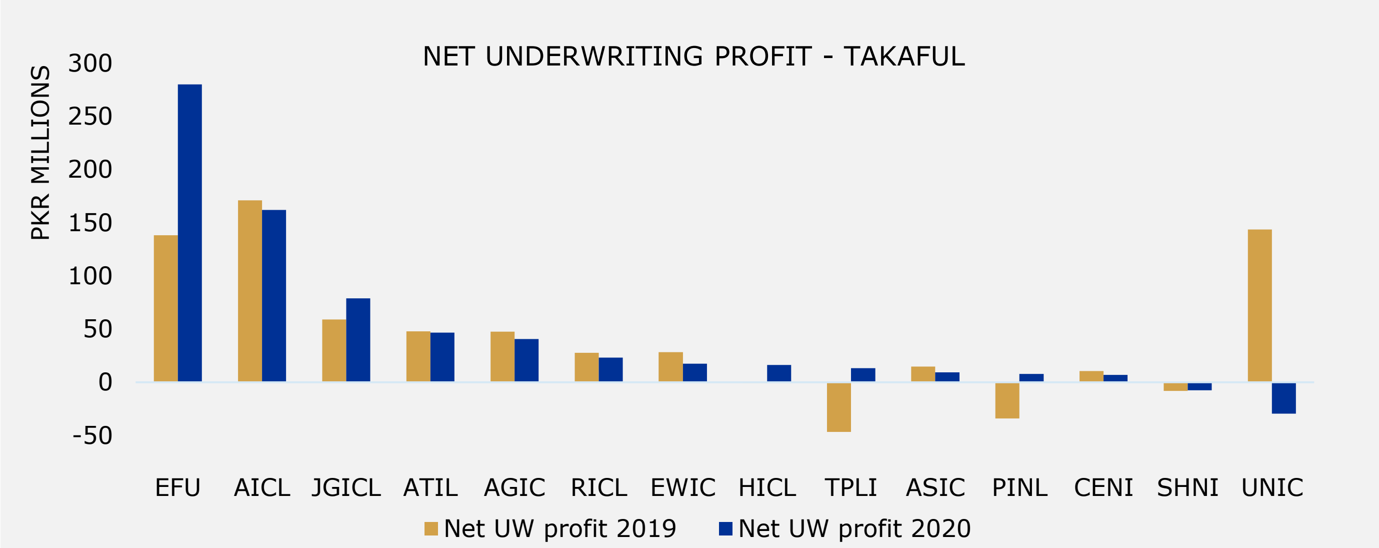
AICL and JGICL experienced a significant drop in underwriting profits by 49% and 94% respectively. AICL experienced UW losses in Fire and Marine while JGICL experienced a deficit in Fire, Health and Miscellaneous line. A noticeable observation can be made for CSIL which has moved from a profit of PKR 2 million for the year ended 2019 to a 10 times higher profit of PKR 20 million in 2020.

NET UNDERWRITING PROFIT - TAKAFUL



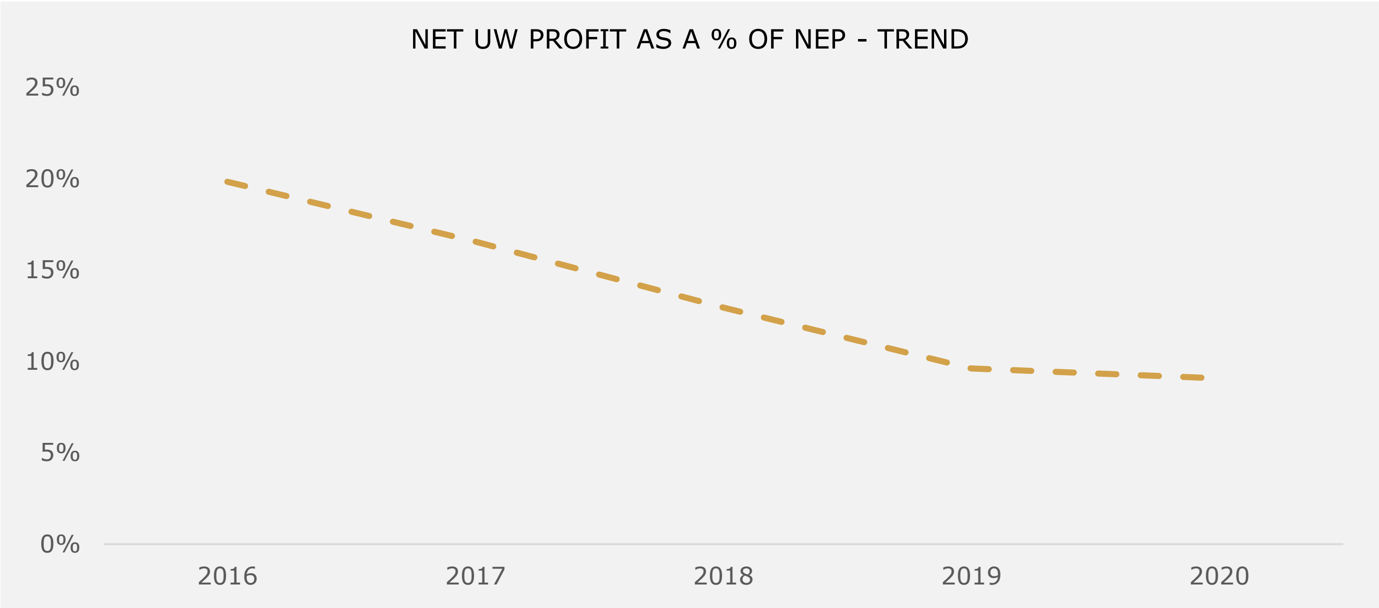
The window takaful operations have been a success since their launch in 2015 and have experienced higher UW profits year on year with a 1% decrease in 2019 only. 2016 seems to be an anomaly year which could be because the widespread adoption of window takaful started from 2017 onwards. The growth in UW profits has been on a decline since reaching a high in 2017. The market figure amounts to PKR 664 million in 2020.

Growth has been capped at 20% since the growth in 2017 was in excess of 1000%

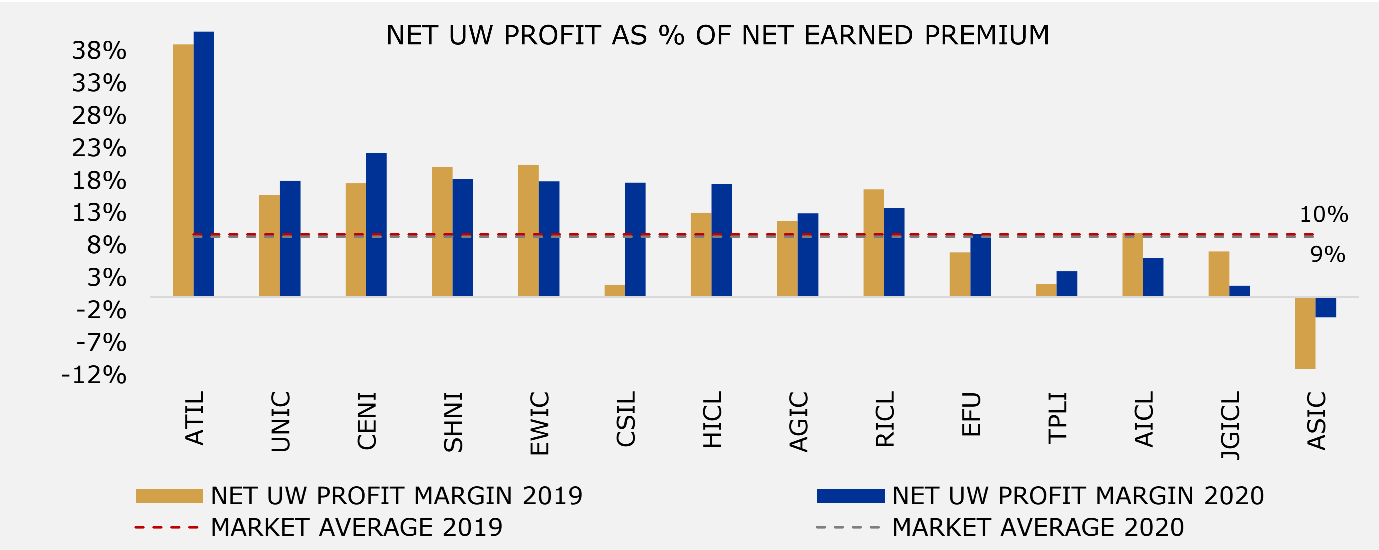


The bar graph shows that EFU has doubled its' underwriting surplus in 2020 compared to the level in 2019. While UNIC has experienced the sharpest decrease in UW profits of about 121%. Most companies with a negative UW profit in 2019 have been able to improve their positions in 2020 with only UNIC as the exception.

NET UW PROFIT AS A % OF NET EARNED PREMIUM



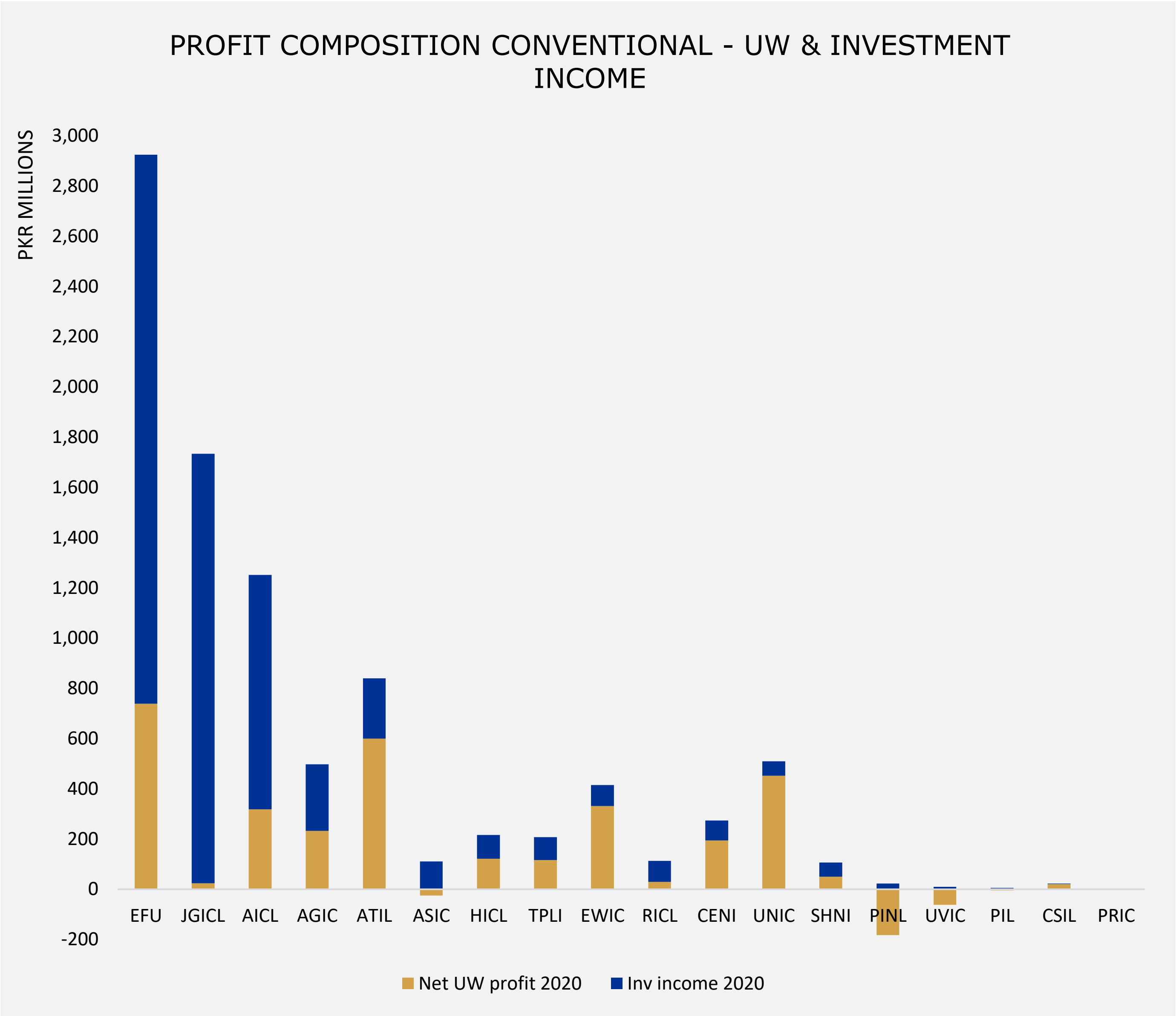
The net underwriting margin has fallen over the 5-year period and currently stands at 9%. This corresponds with the trend observed for net underwriting profit which has also fallen consistently since 2017 in nominal terms. Conditions in the general insurance industry have remained challenging due to the COVID-19 pandemic as well as torrential rains and floods in August 2020.



