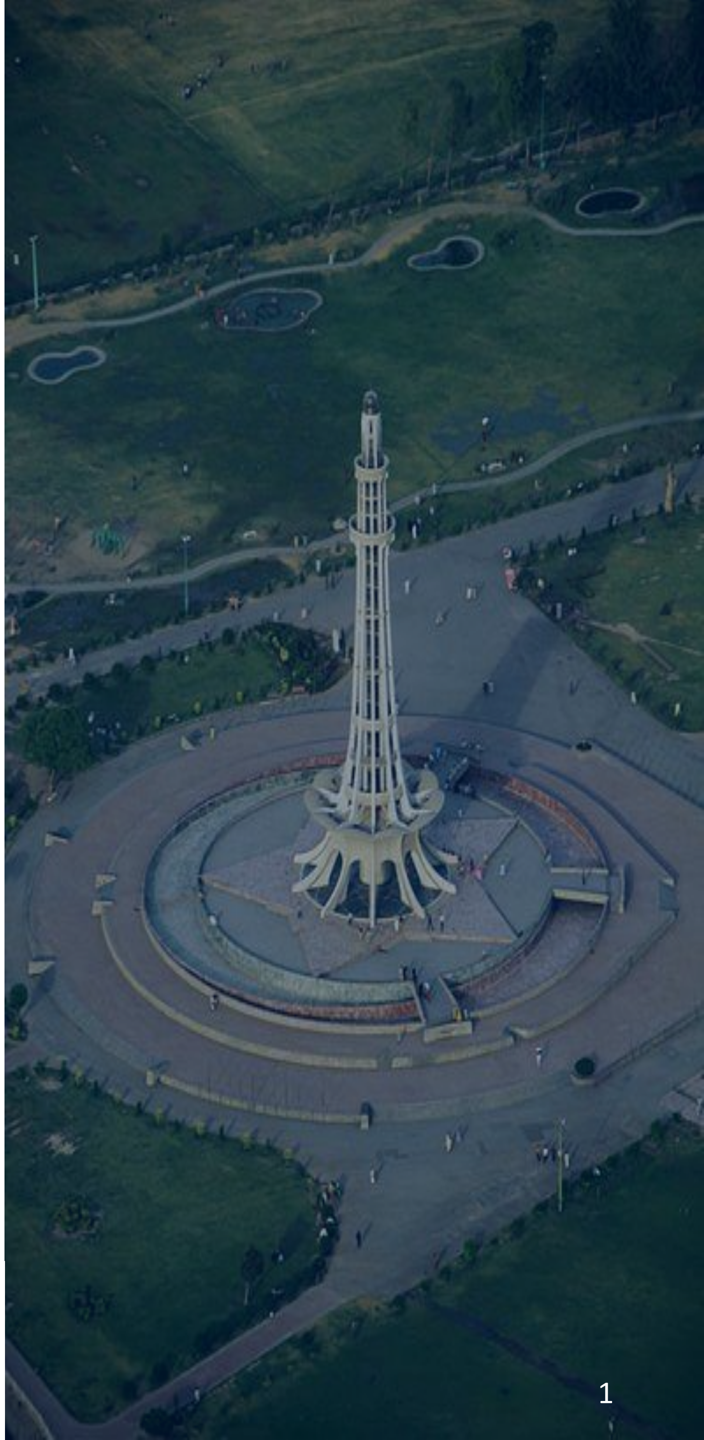
BADRI

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

July 30th, 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.

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INDUSTRY HIGHLIGHTS - 2020

Gross Premium Written – Private Sector	Gross Contribution Written – Public Sector	First Year Persistency	Subsequent Year Persistency
PKR 114 Bn	PKR 119 Bn	72%	87%
2019: PKR 110Bn	2019: PKR 113Bn	2019: 72%	2019: 87%

Investment Income	Profit After Tax	Investment return	Return on Equity
PKR 117 Bn	PKR 8.6 Bn	9%	24%
2019: PKR 104Bn	2019: PKR 5.3Bn	2019: 9%	2019: 18%

Insurance Density	Insurance Penetration
PKR 1,100 per Capita	0.52%
2019: PKR1,170/capita	2019: 0.56%

INSURER FINANCIAL STRENGTH RATINGS

	2019		2020	
Companies	JCR-VIS	PACRA	JCR-VIS	PACRA
Adamjee		A+		A+
ALAC				A-
DFTL		A		A
EFUL	AA+		AA+	
IGIL		A+		A+
JLICL	AA+		AA+	
PQFT	A+		A+	
SLIC		AAA		AAA
TPLI		A-		A-

Despite the COVID-19 pandemic, all the companies have managed to maintain their IFS ratings

INSURER FINANCIAL STRENGTH RATINGS

PACRA Key

Rating	Capacity	Description
AAA	Exceptionally Strong	Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong	Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong	Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good	Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak	Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak	Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk	Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed	Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

JCR-VIS Key

Rating	Capacity	Description
AAA	Exceptionally Strong	Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.
AA+, AA, AA	Very Strong	Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time
A+, A, A	Strong	High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic
BBB+, BBB, BBB	Strong	Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.
BB+, BB, BB	Weak	Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.
B+, B, B	Very Weak	Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.
CCC	Very high credit risk	Very low capacity to meet policyholder and contract obligations; Risk may be substantial.
CC	Very high credit risk	Weak capacity to meet policyholder and contract obligations; Risk may be high.
C	Distressed	Very weak capacity to meet policyholder and contract obligations; Risk may be very high
D	Distressed	Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

INSURANCE DENSITY & PENETRATION

Year	Insurance Density (PKR)	Insurance Penetration
2018	1,103	0.62%
2019	1,070	0.56%
2020	1,100	0.52%

The Insurance Density measures the Gross Written Premium per capita. The ratio for Pakistan lies in the range between PKR 1,050 to PKR 1,100 which is very low compared to countries such as India with a ratio of about PKR 8,640 , Egypt where the density is PKR 1,440 and Indonesia where the density is PKR 8,320.

The Insurance Penetration ratio measures the proportion of GDP contributed by the written premium. The life insurance premium contributes less than 0.7% to Pakistan's GDP which continues to rate amongst the lowest in the region and the world when compared to a ratio of 2.7% for India, 3.1% for Malaysia and 1.2% for Indonesia.

The insurance density and penetration of the life sector is higher than that of the general sector as life insurance has traditionally dominated this region. Furthermore, a majority of the life insurance business is written in unit linked policies which have an investment/savings component as well which results in higher premiums for this industry. A major contributor to this dominance is consumer aversion to protection policies as people prefer the notion of a certain payback in the form of savings policies. This is largely the reason why the market portfolio is still dominated by unit linked products.

The insurance industry plays a key role in transferring risks of individuals and large corporations included. Government initiatives like tax credits on life insurance products has helped to promote this industry.

GROSS WRITTEN PREMIUM - MARKET

The highest premium for the overall market has been achieved in 2020 amounting to PKR 233 billion over the 3-year period with a growth of 5% compared to the level in 2019. This growth can be attributed to a rise in single premium, group premium and subsequent year premium. A decrease of 1% was experienced in 2019 by the life insurance industry. This industry wide decline in GWP can be attributed to several reasons. The industry saw a marked decline in the issue of single premium policies by about 65% which could be a direct implication of the AML/CFT initiatives.

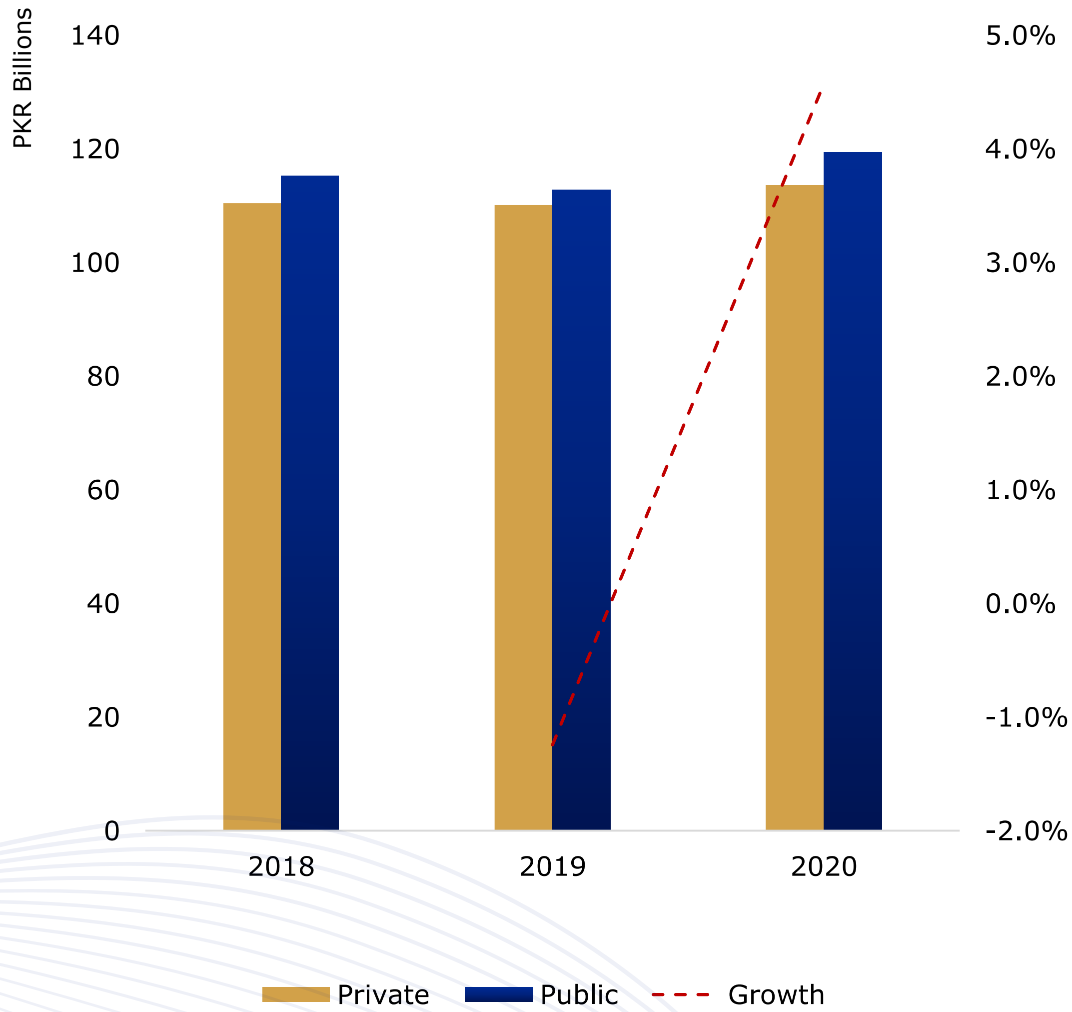
2019 also saw the implementation of stricter AML/CFT Regulation across the Insurance Industry. With the enhanced Know Your Customer (KYC) & Customer Due Diligence (CDD) requirements of the latter, policy issuance ceases to be straight forward. The impact of such regulation is more pronounced for the life insurance sector due to its higher ticket size.

The bar graph shows that the public sector has consistently dominated the life insurance industry. The private sector experienced a negligible decrease in 2019 followed by a 3% increase in 2020. While the public sector experienced a sharper fall in 2019 followed by a sharper rise in the following year compared to the public sector.

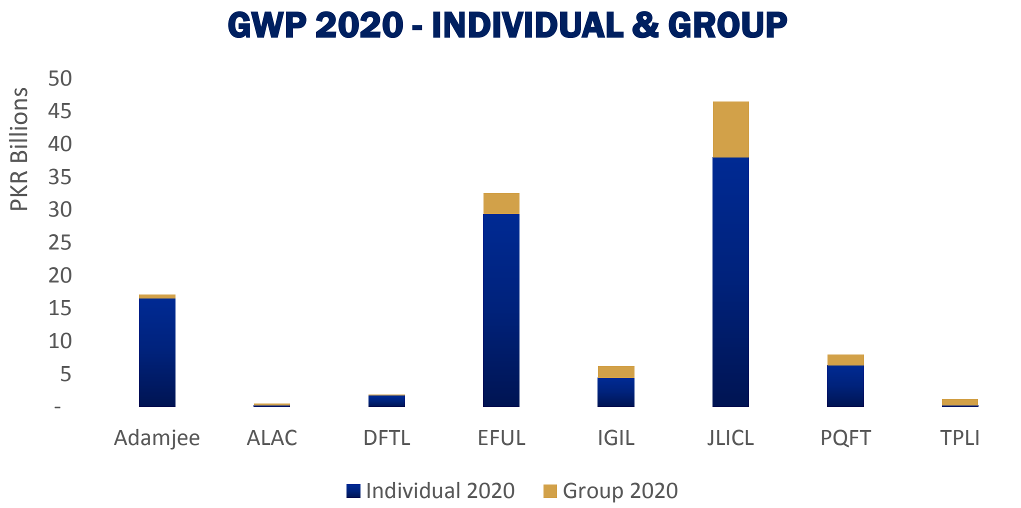
The life industry did not experience any significant impact of COVID-19. The impact could be seen more on Q2 figures since that is when a nationwide lockdown was imposed. However, the economy started to recover from Q3 onwards since nationwide lockdowns were replaced with smart lockdowns.

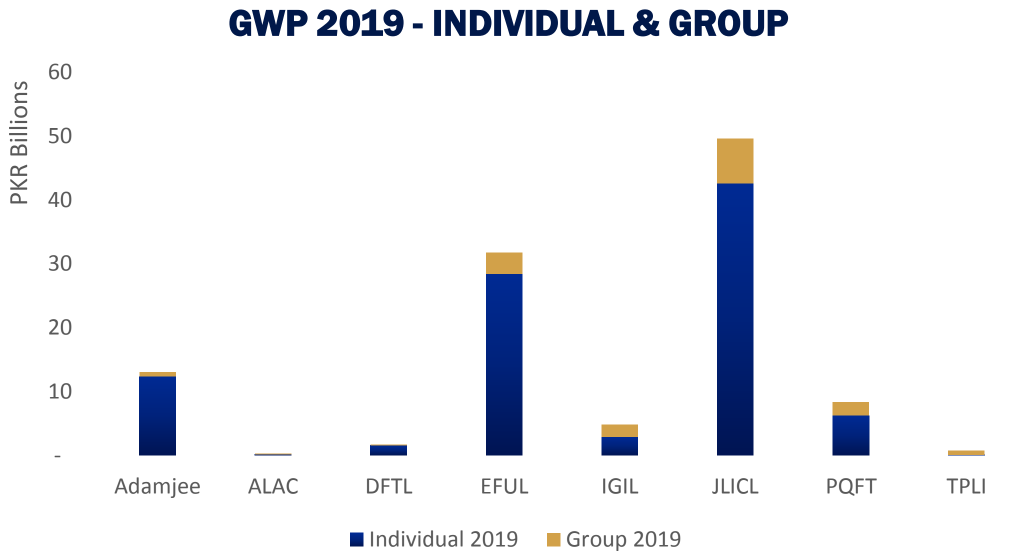
As part of this analysis public sector only includes SLIC

GROSS PREMIUM GROWTH TREND



GROSS WRITTEN PREMIUM - COMPANY





The split of the GWP shows that the majority of the life insurance companies write business in individual policies which are primarily comprised of unit linked policies. Of these, 3% are single premium, 14% are new business and the remaining are subsequent year premiums. A lack of term life policies sold in this region reinforces consumer aversion towards protection policies.

Group policies include both Group Life & Group Health. These are primarily corporate schemes. In Pakistan health business is written by both, life and general insurers. However, in the case EFU, Adamjee and Askari, their general insurance counterparts write health business.

Adamjee writes almost 97% of their business in individual policies which is the highest proportion in the industry. While ALAC and TPLI write a majority in group business. TPLI has the highest proportion in group business of about 83%.

SLIC dominates the life insurance industry with a GWP of PKR 119 billion. The highest premium in the private sector has been written by JLICL of PKR 47 billion followed by EFUL and Adamjee with a GWP of PKR 33 billion and PKR 17 billion respectively.

The GWP follows a similar pattern in 2019 as well with a majority of the business written under individual policies. However, 2019 saw an overall decline in business activity compared to the 2018 level. This was due to a fall in the GWP for the industry leaders namely SLIC, JLICL and Adamjee by 2%, 4% and 2% respectively.

In 2019, the highest premium in the private sector was written by JLICL of PKR 50 billion followed by EFUL and Adamjee of PKR 32 billion and PKR 13 billion. While SLIC dominated the overall industry with a premium of PKR 113 billion.

SLIC removed from the graphs since it was an outlier
Experience refund is adjusted in group policies

MARKET SHARE - GWP

SLIC is the largest life insurance company which was formed by a merger of 32 life insurance companies in 1972. Hence, SLIC holds a staggering 51% of the industry's market share.

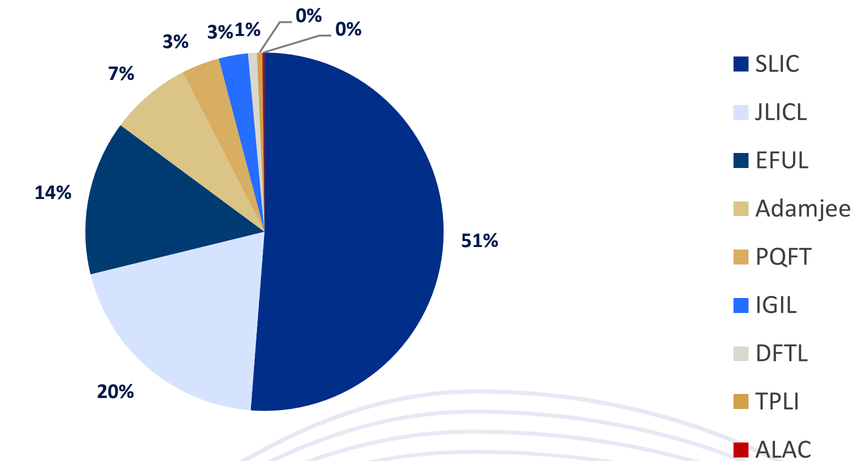
JLICL can be seen as the market leader in the private sector life insurance industry based on GWP with a market share of 20% for the year ended December 2020 followed by EFUL at 14% and Adamjee at 7% respectively.

Compared to the 2019 level, JLICL has experienced a 4% fall in its' market share while Adamjee and IGIL have experienced a 3% and 1% increase respectively. The rest of the companies have managed to retain their market share.

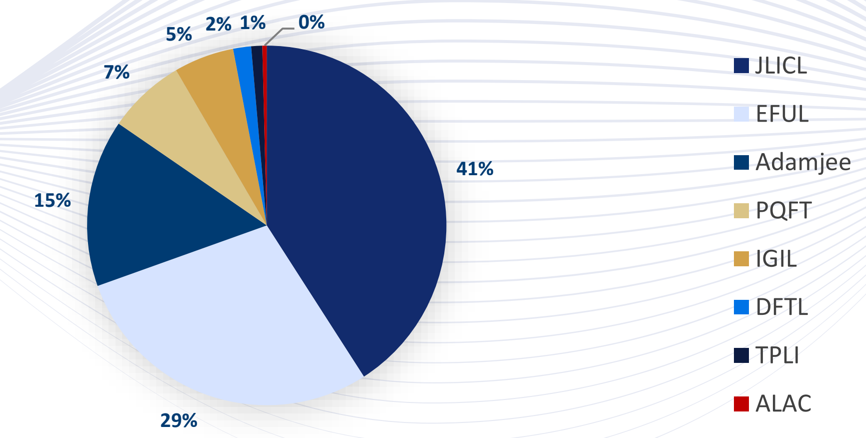
SLIC, JLICL & EFUL have managed to maintain their market share for several years now. New entrants to the market are found to have greater proportions of their GWP in group policies due to the traditional dominance of these major players in the individual life market.

The life insurance industry was nationalized in 1972. The deregulation started in 1992 to promote competition with the formation of 4 private life insurers by 1993.