ATIL has the highest profit margin which amounts to 41% in the current period while the lowest ratio is reflected in UVIC's financials of -93% (not shown in the chart). On average companies have experienced a fall in net UW profit of 3% in the current period while the NEP has increased by 1%. Hence, the market net UW profit margin has fallen.

PIL, PRIC and PKGI have been removed since they do not have any underwriting results
*****PINL and UVIC have been excluded from the graph since they were outliers***

INVESTMENT INCOME - CONVENTIONAL

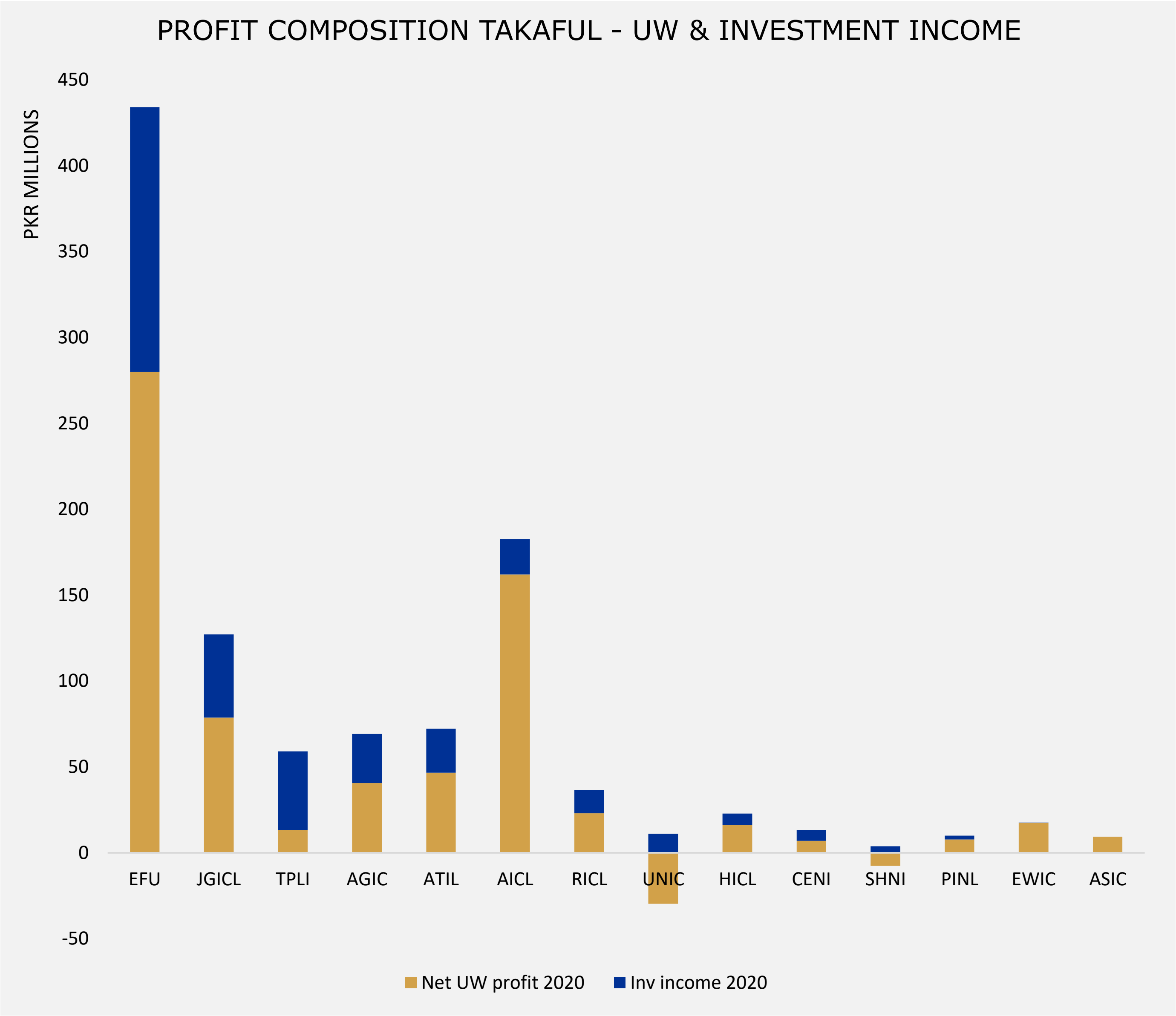


The total investment income earned for the listed conventional market amounts to PKR 6.0 billion. The graph shows the profit composition of the conventional business with the companies ranked in terms of investment income. It can be observed that investment income is a major performance driver for general insurers. Out of the 4 companies in an underwriting loss 2 companies, namely PIL and ASIC, have been able to recoup their underwriting losses with their investment income.

EFU has outperformed their competition in terms of both, underwriting profit and investment income, with an investment income of PKR 2.2 Billion. It is interesting to note that the investment income of EFU and AICL is almost three times their UW income. A notable observation can be made for JGICL where investment income has a 99% proportion in the performance of the company with UW profits only contributing 1% to the company's performance.

PRIC does not have any underwriting profit since it has not underwritten any business

INVESTMENT INCOME - TAKAFUL

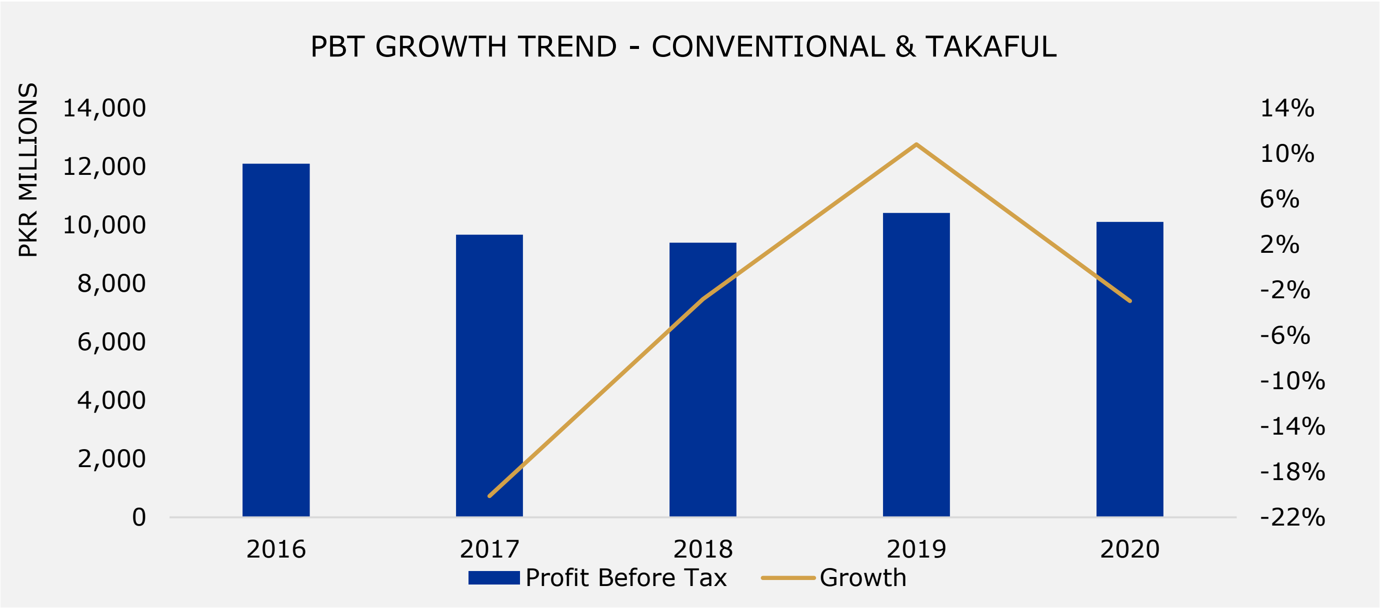


The total investment income earned by the listed window takaful market amounts to PKR 367 million.

The graph shows the relative levels of net underwriting profit and investment income for the Takaful business ranked in terms of investment income. Investment income is a major contributor to the company's performance in the window takaful segment as well since it improves the balance on both the participants and the shareholders funds. However, compared to the conventional business, the reliance on investment income is lower.

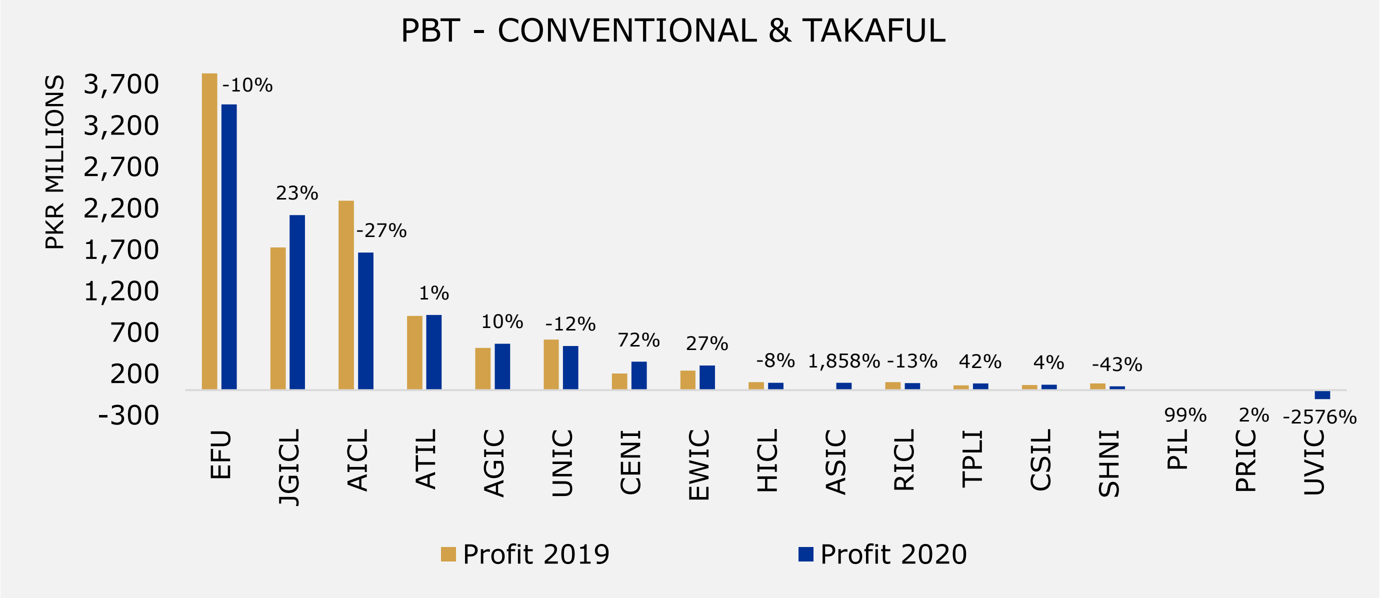
The investment income for SHNI and UNIC has helped them recoup a major proportion of their underwriting losses. While EWIC and ASIC have negligible investment income hence do not contribute much to improve the companies' performance.