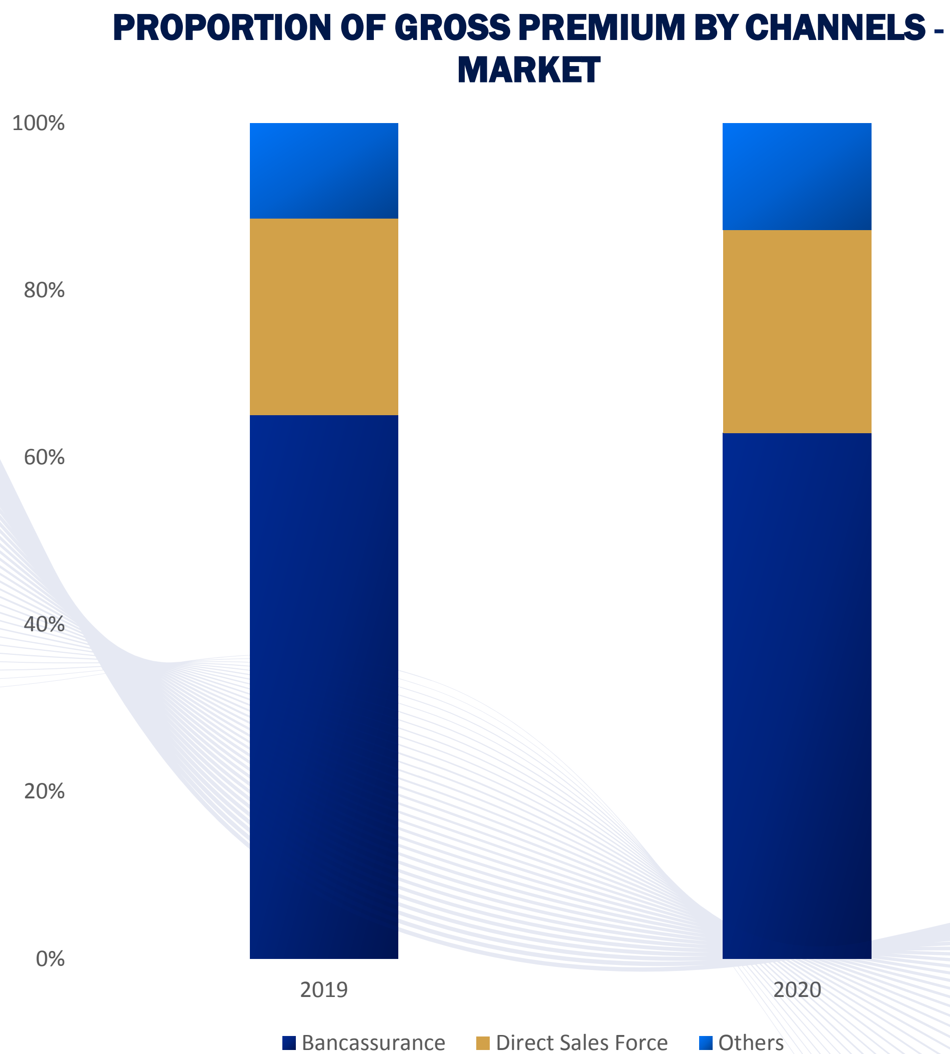
MARKET SHARE - GROSS PREMIUM (With SLIC)



MARKET SHARE - GROSS PREMIUM (Without SLIC)



DISTRIBUTION CHANNEL - MARKET



The charts above show the gross premium split based on the two major channels i.e. Banca, Direct Sales Force. All other channels are clubbed with Others. This information is not available for all companies but data from major players is sufficient to draw conclusions regarding shifts in major business channels.

Traditionally, Banca & Direct Sales Force have remained the primary means by which life insurance companies have made sales. However, since these channels have been dominated by in person interactions, restrictions induced by COVID lockdowns have paved way for alternate distribution channels relying on Digital means. The increasing reliance on digital distribution channels is indicated by the decline in GWP written by Banca since 2019. The same decline can also be observed in data from banks selling insurance policies. Over the period 2019-20, published data from banks has indicated a substantial reduction in overall premiums from the Banca channel with major players like HBL & UBL reporting significant declines.

The DSF channel has adapted to the new normal by staying in touch with regular clients through digital means. The SECP has also been encouraging the industry to adopt more "digitialisation" through its reformed regulations. In March 2020, as more insurers shifted operations online, the SECP issued Guidelines on Cybersecurity Framework for the Insurance Sector. This was done in order to identify and mitigate the increased risks that insurnace companies face with their increased reliance on Technology. Not long after this, the revised Corporate Insurance Agent Regulations, 2020 also include clauses for "promoting digitalisation". In June 2021, the SECP also issued a draft framework for Digital Only Insurers.

***This data is only available for JLICL, EFUL, Adamjee, IGIL**

DISTRIBUTION CHANNEL - COMPANY

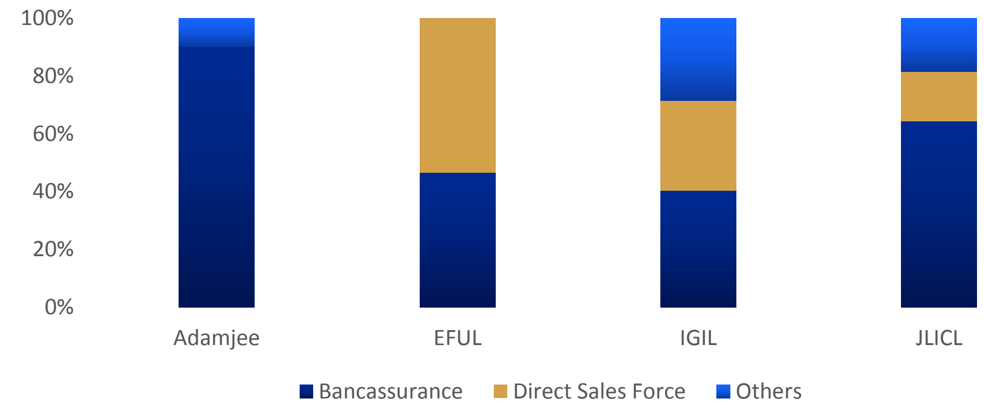
The charts here depict the channel wise split of gross premium for companies that disclose this information in their financials.

JLICL & Adamjee make the highest proportions of their sales through Banca. JLICL, in partnership with HBL has capitalized on the bank's vast network to reach untapped consumer markets. Adamjee has similarly partnered with MCB. Due to reduced maximum commission allowances in the Corporate Insurance Agent Regulations 2020, this reliance on Banca may decrease. Companies with a balanced Banca/DSF split like EFUL indicate a more stable portfolio that may not be impacted by such changes in regulation.

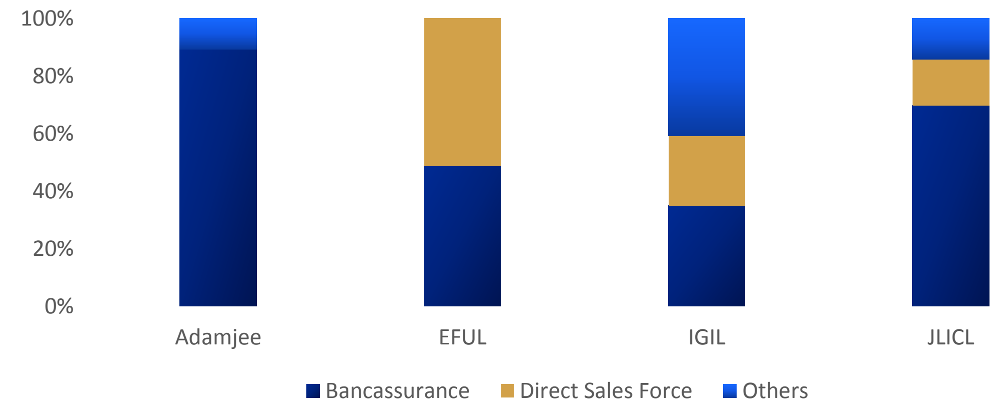
IGIL's reliance can be seen on "Other Channels". In partnership with the Vitality Group, IGIL has launched the Vitality Program – a wellness program that it offers in conjunction with its various products through digital channels.

Considering the changes in the regulatory and economic landscape, the split of distribution channel is likely to change over the upcoming months and years.

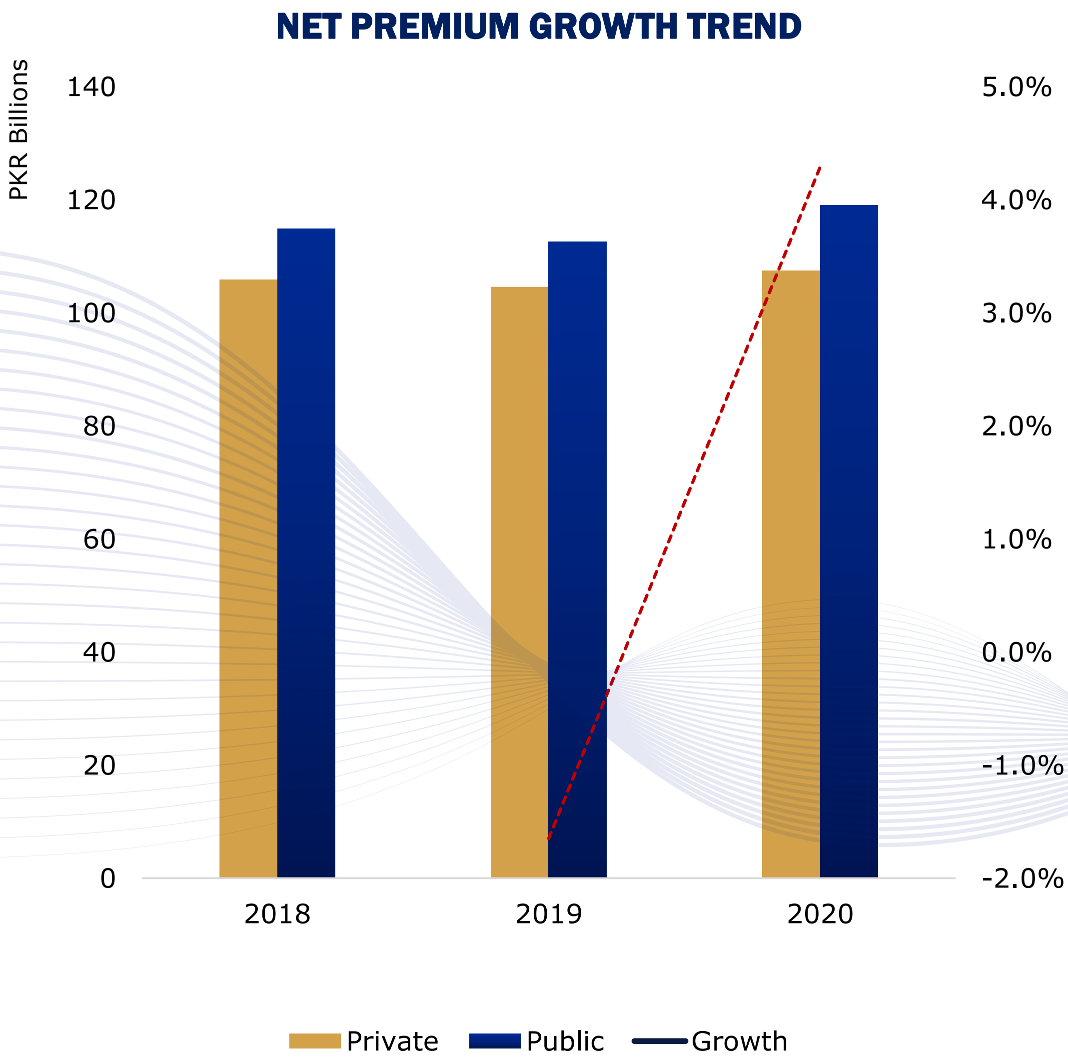
PROPORTION OF GROSS PREMIUM BY CHANNELS - 2020



PROPORTION OF GROSS PREMIUM BY CHANNELS - 2019



NET WRITTEN PREMIUM - MARKET



The highest net premium for the overall market has been achieved in 2020 amounting to PKR 226 billion over the 3-year period with a growth of 4% compared to the level in 2019. A decrease of 2% was experienced in 2019 by the life insurance industry.