PROFIT BEFORE TAX



The market reached the highest profit before tax in 2016 which amounted to PKR 12.1 billion. The profit before tax was on a decreasing trend preceding 2019 and fell by 4% in 2020 compared to the 2019 level. The market number amounts to PKR 10.1 billion for the year ended 2020

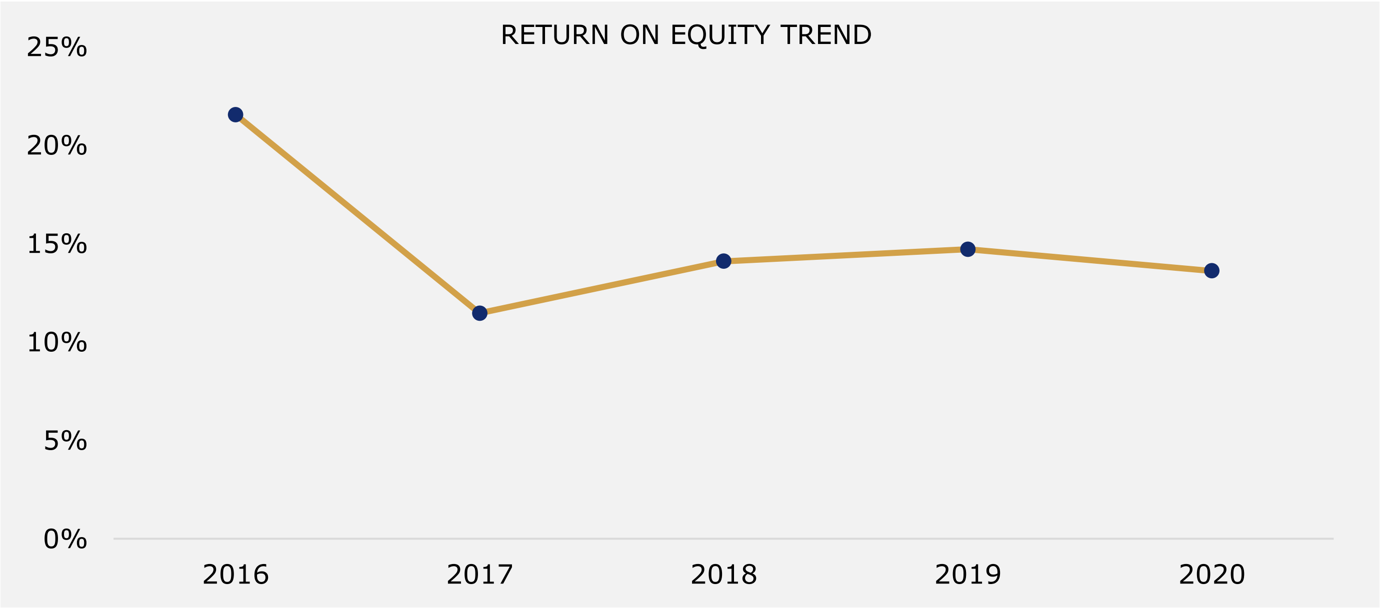
The fall in the market profit before tax was due to a combined fall in UW profit and investment income, the two main drivers of a general insurer's performance. The market UW profits fell by 12% while the investment income of the market fell by 3%.



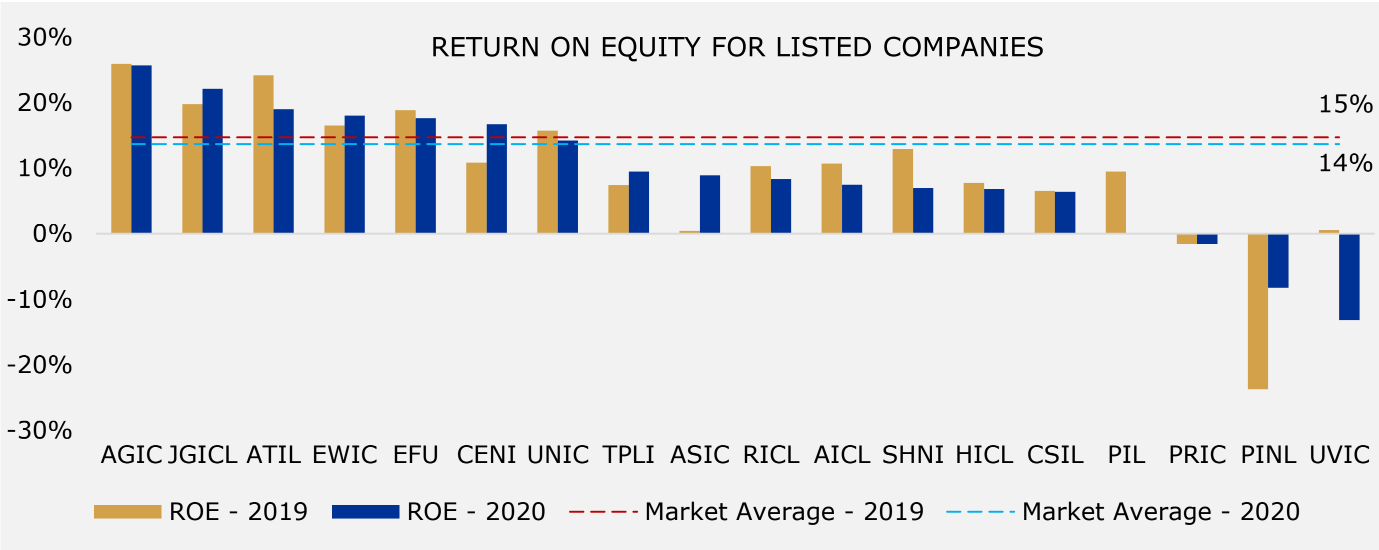
EFU leads the general insurance market with the highest profit before tax of PKR 3.5 Billion followed by JGICL at PKR 2.1 Billion and AICL at PKR 1.7 Billion. JGICL has improved its' weak underwriting performance with high levels of investment income which has ultimately improved its' profit before tax position by 23%. While AICL has experienced a decreased performance results in both its' underwriting and investment income compared to 2019.

Disclaimer: AICL includes business underwritten inside Pakistan only

RETURN ON EQUITY



The return on equity shows how well a company is using its' capital to generate profit. The weighted average return on equity shows a sharp decrease in 2017 followed by a relatively stable trend afterwards. The ROE decreased in 2020 compared to 2019 which can be explained by a 3% fall in market profits (before tax) and a 4% rise in market equity figures.

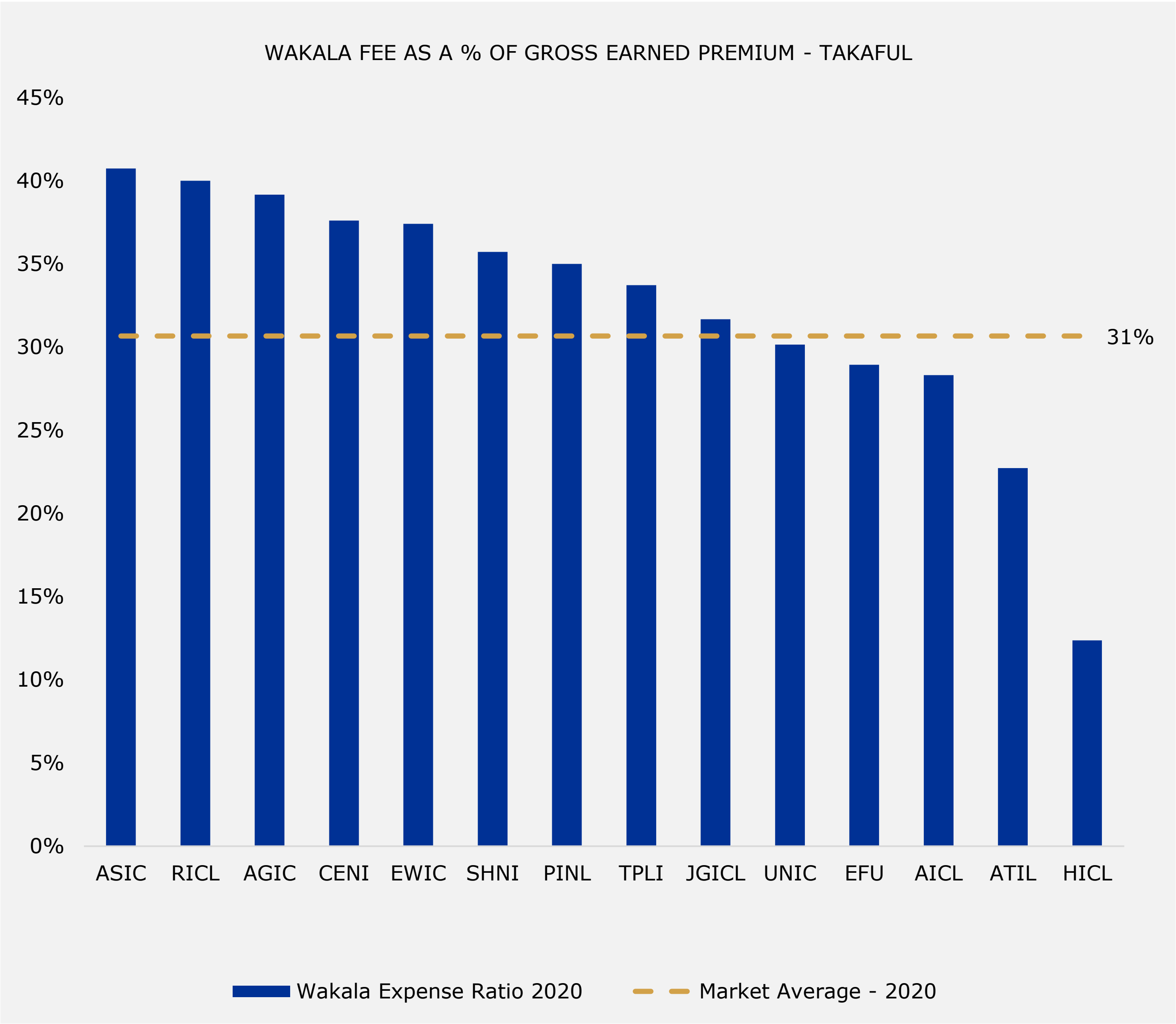


AGIC shows the highest return on equity of 26% while UVIC had the lowest return on equity of -13%. CENI and ASIC observed healthy improvements.

ROE calculations are based on the published equity figures which are highly sensitive to capital market fluctuations. Capital markets have been quite unstable in Pakistan in the last two years.

The Return on Equity is calculated as the ratio of PBT to total of shareholders equity at the end of the period.

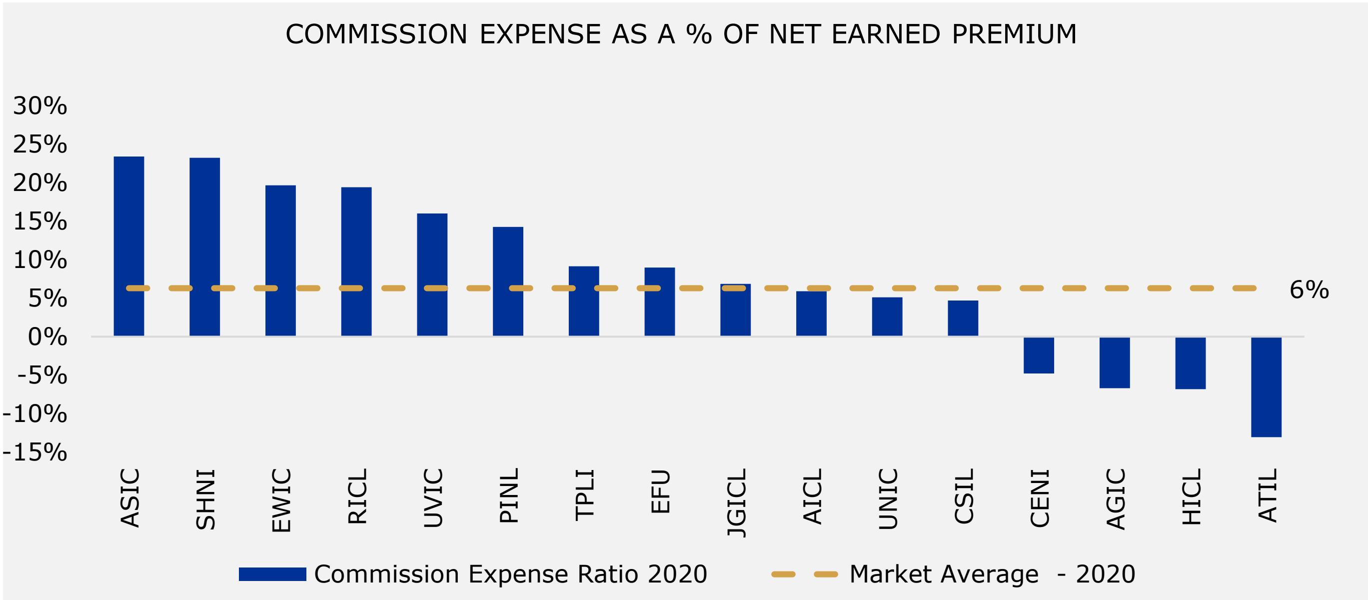
WAKALA EXPENSE % GEP



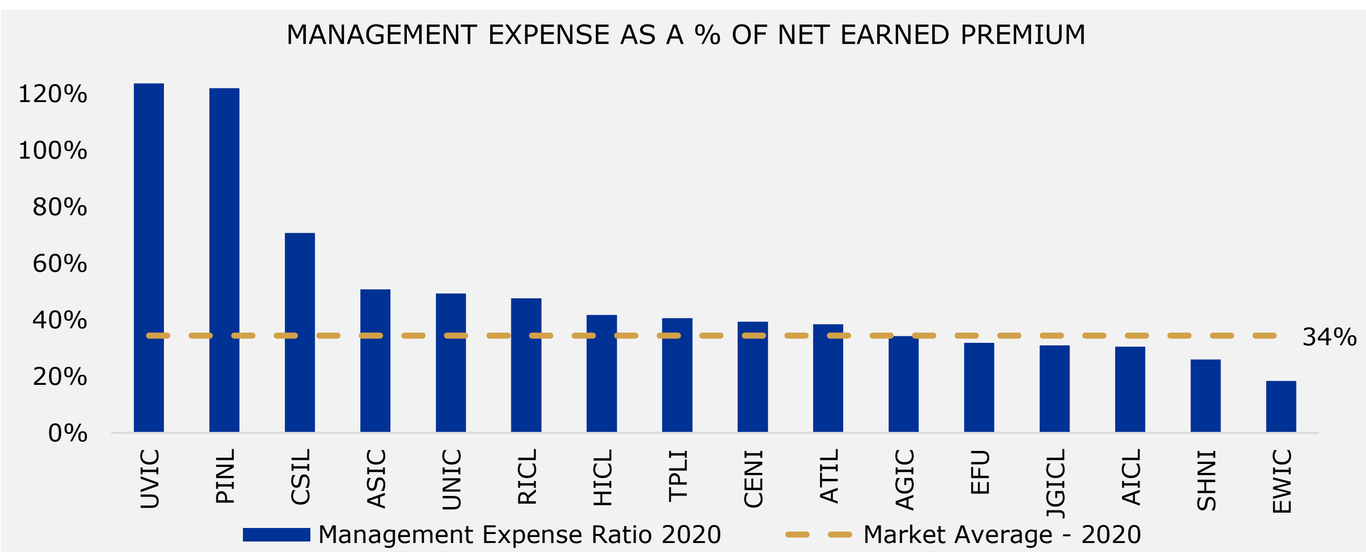
The Operator serves as the Wakeel of the Waqf Fund (Participant fund) and charges a 'Wakala fee' for it. The fee is paid from the Waqf Fund as a proportion of the gross written contribution. This ratio calculates the earned wakala income over the gross earned contribution (gross of wakala).

The market ratio averages to 31%. The highest ratio is reflected in the financials of ASIC of 41% while the lowest ratio is reflected in the financials of HICL of 12%. It is pertinent to note that the commission and expense ratio for the takaful business for 2020 was 36%.

COMMISSION & MANAGEMENT EXPENSE RATIO - CONVENTIONAL



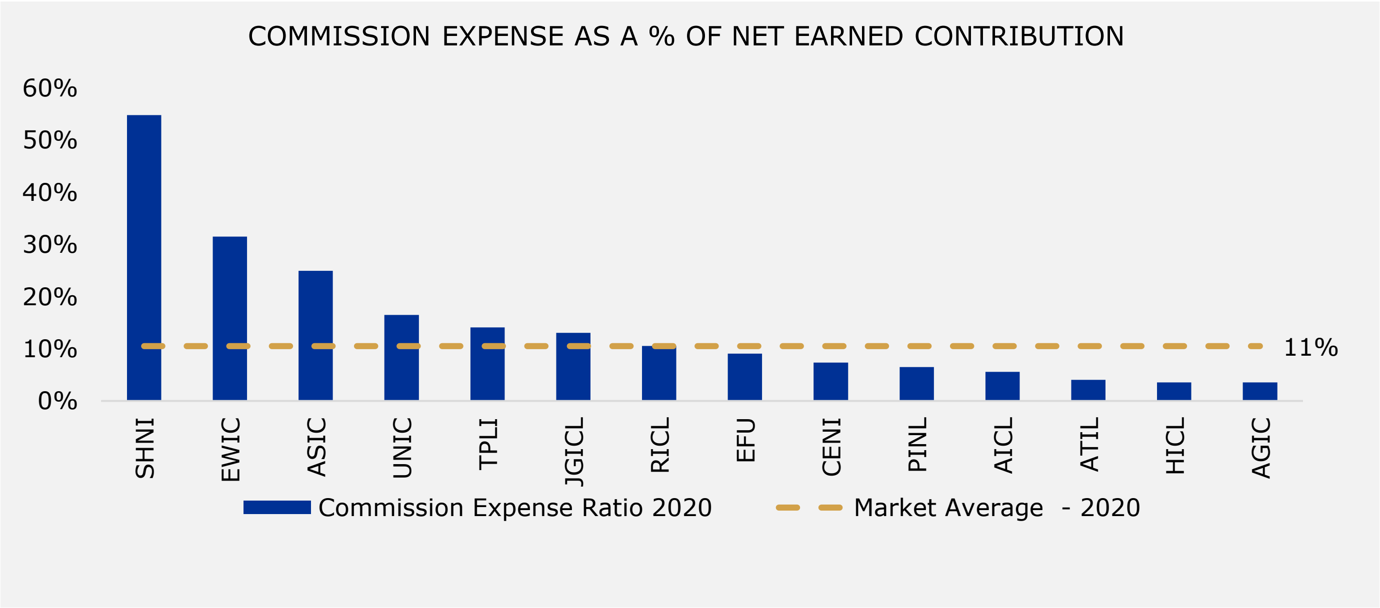
A negative ratio signifies that the commission earned outweighs the commission paid. The market ratio is the weighted average which stands at 6% for the twelve months ended 2020. The highest commission expense ratio can be observed for ASIC at 23% while ATIL has the lowest ratio of -13%. Companies usually cede out a large proportion of commercial lines business and benefit from the reinsurance commission which results in an overall lower net commission expense.



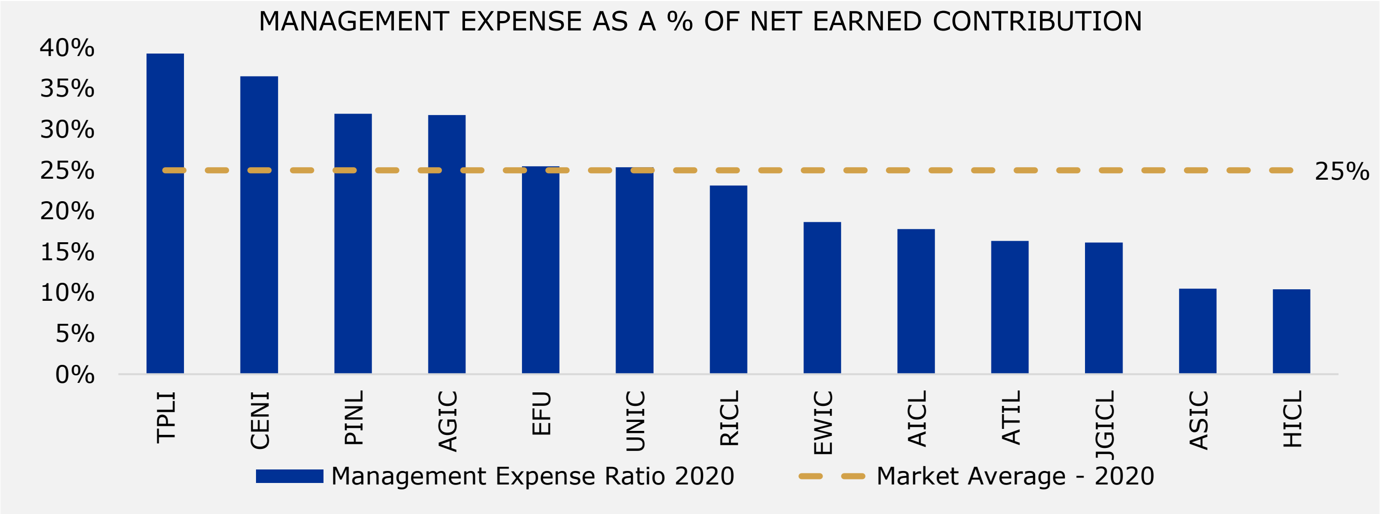
The market ratio calculates to 34% for the period ended December 2020. UVIC and PINL have the highest management expense ratios of 122% and 124% respectively which are one of the main contributors to the UW losses incurred by these companies.

JGICL, EFU, AICL, SHNI & EWIC have been successful in keeping their expense ratios below the market average.

COMMISSION & MANAGEMENT EXPENSE RATIO - TAKAFUL



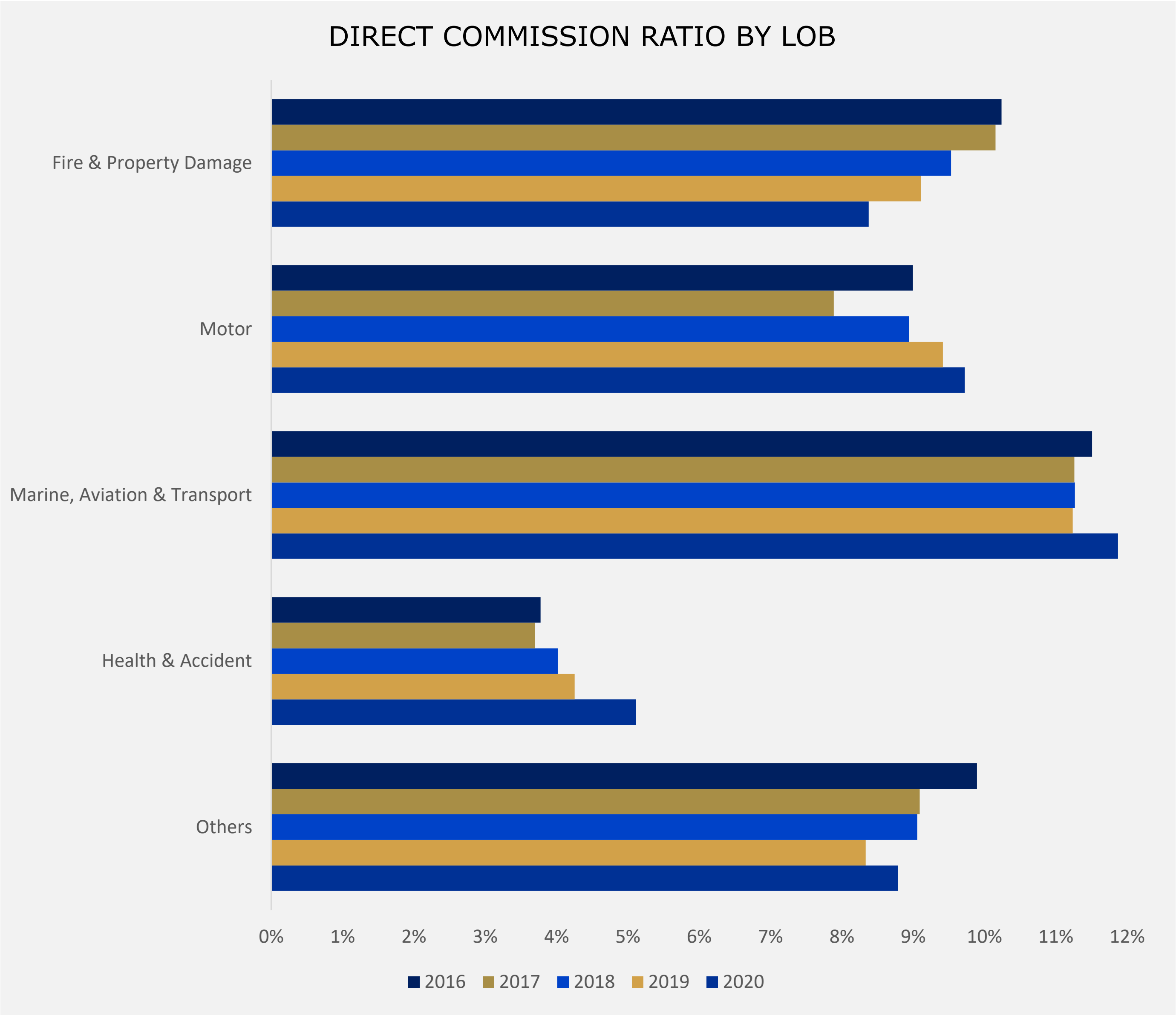
The commission expense ratio is calculated as net commission divided by the net earned premium (Gross of wakala expense). A negative ratio signifies that the commission earned outweighs the commission paid. The market ratio stands at 11% for the year ended 2020. The highest commission expense ratio can be observed for SHNI at 55% while AGIC, ATIL and HICL has the lowest ratio of 4%. A big proportion of takaful business is in motor and health line which does not have proportional treaties hence the commission expense is not set off by the retakaful commission.