The private sector experienced a decrease of 1% in 2019 followed by a 3% increase in 2020. While the public sector experienced a sharper fall in 2019 followed by a sharper rise in the following year.

The net premium trend is quite similar to that of gross premium for the life insurance sector. It is pertinent to note that life insurers in Pakistan do not have much dependance on reinsurance as compared to the general insurers. This is primarily because companies are able to retain most of the premium as portfolios are dominated by savings policies. In this case, only the risk premium can be reinsured. However, due to limitations of published data, it is not possible to analyze that separately here.

NET WRITTEN PREMIUM - COMPANY

The highest net premium has been written by JLICL of PKR 45 billion followed by EFUL and Adamjee of PKR 32 billion and PKR 17 billion respectively. This ranking is similar to the GWP ranks.

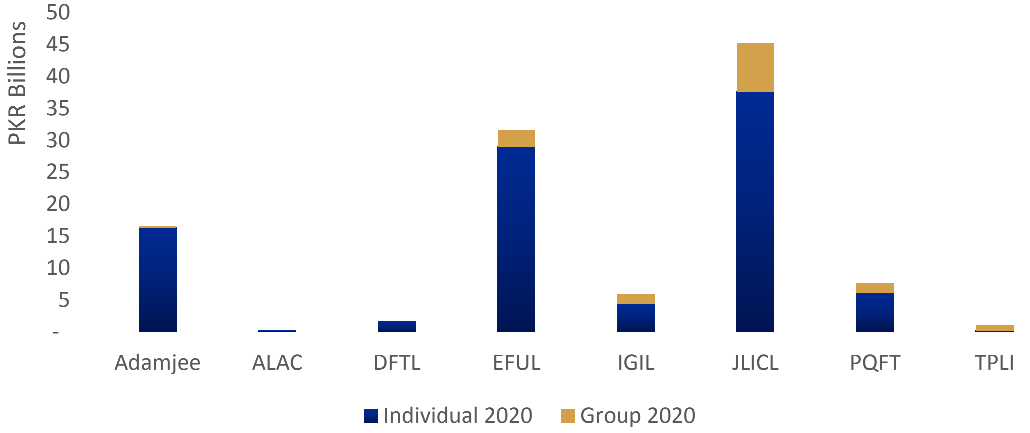
The retained premium proportion is higher for individual policies compared to the group policies. Again, this is because individual policies mainly include unit-linked policies which comprise of savings and investment component which is not generally reinsured as investment guarantees are not very common in Pakistan.

2019 saw the highest net premium written in the private sector by JLICL of PKR 48 billion followed by EFUL of PKR 31 billion and Adamjee of PKR 12 billion. While the public sector had net premium of PKR 113 billion.

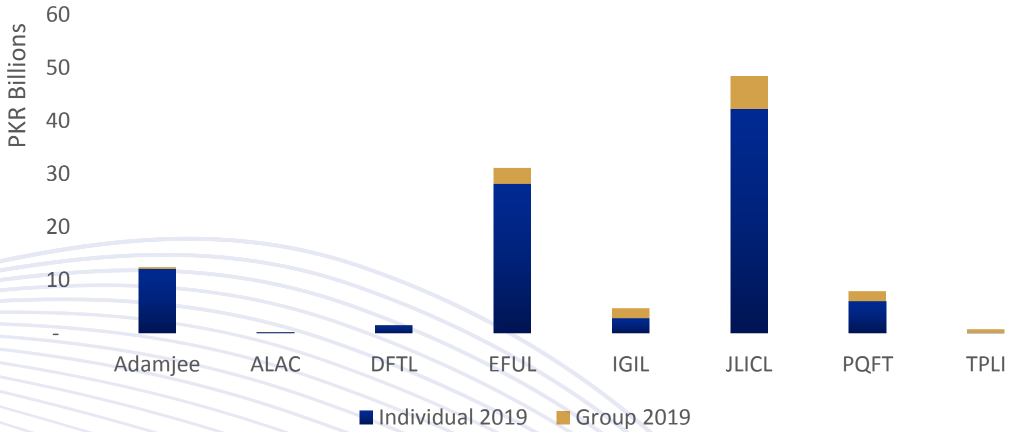
The business split between individual and group policies have remained relatively similar to the 2020 levels. A noticeable difference can be seen for IGIL which moved from a 60:40 split between individual and group in 2019 to a 75:25 in 2020.

Gross of wakala numbers are used for the takaful companies.
Experience refund is adjusted in group policies
*****Reinsurance commission on risk and commission from reinsurers has been split proportionately based on reinsurance premium for individual and group policies***

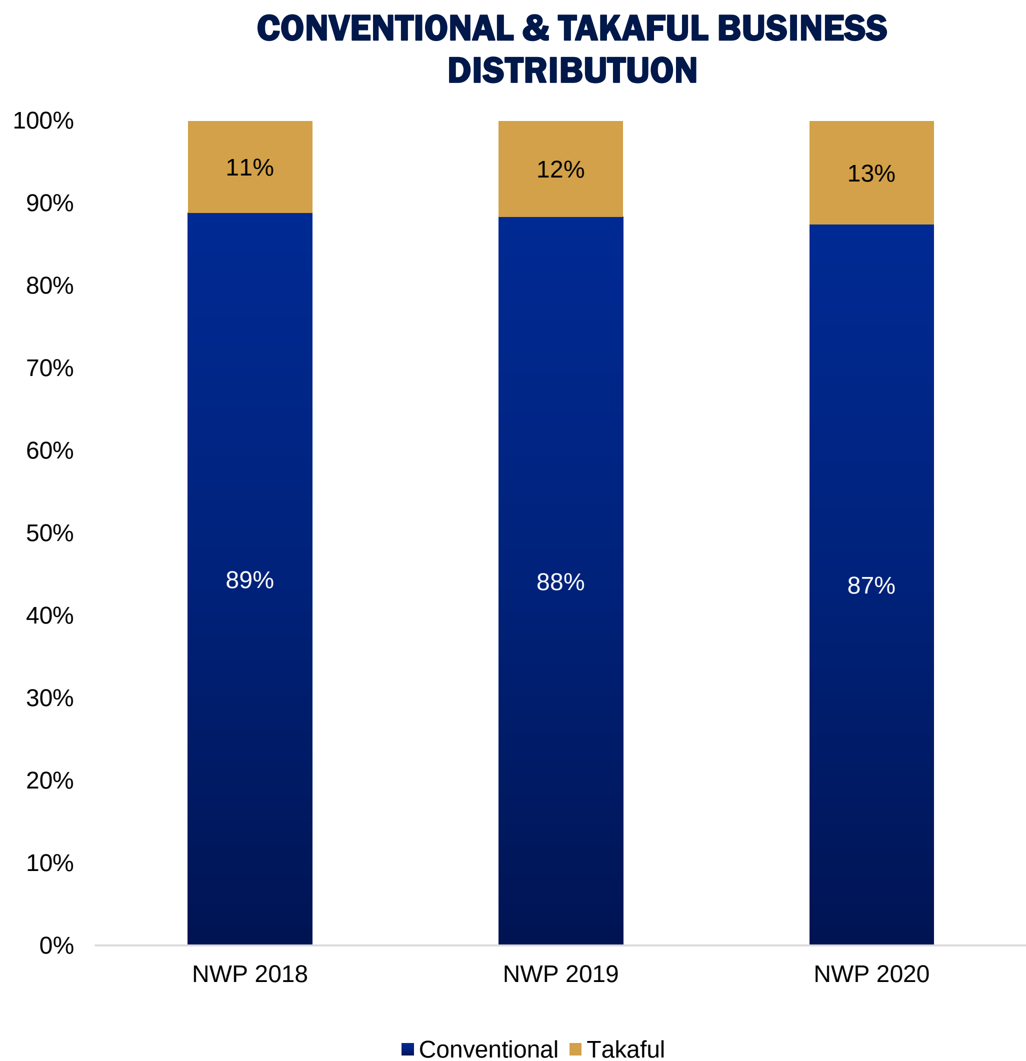
NET PREMIUM 2020 - INDIVIDUAL & GROUP



NET PREMIUM 2019 - INDIVIDUAL & GROUP



CONVENTIONAL & TAKAFUL BUSINESS DISTRIBUTUON



Out of the 9 life insurance companies, 2 operate as standalone takaful companies while the rest operate as conventional companies with window takaful operations (except for SLIC). While the majority of the business is still conventional, the takaful proportion can be observed to show a consistent increase throughout the 3-year period. The share of takaful stands at 13% for the year ended December 2020 in terms of the net written premium.

This graph follows a similar trend to the listed general insurers of Pakistan who have experienced a year on year increase in the window takaful business proportion and currently stands at 12%.

SEGMENT WISE NET PREMIUM CONTRIBUTION

The year 2020 has been a peculiar year due to the COVID-19 pandemic yet the highest written premiums have been attained in this year when compared to the last 3 years.