The market ratio calculates to 25% for the year ended December 2020. Compared to the management expense ratio (34%) of the conventional business, the takaful ratio is lower since they are operating as windows hence some of the costs may be subsidized from the conventional business. SHNI has the highest ratio of 175% (removed from the graph) which has adversely affected the combined ratio and the profitability of the company. While the other companies' ratios are on average lower compared to the ratios for the conventional business. HICL and ASIC have expense ratios below the market average which has improved their underwriting performance.

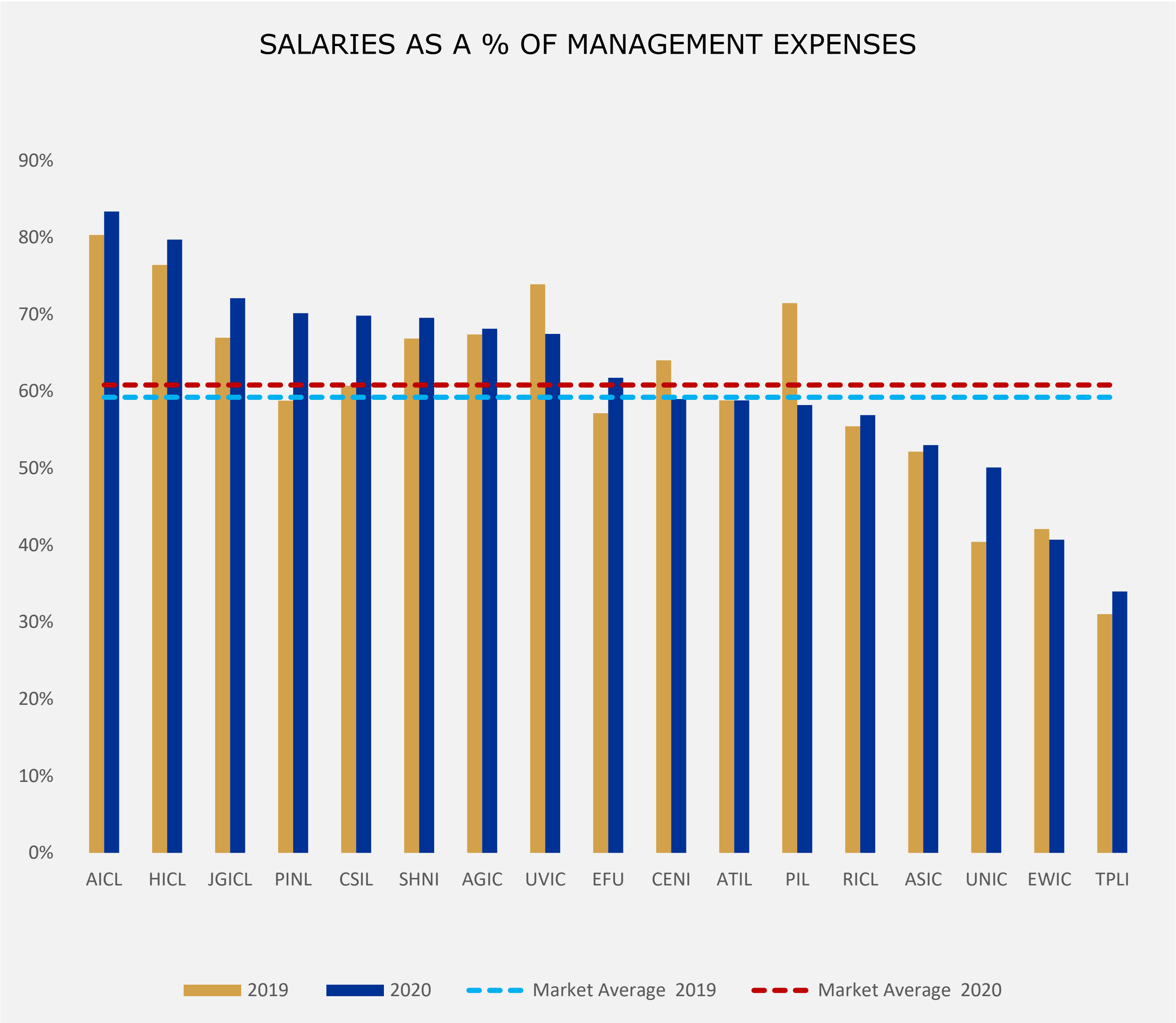
SHNI has been removed from the graph since it has management expense ratio greatly in excess of 100%

DIRECT COMMISSION RATIO BY LINE OF BUSINESS



The direct commission ratio is the commission paid for acquiring business through agents and brokers as a % of written premium. The trend shows lower 2020 ratios for Fire when compared to the level of 2018 & 2019. Where as, this trend is opposite for Motor, Marine, Health and Others. High loss ratio lines accommodate a lower commission as can be seen for Health here. Marine continues to be a profitable business in Pakistan and abroad and thus can be seen here offering the highest commission rates.

MANAGEMENT EXPENSE BREAKDOWN

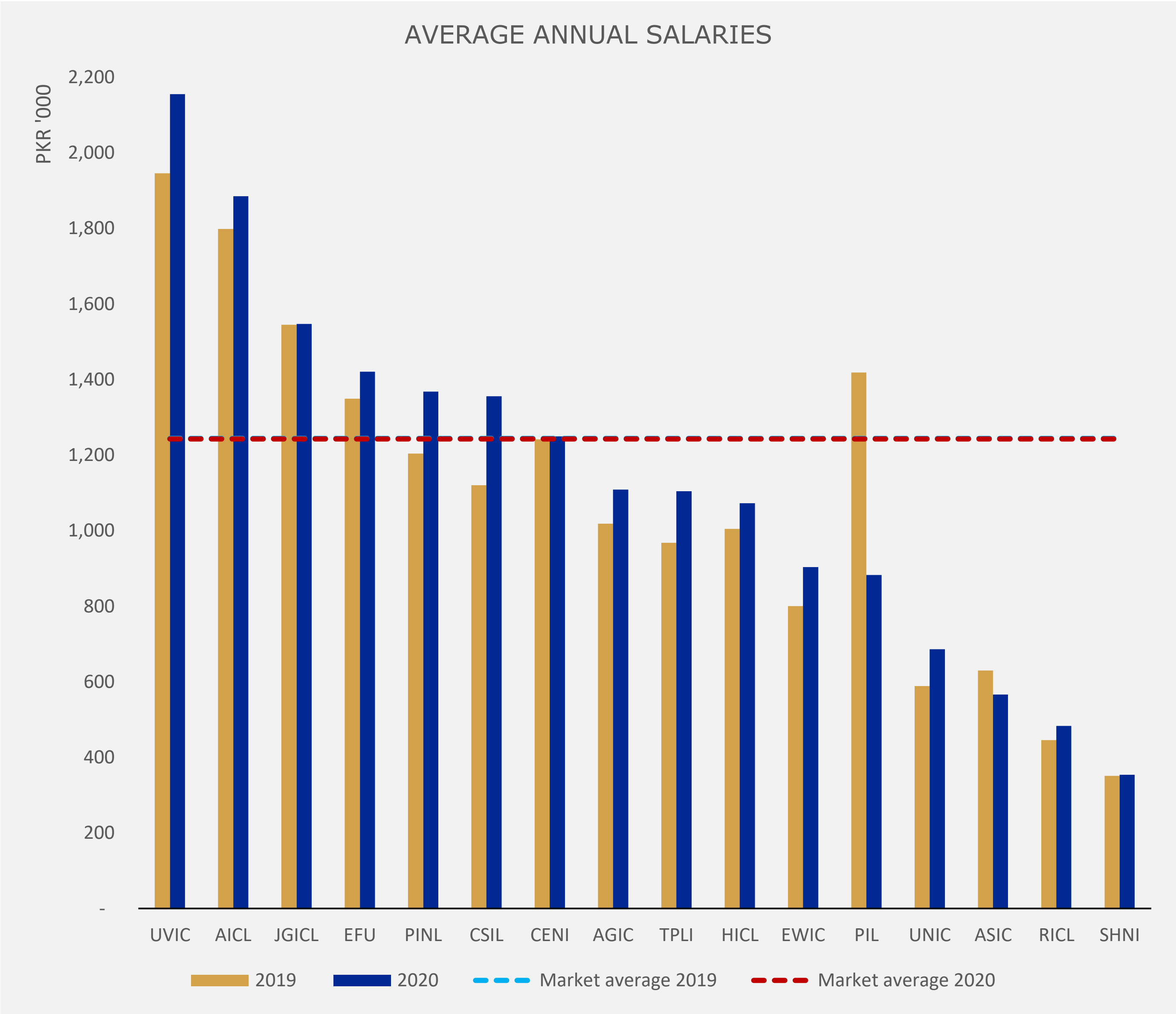


Salaries are the biggest drivers of management expenses for an insurance company hence an analysis of this component in isolation can yield insightful information in managing a company's expenses.

The industry average for 2020 stands at 61% which is a 2% increase compared to the level in 2019. Most companies have experienced a moderate increase in 2020.

PRIC has not disclosed their management expenses data
AICL has been excluded from the analysis since salary data for inside Pakistan is not given.

AVERAGE SALARIES

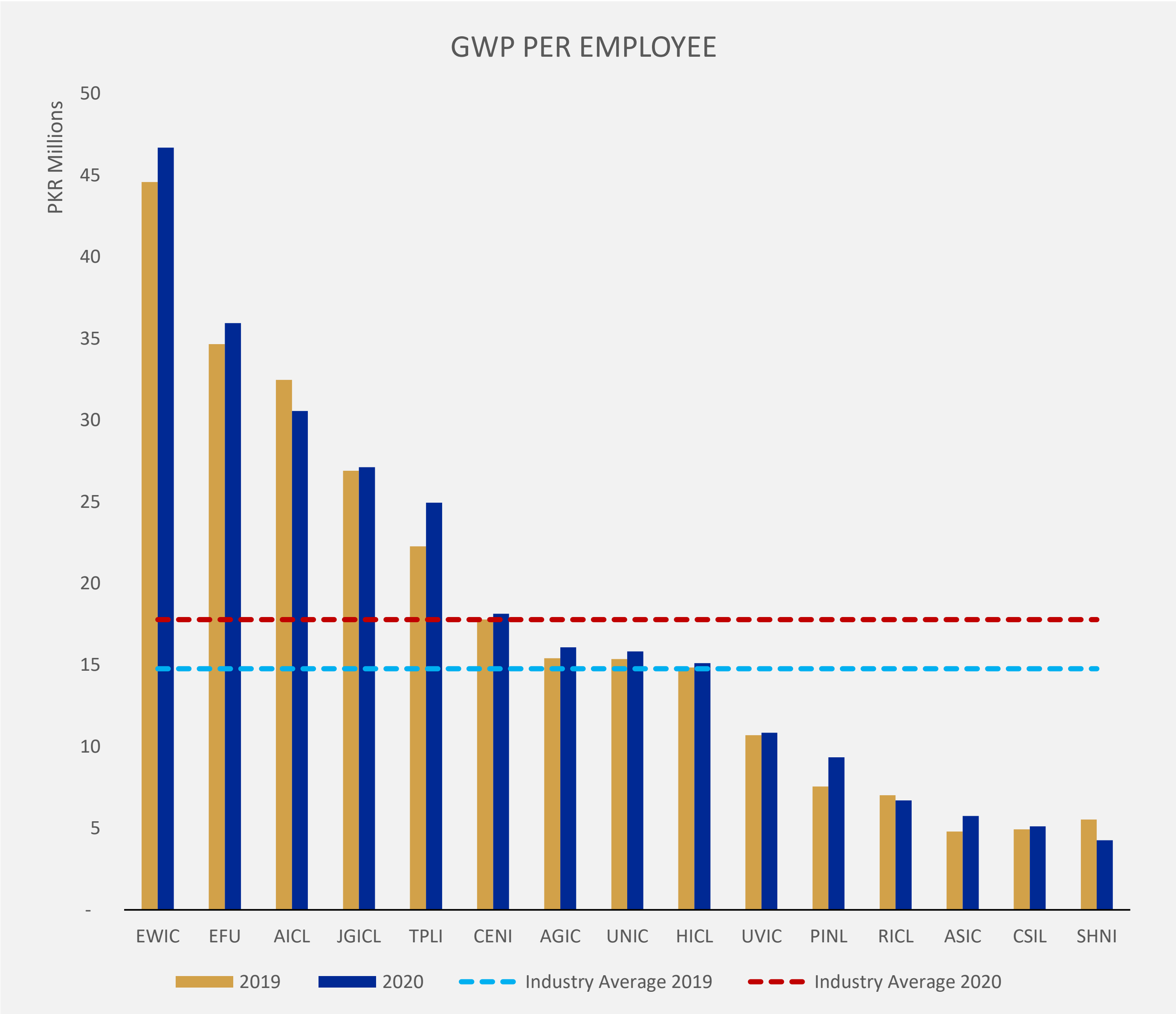


In this graph we are analyzing the average salary annual salary per employee. A company in the services industry does not have 'costs of production', the main costs in the insurance industry are the costs in terms of claims incurred and the costs of human capital required by the company.

The market average for the annual salaries is at PKR 1.2 million for 2020 which is 0.09% lower than the number in 2019. The annual salary number for 2020 translates into a monthly average salary per employee of PKR 0.1 million. Average salaries have increased for all companies in 2020 except for ASIC and PIL.

ATIL and PRIC have not disclosed number of employees data from 2018 onwards hence are excluded from the graph.

EMPLOYEE PRODUCTIVITY



This ratio shows the revenue generating ability of a company per employee. The market productivity of the employees has seen an increase in 2020. Furthermore, not all employees are tasked with generating revenue for the company since a company requires other operations as well to function smoothly hence these are average figures.

PIL and PRIC has been removed since it had no written premium from 2018 onwards.
AICL has been excluded from the analysis since salary data for inside Pakistan is not given.

PREMIUM BENCHMARKED ON THE BASIS OF PROFITABILITY

Company	Ranking		Indic
	GWP	PBT	
EFU	1	1	→
AICL	2	3	↓
JGICL	3	2	↑
UNIC	4	6	↓
TPLI	5	12	↓
EWIC	6	8	↓
AGIC	7	5	↑
ATIL	8	4	↑
HICL	9	9	→
CENI	10	7	↑
ASIC	11	10	↑
RICL	12	11	↑
PINL	13	16	↓
SHNI	14	14	→
UVIC	15	15	→
CSIL	16	13	↑

This table ranks companies based on gross written premium and profit before tax. The Indic column indicates whether the profit ranks above or below the premium rank.

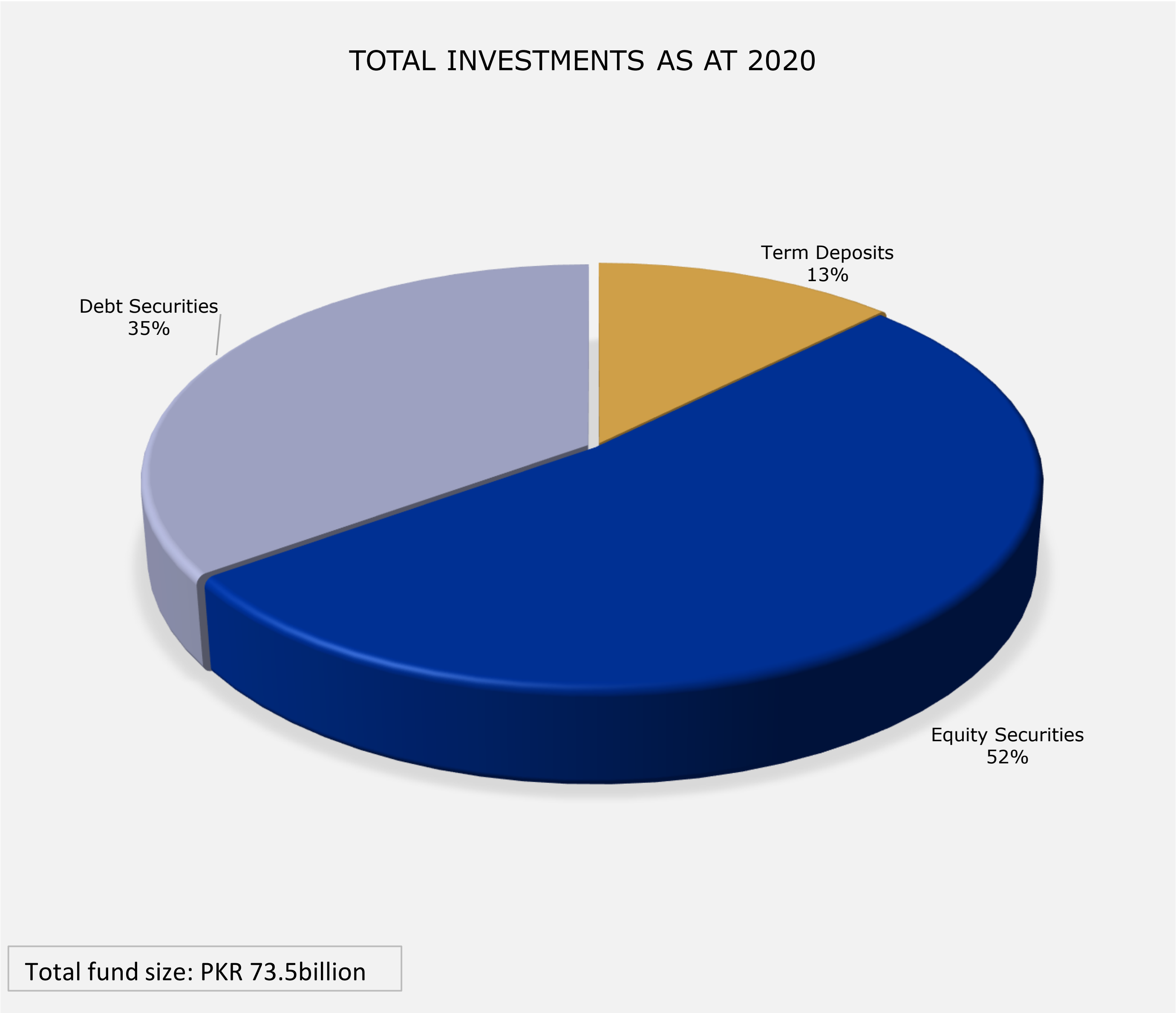
EFU holds the top rank for both standards in 2020. CSIL ranks the lowest in terms of premium but it's rank in terms of profit is slightly higher. TPLI and PINL have high premium rankings but much lower profit ones.

Disclaimer: PIL and PRIC removed from this analysis since they have not written any premium

PREMIUM & PROFIT ANALYSIS

The graph shows gross written premium (GWP) growth on the x- axis and profit before tax growth on the y-axis. The profit before tax growth is capped at ± 100% while the GWP growth is capped at ± 50%. The growth is calculated on a year-on-year basis for the year ended December 2020 vs 2019. Companies in the top right quadrant show positive growth for both profit before tax and GWP which is desirable. Presence in the top left quadrant might indicate worsening underwriting performance but improvement in investment and other incomes. Presence in the bottom left quadrant might suggest an overall worsening of the company's performance while presence in the bottom right quadrant might suggest improved underwriting performance with decreases in investment and other income (or increases in other expenses).

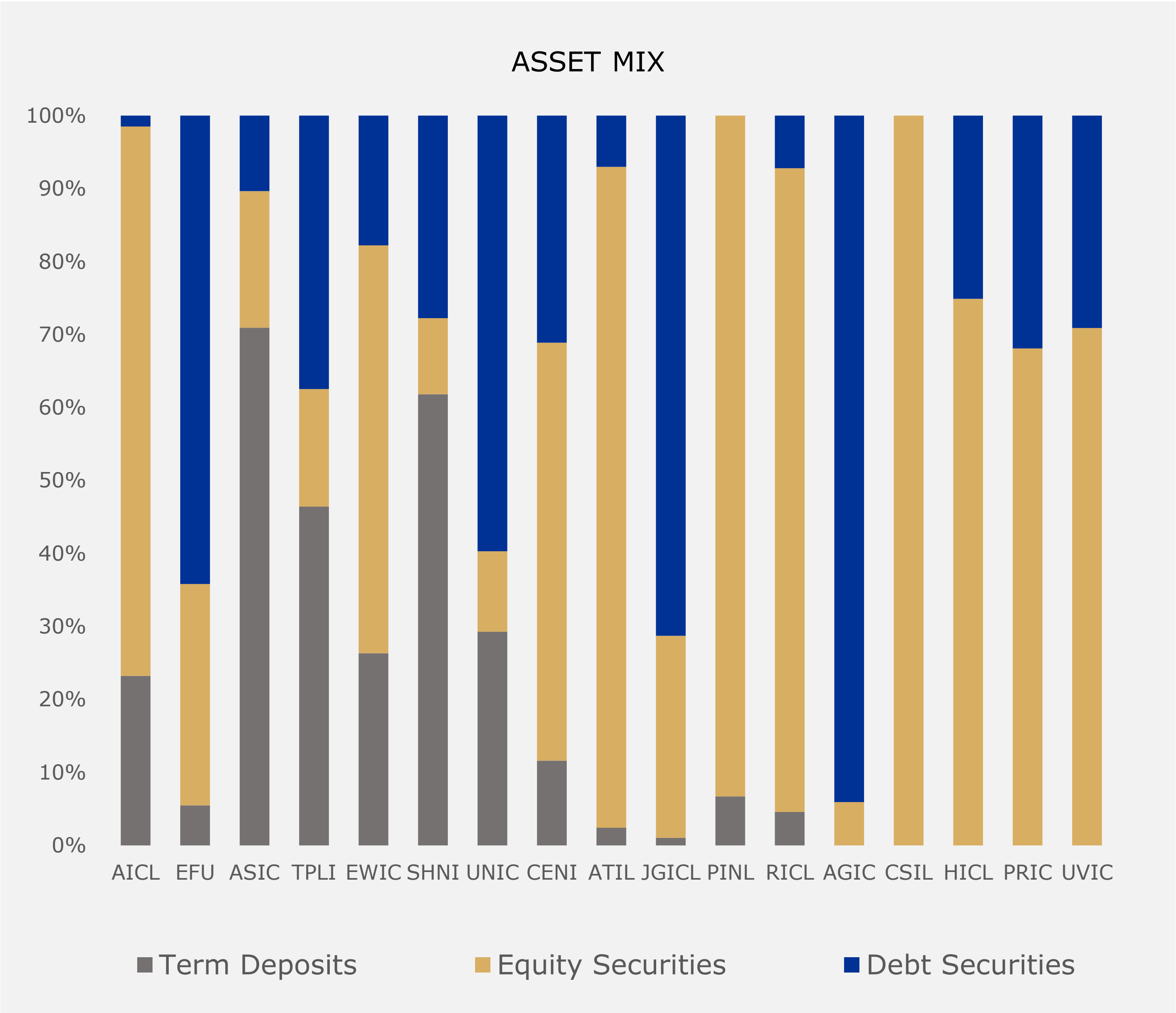
ASSET MIX - MARKET



The chart shows the industry's invested assets breakdown as at December 2020. More than half of the investments are made in equity securities with almost one-third allocated to the fixed income market.

General insurers prefer investment in short-term liquid assets like debt securities and term deposits. Investment in equities can yield higher returns but their market value is more volatile and thus lead to a higher capital charge. Overall, the total investments increased to PKR 74 billion compared to PKR 67 billion in 2019.