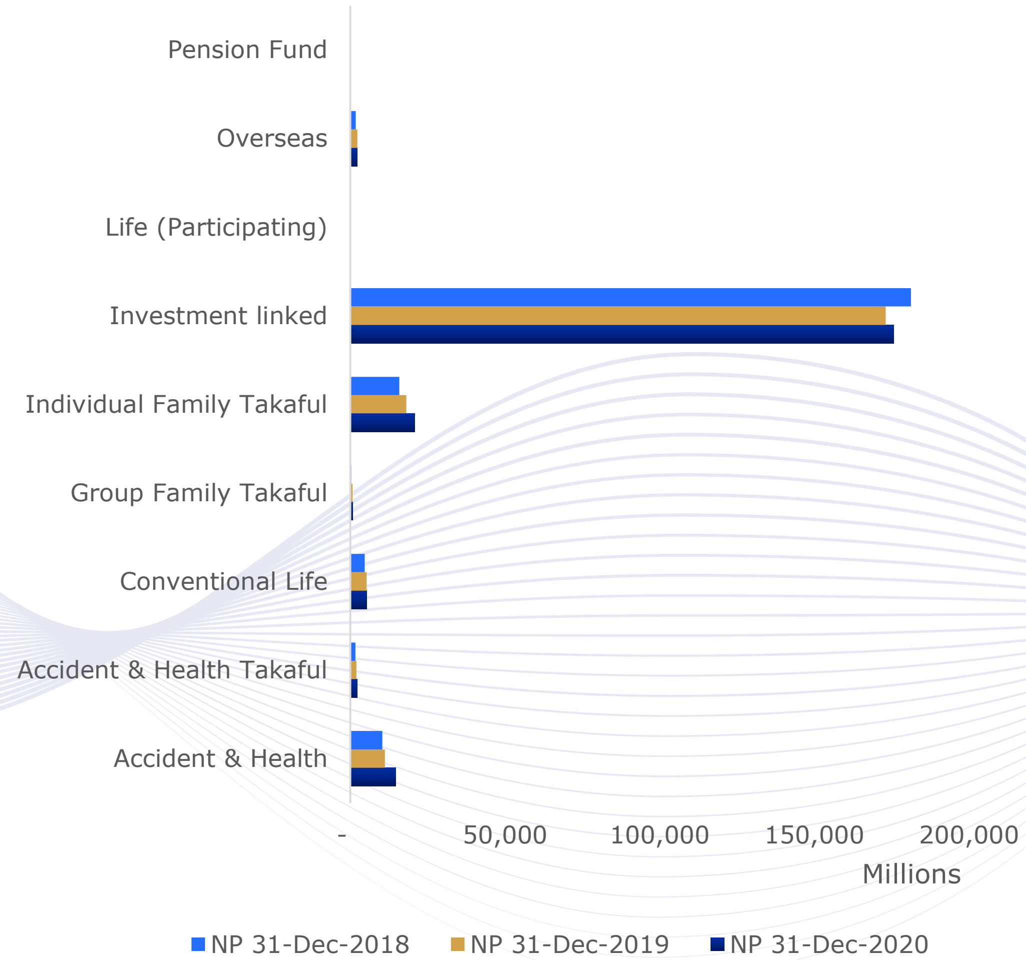
The highest net premiums have been written in investment linked policies ranging between PKR 175 billion to PKR 182 billion with a slight dip experienced in 2019 which can be attributed to the FATF deadlines in October of that year.

Conventional Life & Group Family Takaful are comprised mainly of corporate life schemes.

The accident and health segment has seen an increase of 32% on the conventional side and 8% on the takaful side. This may be because people have seen the damage done by pandemic and would like to insure themselves against such events in the future. As consumer aversion to protection policies grows weaker, it is likely that its impact will be reflected in rising demand for Health coverage especially in the wake of rising medical costs. Market medical premiums also increase generally because of medical inflation.

Overall all the lines have seen an increase except for life(participating) and overseas which fell by 19% and 1% respectively.

NET PREMIUM/CONTRIBUTION BY SEGMENT



*** This analysis has been performed using figures from segment wise revenue accounts that only disclose net figures***

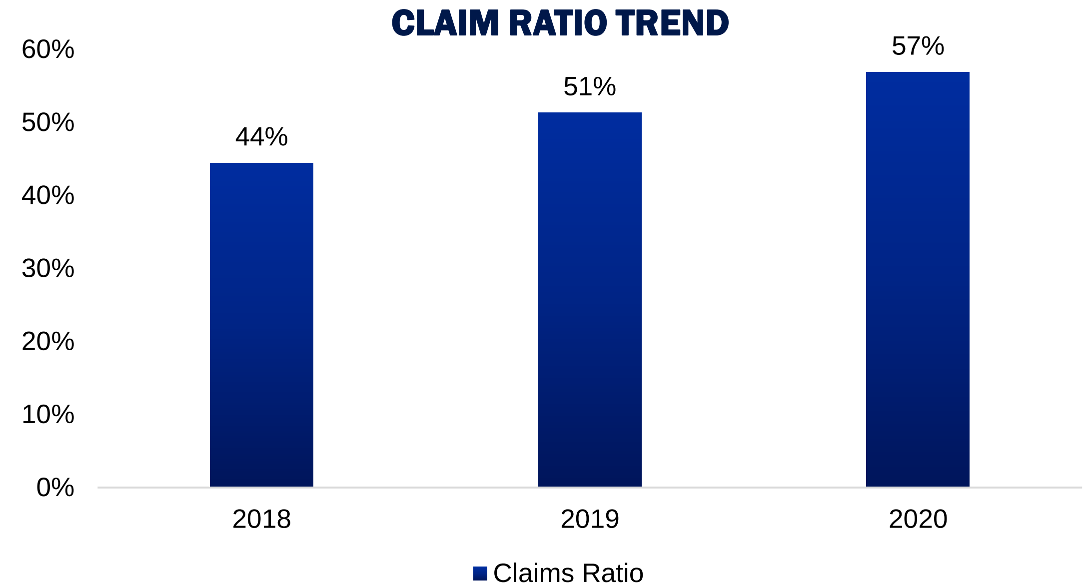
RATIO OF CLAIMS TO PREMIUMS

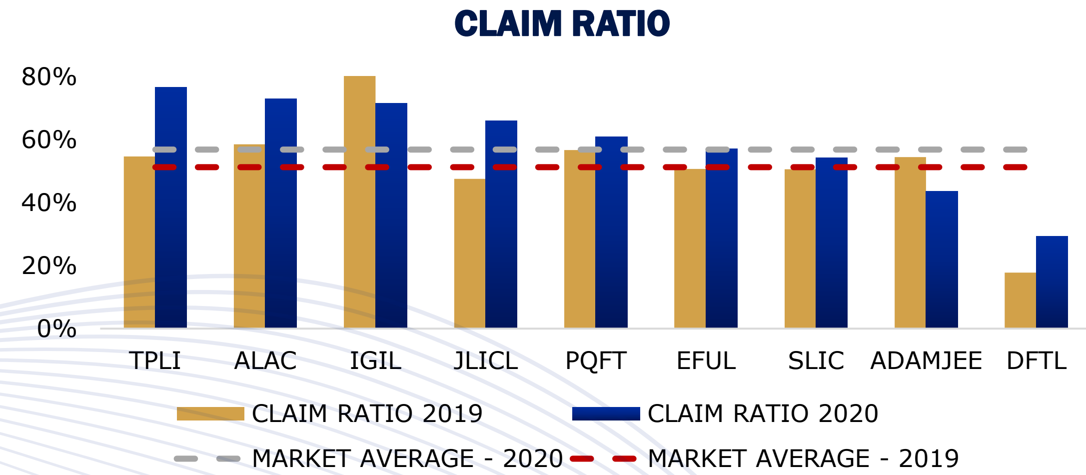
The claims ratio is calculated as gross claims over the gross written premium. The market average stands at 57% in 2020 which shows a 6% increase compared to the market numbers in 2019.

The highest claim ratio of 77% was experienced by TPLI followed by ALAC of 73%. Both of these companies are relatively new in the life industry and write mostly group business. Since group policies are short term, the risk characteristics of group schemes are likely to lead to claim trends different from what would be expected from an individual insurance policy.

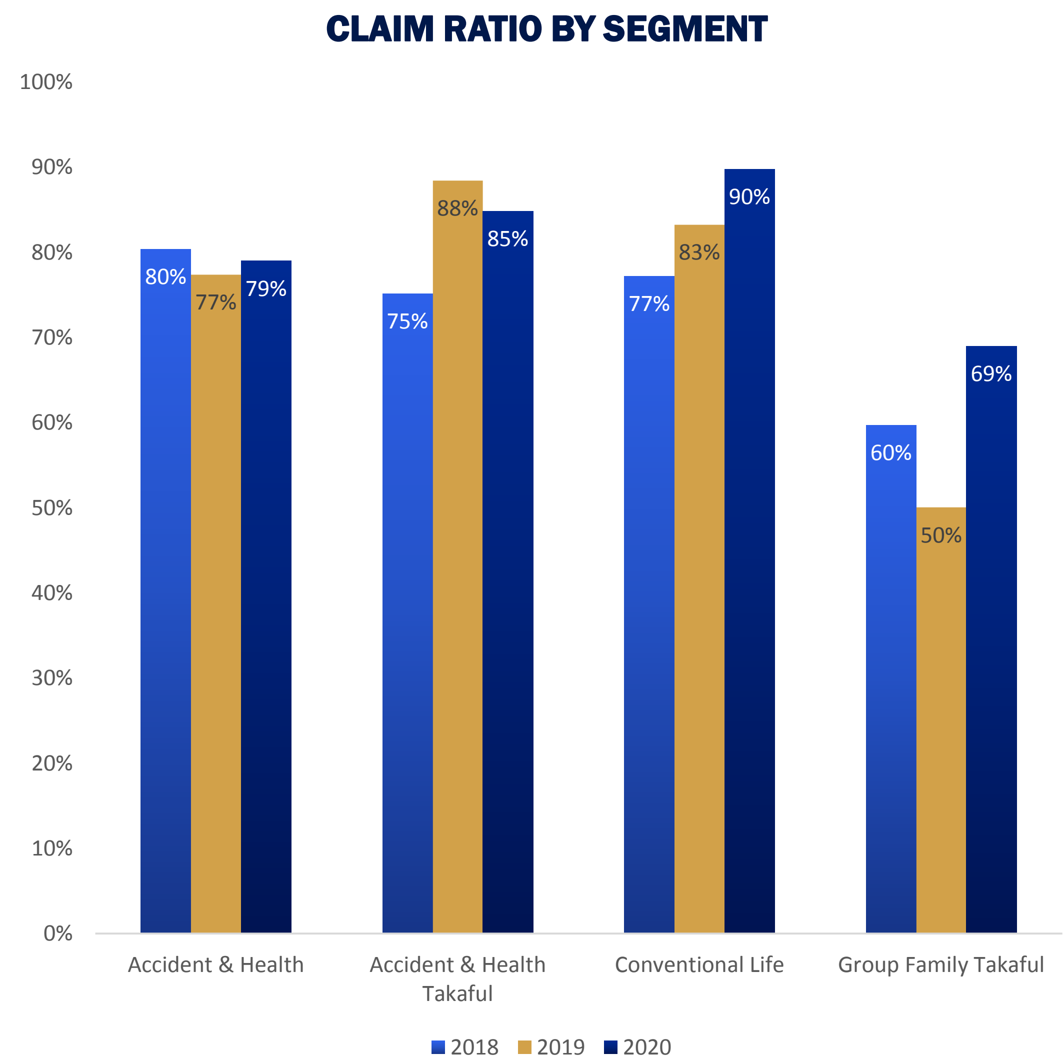
IGIL, JLICL and PQFT are also above the market average numbers for 2020.

Overall, 2020 saw rising claims. This can be attributed to COVID-19, both due to higher death claims and reduced consumer purchasing power. The latter results in more policy surrenders which are expected to impact this sector substantially due to its concentration in savings policies. An analysis of surrender claim indicates a year on year increase of 23% in 2019 and by 14% in 2020. This could be due to declining expectations of the economic outlook of the country..





SEGMENT WISE CLAIM RATIO



The claim ratio is calculated as the net insurance benefits over the net premium.