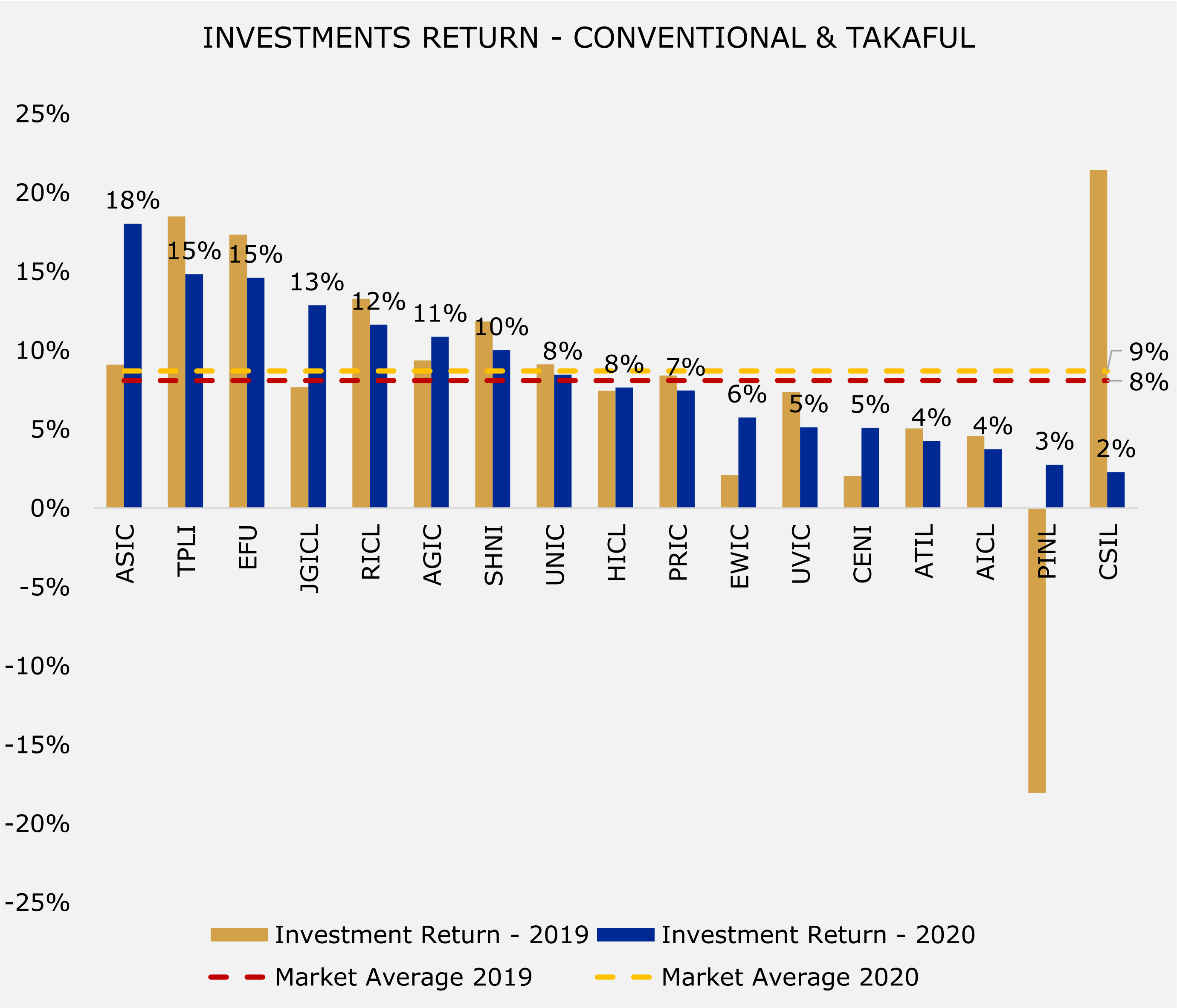
ASSET MIX - COMPANIES



The bar graph shows the investments of companies by asset class. AICL has a major proportion invested in the equity market whereas EFU & JGICL have focused more on debt. The investment asset classes of companies reflect their degree of risk aversion since the riskiness increases as you move from fixed income securities to equity securities.

CSIL & PINL have invested primarily only in the equity market while the other companies have diversified their portfolios across the three asset classes. An optimal investment strategy for the company would be to diversify their risks between different asset classes. However, it is pertinent to note that diversification decreases both the upside and downside returns for the overall investment portfiolio.

INVESTMENT RETURN



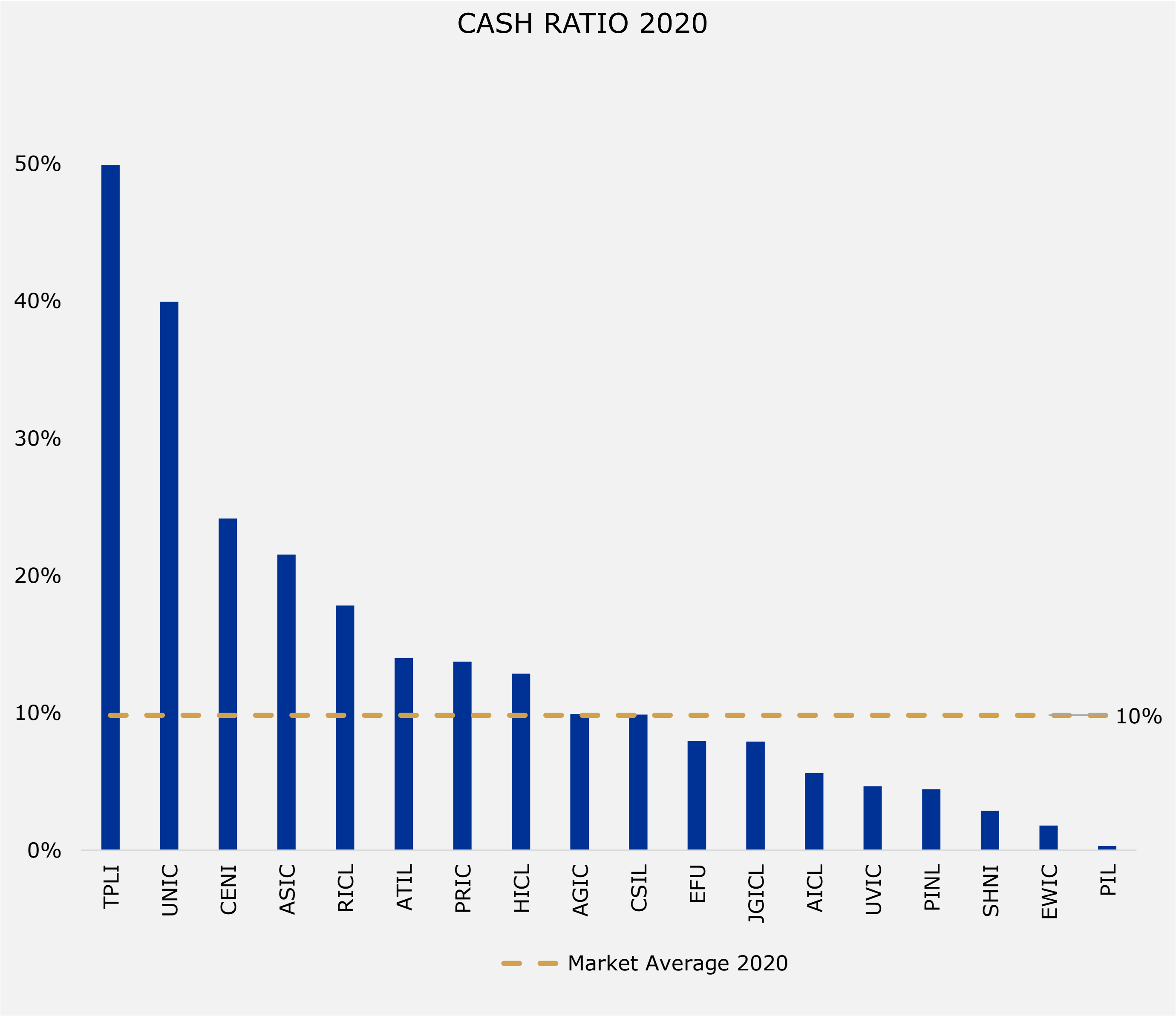
The investment return is computed as total investment income over the total invested assets.

The investment returns of the industry average around 9% in 2020 while they were 8% in 2019.

ASIC has the highest level of investment return which is 18% with a majority of their investments in term deposits. PIL had no investments in 2020 hence it did not generate any returns. CSIL had the lowest returns of 2% and their investments are all in equity.

In times of uncertainty, companies switch their investments to more stable fixed income securities. JGICL and ASIC have experienced higher returns compared to 2019 levels with investments in debt and term deposits respectively.

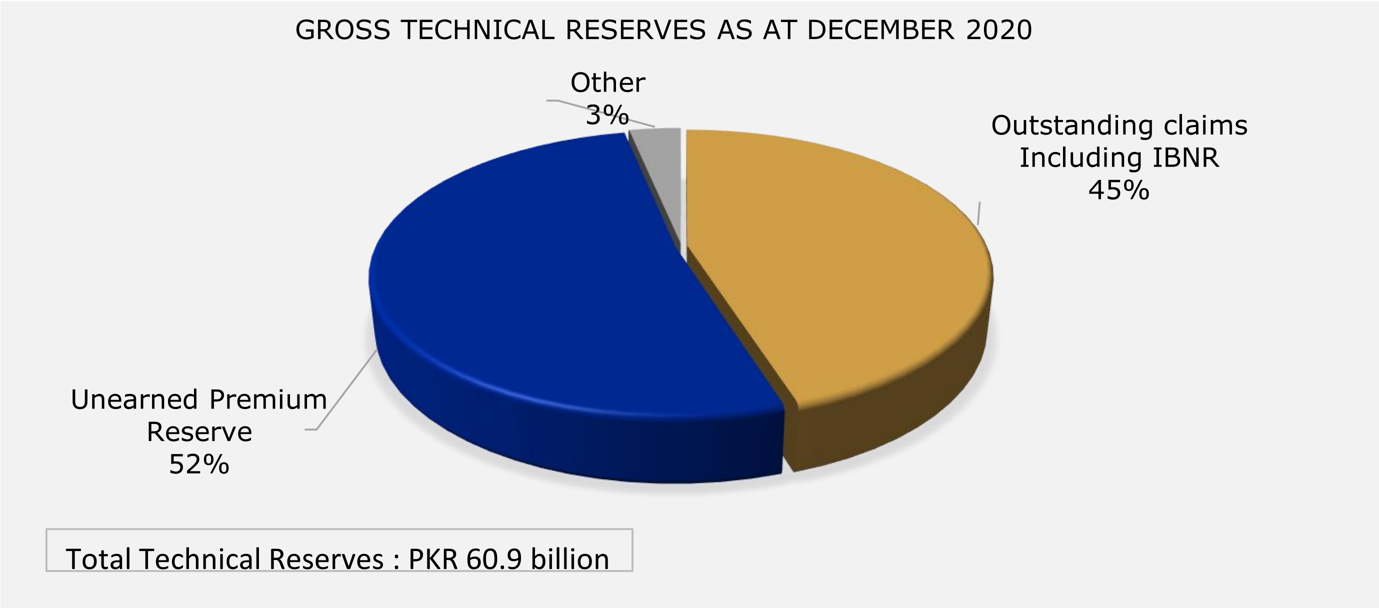
CASH RATIO



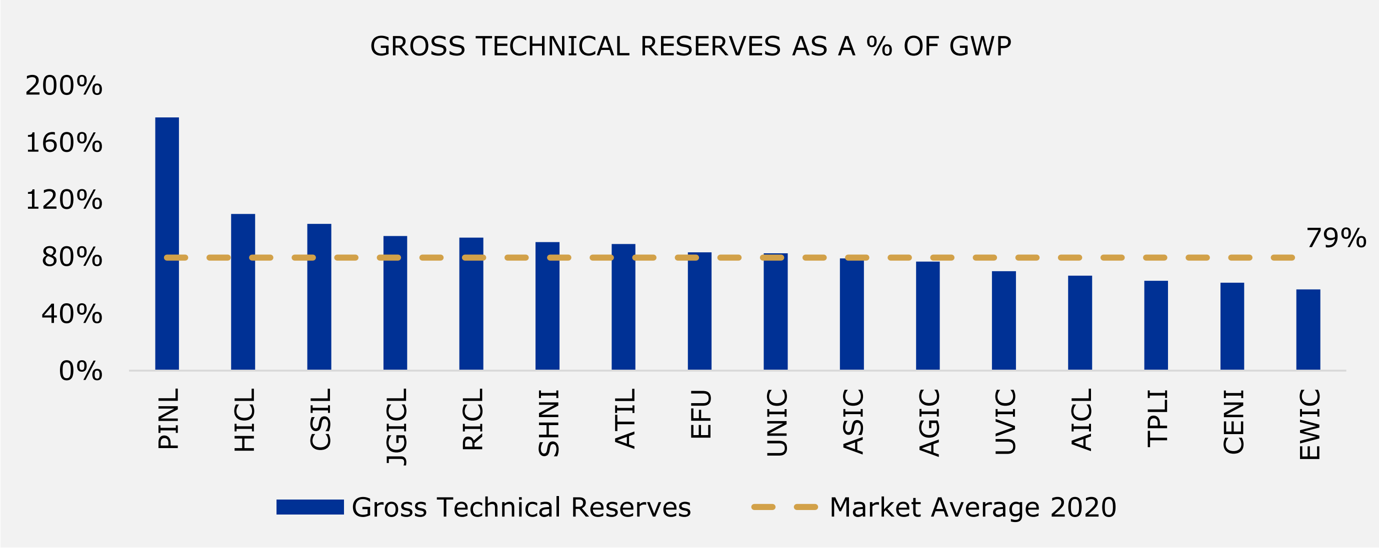
The cash to invested asset ratio has been taken as the ratio of cash & bank to total invested assets including cash. General insurers aims to keep minimum of assets as cash to meet unexpected requirements which may arise due to large loss or catastrophe. Cash generally earns a lower return compared to other asset classes.

The market cash ratio is calculated to be 10%. TPLI has highest level of 50% maintained as cash, while the lowest ratio of about 0% is maintained by PIL.

TECHNICAL RESERVES



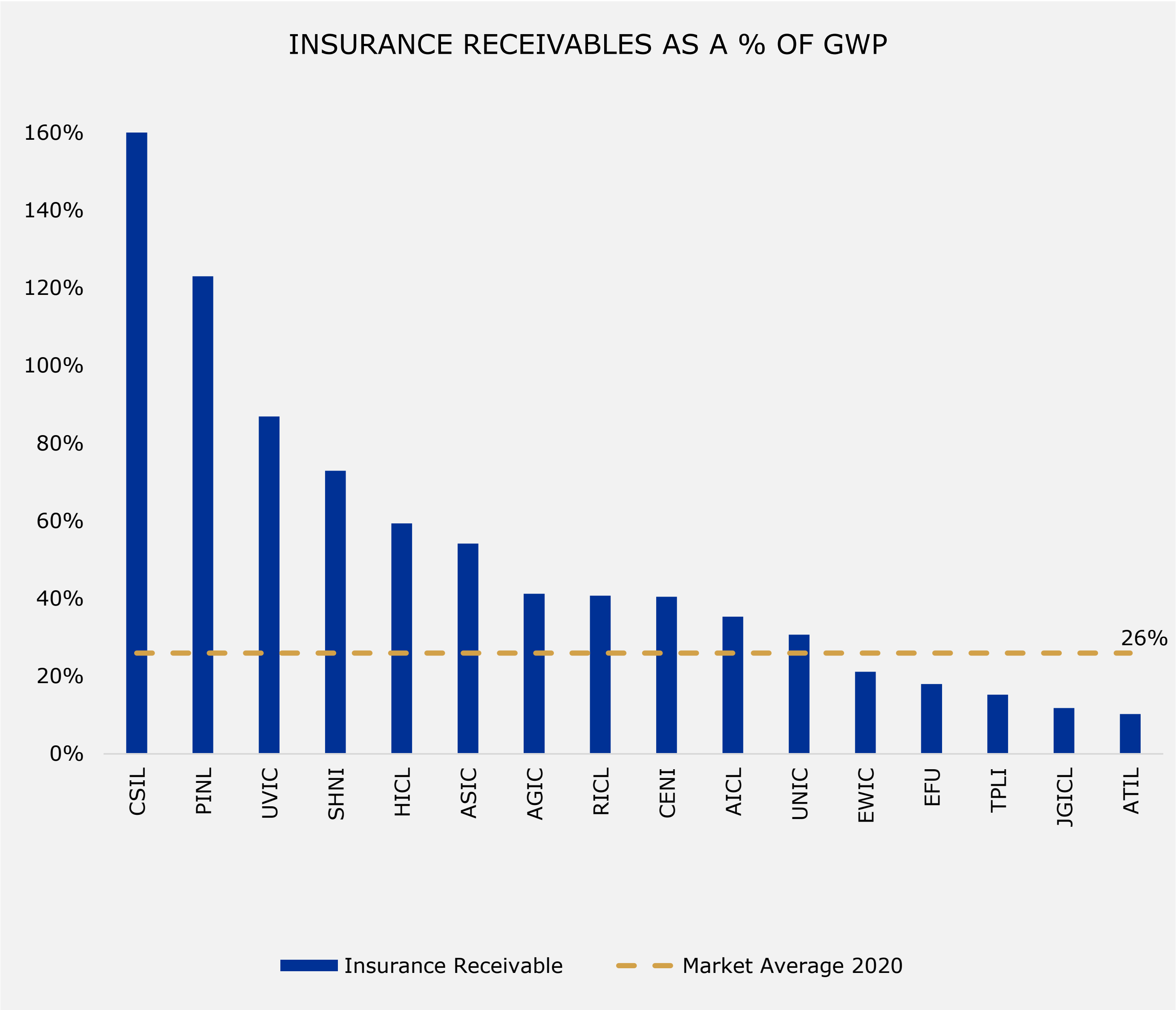
The pie chart shows that unearned premium reserve forms the biggest proportion of total technical reserves for the listed general insurance companies of Pakistan, followed closely by the outstanding claims reserve which includes IBNR reserve as well. Reserves are backed by assets which earn investment income for the company.



The bar graph represents the gross technical reserves as at December 2020 over the gross premium written in calendar year 2020. The market average is 79%. PINL ranks the highest with a ratio of 177% while EWIC has the lowest ratio of 57%. Insurers try to avoid both under reserving as well as over reserving. Over reserving would lead to a deferral of profit and taxes while under reserving can result in a premature pay out of dividends.

AICL includes technical provisions data from outside Pakistan as well since data for Pakistan is not separately available.

INSURANCE RECEIVABLES



The ratio is computed using insurance receivables as at year end 2020 and the gross written premium for calendar year 2020.The market ratio is computed to be 26%. CSIL has the highest ratio of 181% (graph capped at 160%) while ATIL has the lowest ratio at 10%.

The ratio depicts the collection performance of each company. This is particularly important for general insurance which has a short tail. Quicker collection can also improve the liquidity position and favorably impact the investment.

CONCLUSION

The COVID-19 pandemic has had a detrimental impact on most economies of the World which includes Pakistan as well. The lockdowns imposed had the economy almost at a standstill in the second quarter. The economic activity improved from Q3 onwards in the country since the complete lockdowns were replaced with smart lockdowns and the businesses had adjusted themselves to handle the pandemic situation better.

The top-line growth in the market premium was close to 0.4% compared to the 2019 level which resulted in the highest GWP in 2020 over the 5-year period starting from 2016. All the major lines of businesses experienced a fall in GWP except for the Fire and Health line of business. The Takaful business has experienced a steady year on year increase in its' market share and has supported the overall increase in market GWP since the GWP for the conventional business fell by 0.1%.

The market gross loss ratio increased by 7% in 2020 which was due to higher loss activity in the Fire and Others segment. While the market net loss ratio increased by only 1% in 2020 which shows the importance of reinsurance in absorbing the market losses. The combined ratio for the market almost maintained the 2019 level. This is because the higher combined ratio in Fire was balanced out by lower combined ratios in Marine, Health and Others. The expense ratio pattern has also remained similar with the 2019 level on an overall basis.

The investment income for the market has increased by 17% against the 2019 level which amounts to PKR 6.4 billion and is a significant driver of a company's net earnings. The profit before tax for the market fell by 3% since the decline in underwriting profits were only partially recouped by the investment income.

The insurance density for the listed general insurance market was increasing year on year till 2019 but experienced a decrease in 2020. This is because the negligible growth in GWP could not outperform the growth in population for the year. The insurance penetration has also declined in 2020 since the growth in GDP has outpaced the listed general insurance GWP.

KEY TAKEAWAY POINTS

INDUSTRY GWP GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2016	2017	2018	2019	2020
PKR 55.5bn	PKR 62.3bn	PKR 67.8bn	PKR 73.4bn	PKR 73.6bn

INDUSTRY NEP GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2016	2017	2018	2019	2020
PKR 29bn	PKR 33.1bn	PKR 36.4bn	PKR 38.6bn	PKR 39bn

Highest GWP recorded by **EFU** at PKR 22bn

Highest Growth in GWP Recorded by **ASIC** at 16%

Highest NEP by **EFU** at PKR 10.5bn

Highest Retention Recorded by **CSIL** at 100%

Lowest Combined Ratio **ATIL** at 59%

Highest Investment Income Recorded (Conventional) by **EFU** at PKR 2.2bn

Highest PBT Recorded by **EFU** at PKR 3.4bn

Highest Growth in PBT by **ASIC** at 1,858%

Highest ROE by **AGIC** at 26%

Highest Investment Return Recorded by **ASIC** at 18%

INDUSTRY PBT GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2016	2017	2018	2019	2020
PKR 12.1bn	PKR 9.7bn	PKR 9.4bn	PKR 10.4bn	PKR 10.1bn

COMPANIES INCLUDED IN THE ANALYSIS

Listed Insurance Companies			
Sr. No.	**Symbol**	**Name**	**Market**
1	AGIC	Askari Gen. Ins. Co. Ltd	PSX
2	AICL	Adamjee Insurance Co. Ltd	PSX
3	ASIC	Asia Insurance Company Limited	PSX
4	ATIL	Atlas Insurance Limited	PSX
5	CENI	Century Insurance Co.Ltd	PSX
6	CSIL	Crescent Star Insurance Ltd	PSX
7	EFU	EFU General Ins. Ltd	PSX
8	EWIC	East West Insurance Co. Ltd	PSX
9	HICL	Habib Insurance. Co. Ltd	PSX
10	JGICL	Jubilee General Insurance Company Limited	PSX
11	PIL	PICIC Insurance Limited	PSX
12	PINL	Premier Insurance Limited	PSX
13	PRIC	Progressive Insurance Co. Ltd	PSX
14	RICL	Reliance Insurance Co. Ltd	PSX
15	SHNI	Shaheen Ins. Co. Ltd	PSX
16	TPLI	TPL Insurance Limited	PSX
17	UNIC	United Ins. Co. of Pak. Ltd	PSX
18	UVIC	Universal Insurance Company Ltd	PSX

Disclaimer: PAKRI have been excluded since our analysis only includes direct insurers. PKGI has been excluded while only limited analysis is done on PIL and PRIC since direction under Section 63 of the Insurance Ordinance 2000 has been issued to cease these Companies from entering into new contracts of insurance

DISCLAIMER

- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the listed general insurance companies in Pakistan for the year ended December 2020. The data has been extracted from the financial statements of those companies which were publicly listed and available till the compilation of this report.

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- For the scope of our analysis, we have only taken business underwritten inside Pakistan for AICL. Since PRIC and PIL have not written business for the year 2020, they have been excluded from any analysis that involves the use of premium.

- Segment level information on the takaful operator’s fund did not give line of business wise break down for some companies

- While reasonable care has been taken in preparing this document and data obtained from sources believed to be reliable, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. Badri accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any thereof or due to any contents or associated services.

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About our team

UAE/Oman Actuarial 32 Staff	KSA Actuarial 22 Staff	Medical 4 Staff
Business Intelligence 9 Staff	End of Service 6 Staff	HR Consulting 1 Staff

14 Support and admin staff

Total Strength = 88

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Maira Qadar

Afnan Shaukat

FEEDBACK

Badri Management Consultancy is proud to present the 2020-Q4 report. We have a dedicated team that is working to bring you research reports. Our doors are open for feedback, and we welcome them. Feel free to inquire about the report.

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