The conventional life business has experienced an increase in the claim ratio year on year while the Group Family takaful business experienced a decrease in 2019 followed by an increase in 2020. An interesting point to note is that the accident and health business on the takaful side has a higher claim ratio for 2018 and 2019 compared to the conventional segment.

This analysis has been conducted for segments with a short term exposure period only as the analysis becomes complicated in case of unit linked policies with a savings component.

Since Takaful is a relatively smaller proportion of overall business, it may only be appropriate to draw trends and conclusions based on the conventional segments.

* This analysis has been performed using figures from segment wise revenue accounts that only disclose net figures

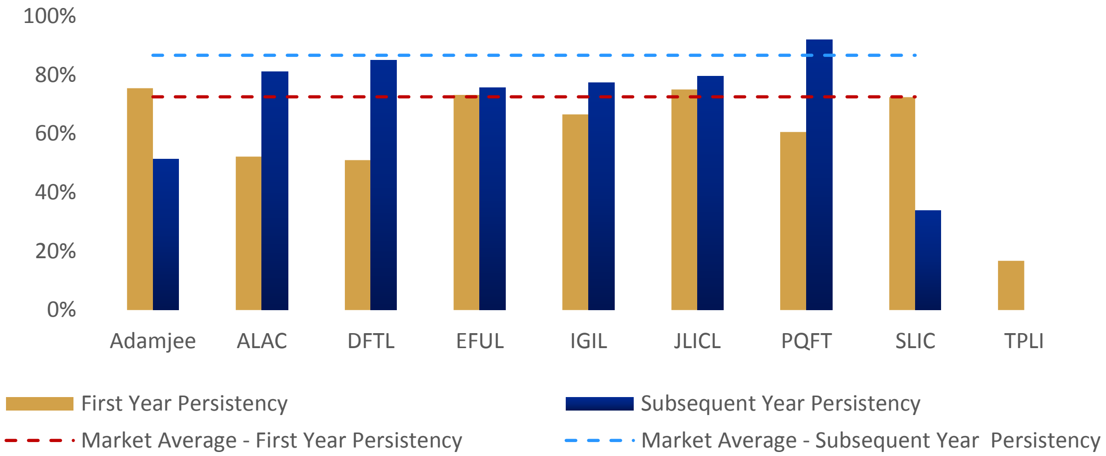
PERSISTENCY

Persistency is a measure of customer retention and a vital performance indicator for life insurance companies. Here, based on the data available, first year persistency has been calculated as current second year premiums (2020) divided by first year premiums from previous year (2019). Similarly, subsequent year persistency have been calculated as current year subsequent premiums (2020) divided by sum of previous (2019) second year & subsequent year premiums.

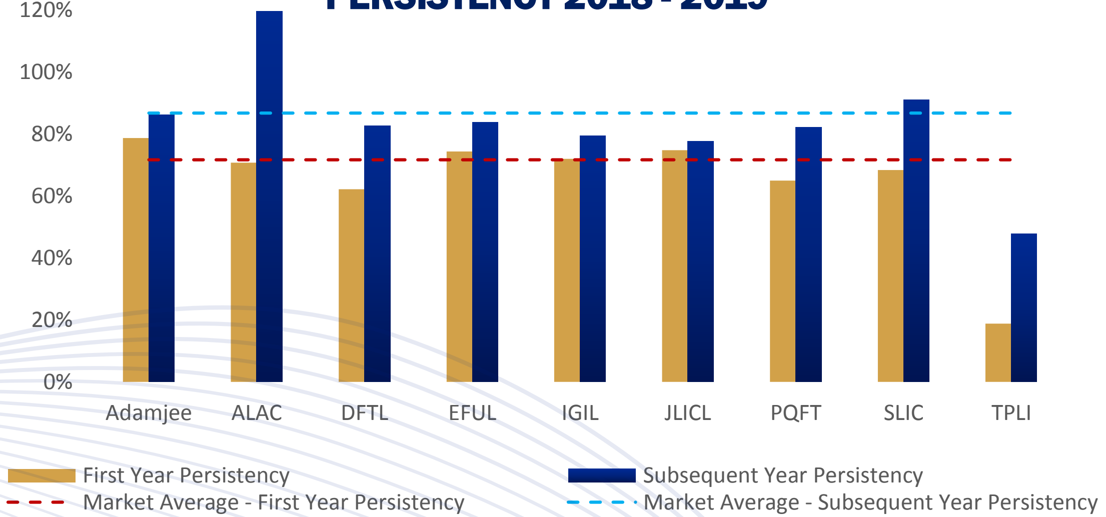
The persistency for 2019-2020 shows that the subsequent year persistency is higher for all companies except for Adamjee and SLIC.

In the local market, policies are mis-sold frequently by uninformed agents to unaware customers and the result is customers choosing not to renew their policies in subsequent years. Therefore, persistency becomes an important measure of whether policies are sold based on an actual need and has also been of particular interest to the regulator recently. As part of the revised Corporate Insurance Agent Regulations 2020, the SECP has introduced stringent measures in case of mis-selling along with increased requirements to ensure that policies are sold to people who are in genuine need of them. The minimum persistency thresholds for bonus allocation to agents have also been increased to encourage agents to align more effort and resources on this front.

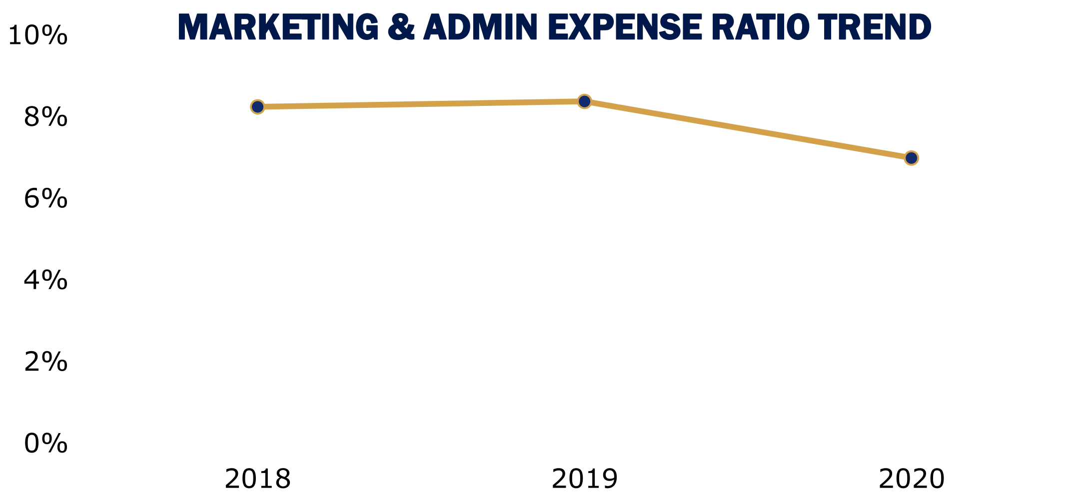
PERSISTENCY 2019 - 2020

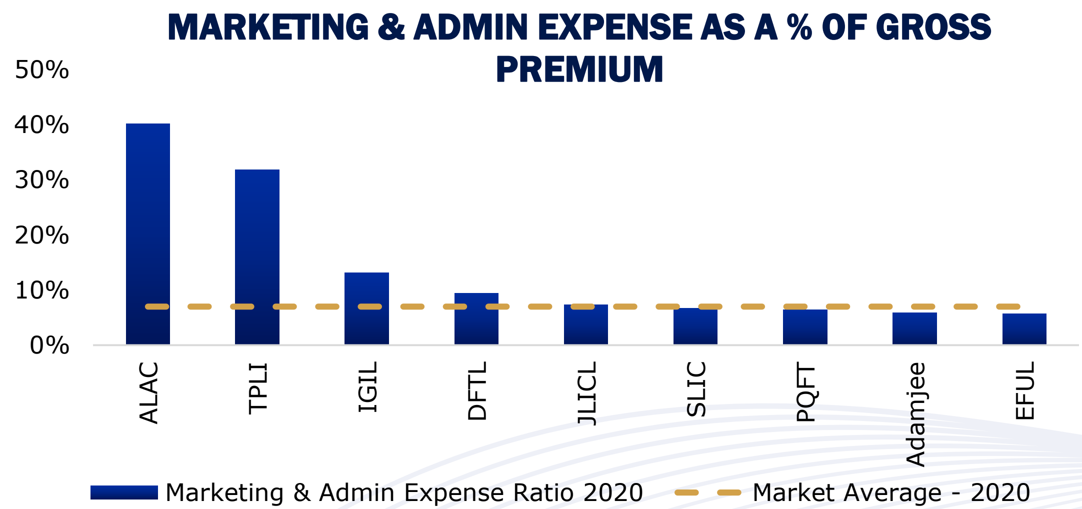


PERSISTENCY 2018 - 2019



MARKETING & ADMIN EXPENSE RATIO





Expenses here include marketing & administration expenses excluding those related to acquisition. For life insurance companies, these are primarily driven by advertisement & sales promotion along with salaries.

The market average figure stands at 7% for 2020. This has gone down since 2019 as some major players made efforts towards increased efficiency in operations to bring down expenses.

However, expense ratios vary substantially between companies. The dominant players of this industry have driven the market numbers lower while the newer companies are undergoing diseconomies of scale which will lower over time. In the case of new entrants, the pressure to attract talented human resource in the presence of already established competitors and the need for elaborate promotional programs to penetrate the market puts a substantial upward pressure on overall expenses.

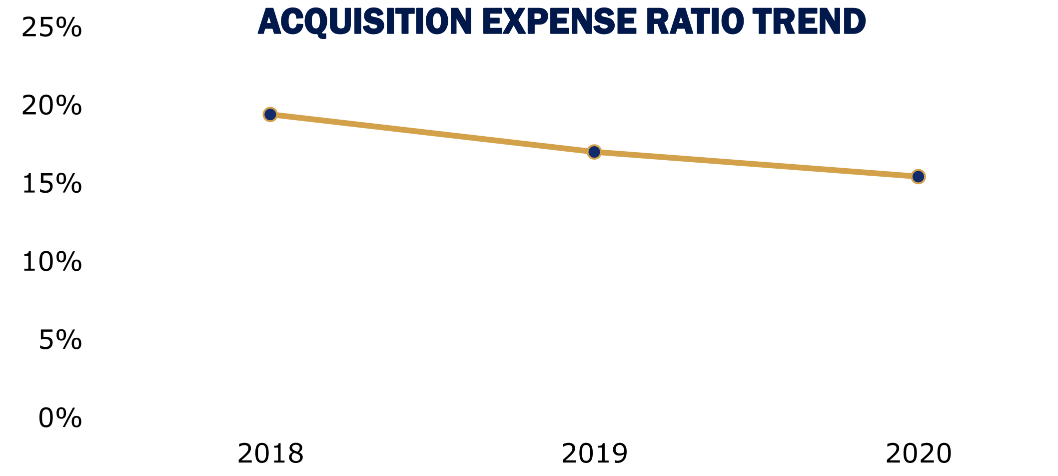
ACQUISITION EXPENSE RATIO

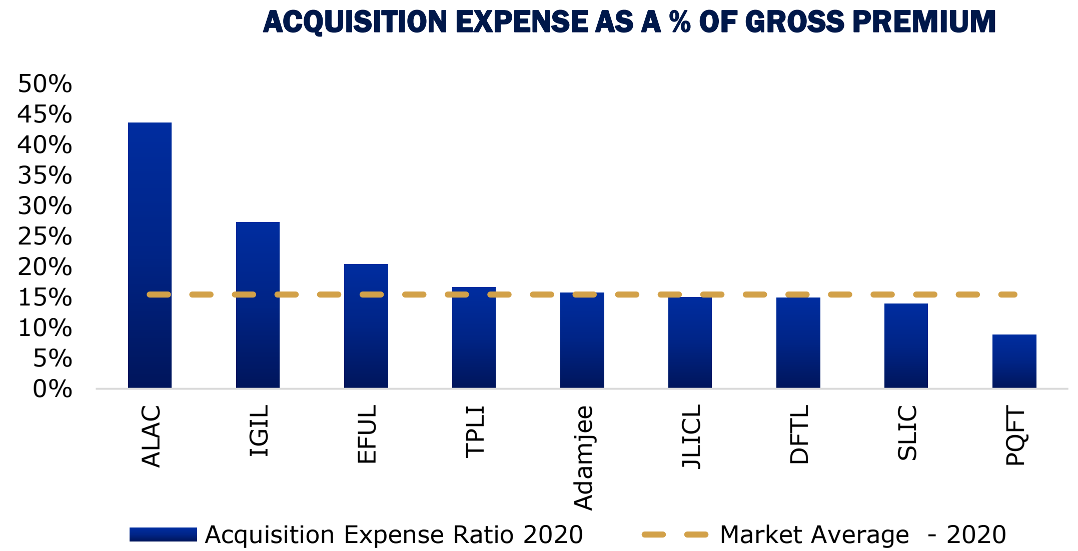
Acquisition expenses are incurred in the process of generating revenue for the company through corporate agents. They contribute significantly to the overall expenses of a life insurance company and commissions form the largest portion of acquisition expenses.

Commissions are paid to agents, brokers and sales staff. The highest levels of commissions are paid to banks and Bancassurance has traditionally been the most dominant distribution channel in this sector.

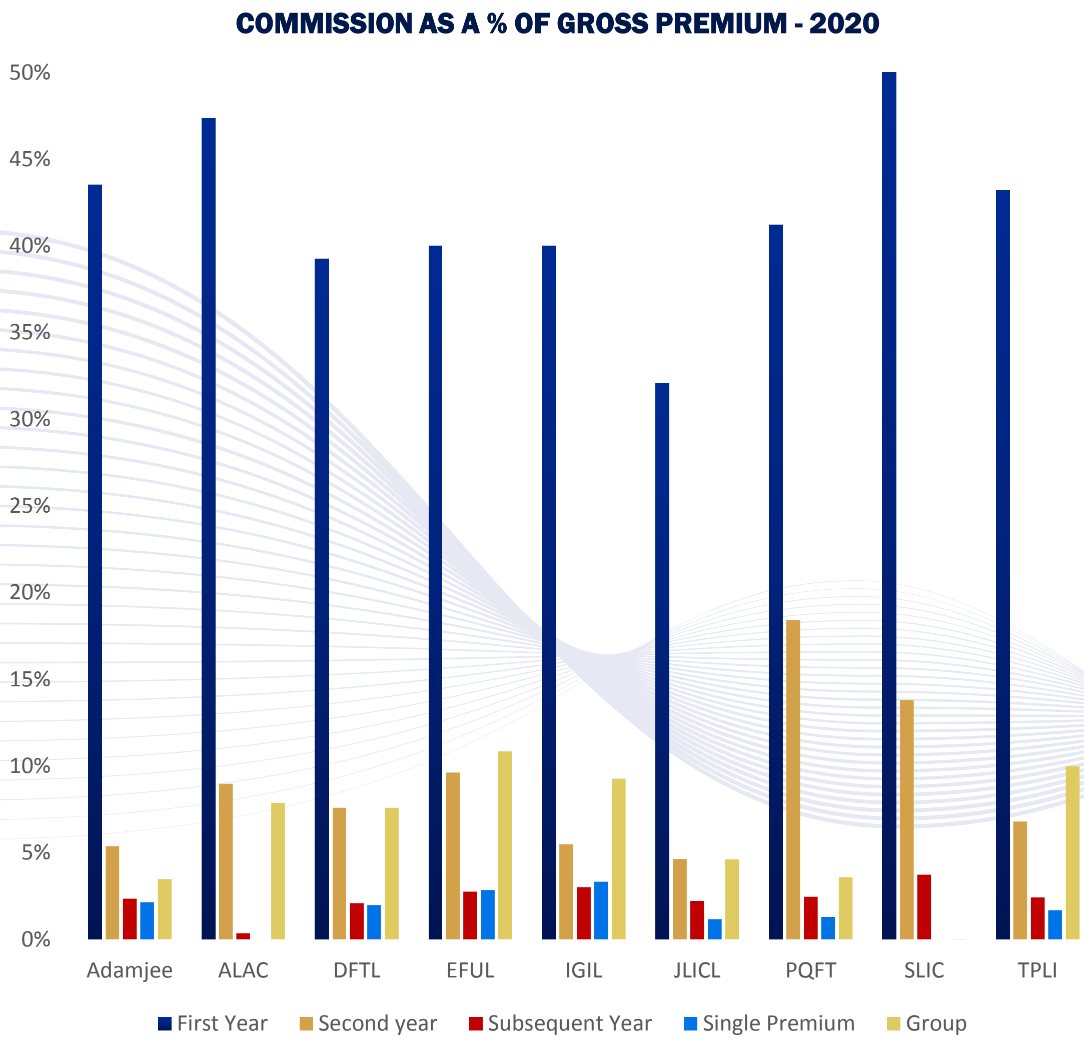
The market average figure stands at 15% with the highest ratio reflected in ALAC's accounts of 44% while PQFT has the lowest ratio of 9%. ALAC being a new market entrant would be expected to pay higher commissions to incentivize agents and brokers.

A decreasing trend may be attributed to the introduction of new business channels especially digital ones that have minimal acquisition costs.





COMMISSION EXPENSE



Traditionally, with BANCA & DSF as the primary distribution channels, high commissions have dominated this line of business. Generally, first year commissions are quite high on unit linked products to incentivise agents.

The bar graph shows that SLIC pays the highest commission on acquiring new business while JLICL pays the lowest commission rate of 32%. The commission rate for second year business is significantly lower in the range of 5% to 20%. PQFT pays the highest commission rate of 18% on second year business. Commission on subsequent year business is lower than the commission on second year business and is similar to the commission on single premium policies. Furthermore, commission on group policies has a similar rate to the second year commissions with some variability with the highest rate paid by EFUL followed by TPLI. Please note that commissions on group policies has no link with the second year commissions.

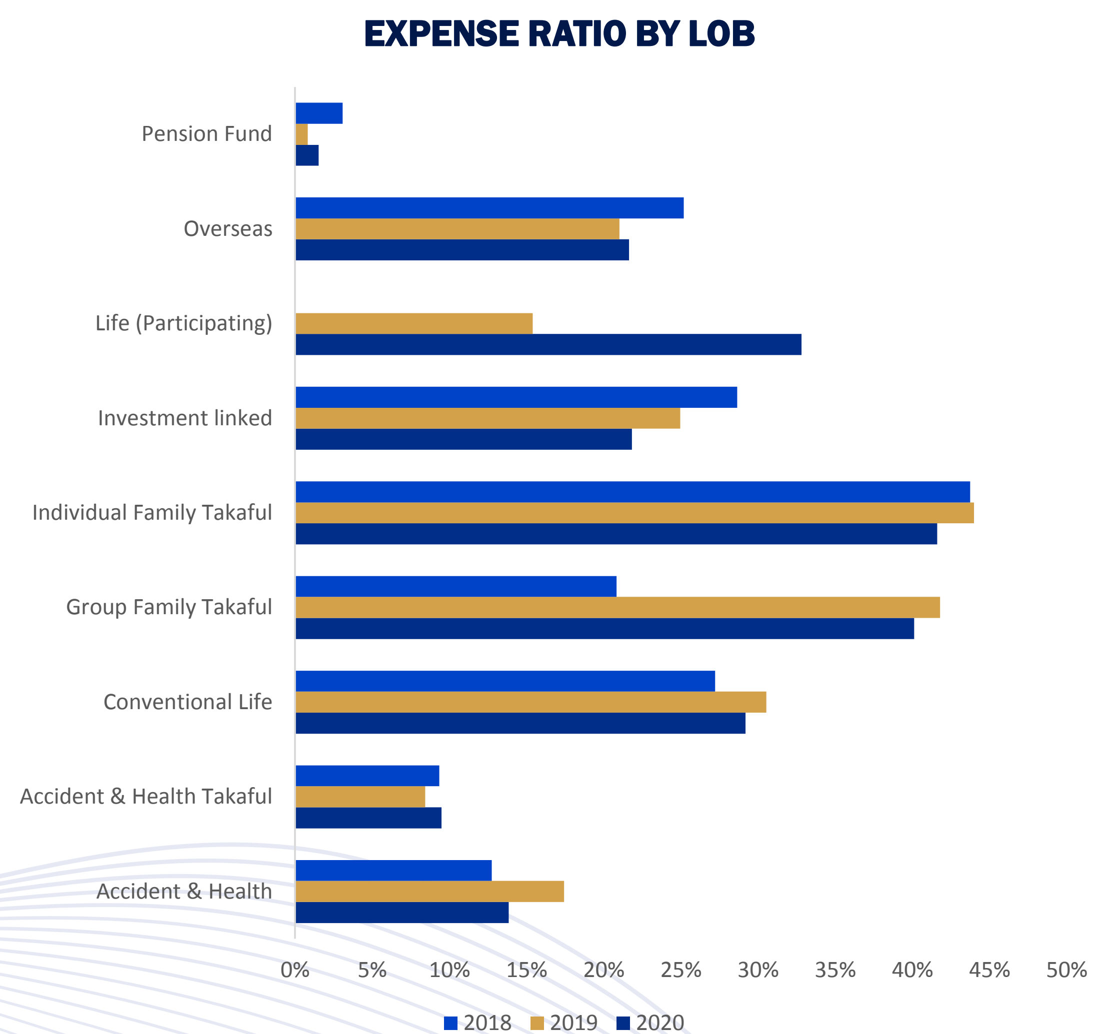
With the reduced maximum commission limits directed by the revised Corporate Insurance Agent Regulations, a decline in the average commission percentages may be observed.

SEGMENT WISE EXPENSE RATIO

The expense ratio is calculated as expenses (marketing, admin and acquisition costs) over the net premium.

The expense ratio has fallen year over year and stands at 23% for the market. The highest expense ratios are incurred for Individual family takaful, Group family takaful and the life participating business.

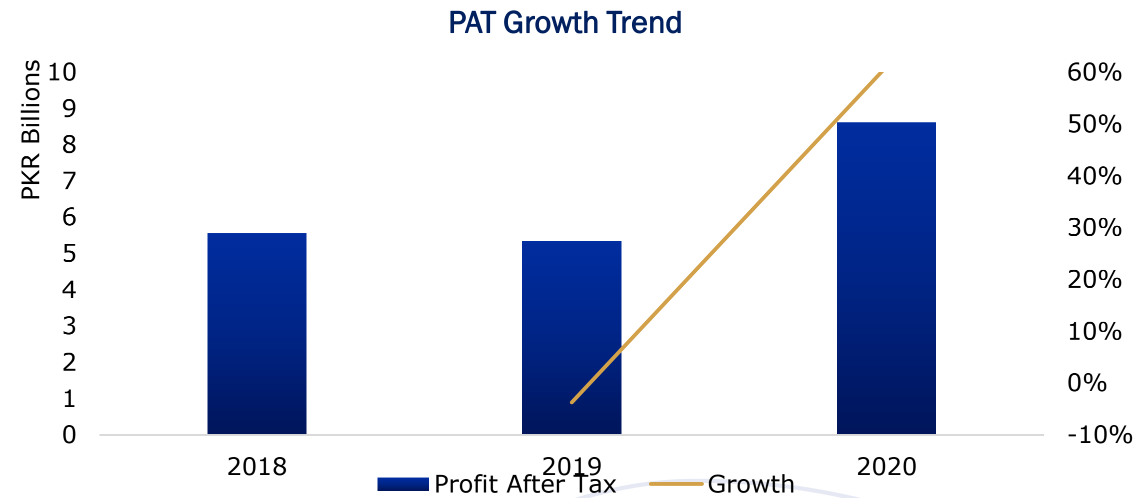
In the case of Takaful segments, expense ratios are higher since the business segment is still relatively small. In the case of individual segments, commissions are driving the total expenses. Individual segment expenses may also include the cost of systems used for policy administration as these are leased.

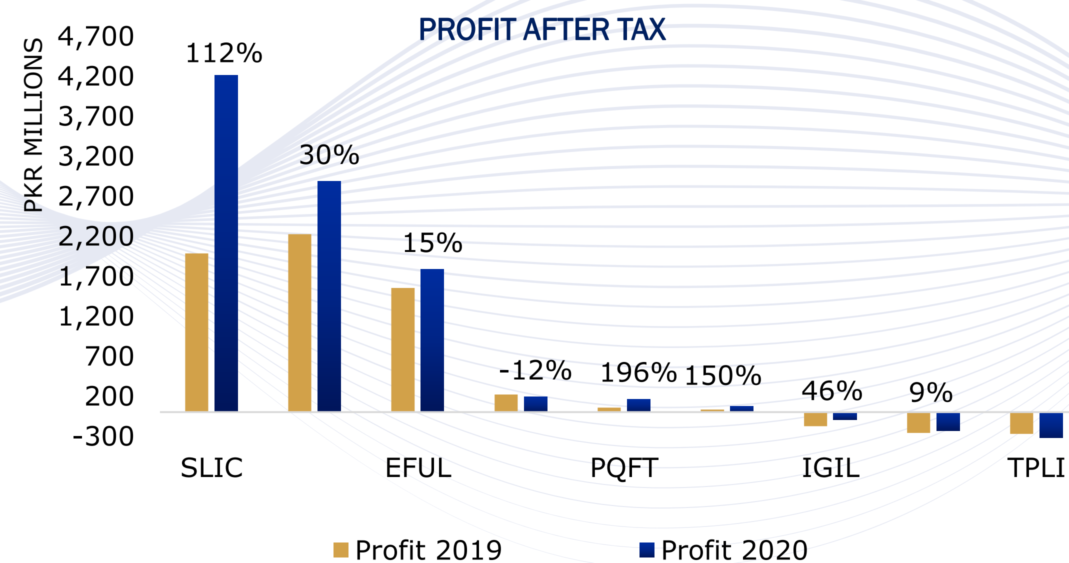


PROFIT AFTER TAX

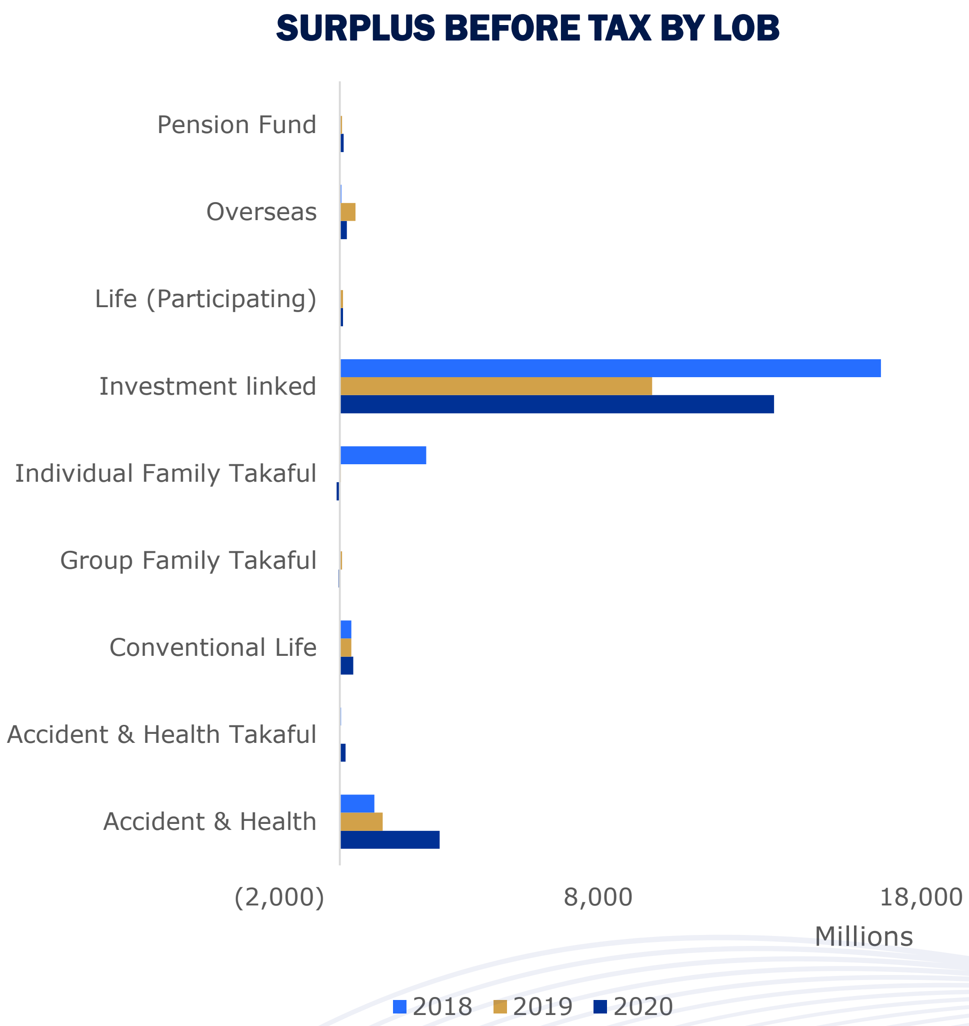
The life insurance industry of Pakistan has witnessed a sharp improvement in their accounting profits which stand at PKR 8.6 billion, a 61% increase to the level in 2019.

Despite the dampening effects of COVID on the overall economy, SLIC reported the highest PAT of PKR 4.2 billion while JLICL had the highest PAT amongst the private sector companies of PKR 2.9 billion. SLIC, PQFT and DFTL reported the highest increase in profitability of 112%, 196% and 150%. SLIC experienced a healthy increase in their GWP and investment income with a relatively smaller increase in insurance benefits and expenses. JLICL improved their accounting profits due to a reduction in total expenses of about 44% while EFUL experienced higher realized and fair value gains on financial assets which outpaced the increase in expenses.





SEGMENT WISE SURPLUS/DEFICIT



This graph shows the surplus/deficit at the statutory fund level. The surplus for investment linked policies saw a sharp decrease in 2019 which is in line with the net premium trend observed earlier in this report, while this indicator recovered in 2020 although it could not surpass the level achieved in 2018.

The accident & health segment has been increasing year on year which is also in line with the premium trend. While the Group and Individual family business has turned into a deficit in 2020.

Overall, the surplus before tax saw a decline in 2019 followed by an increase in 2020.

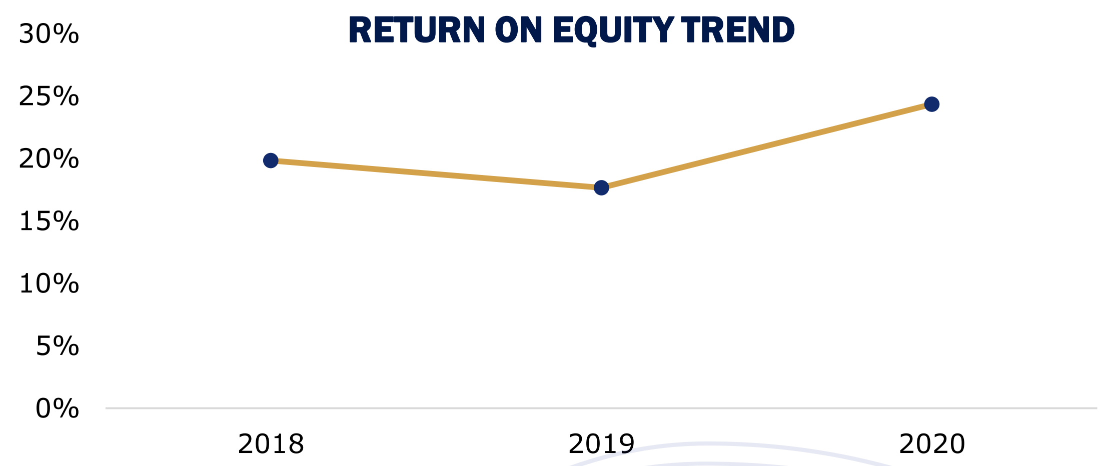
RETURN ON EQUITY

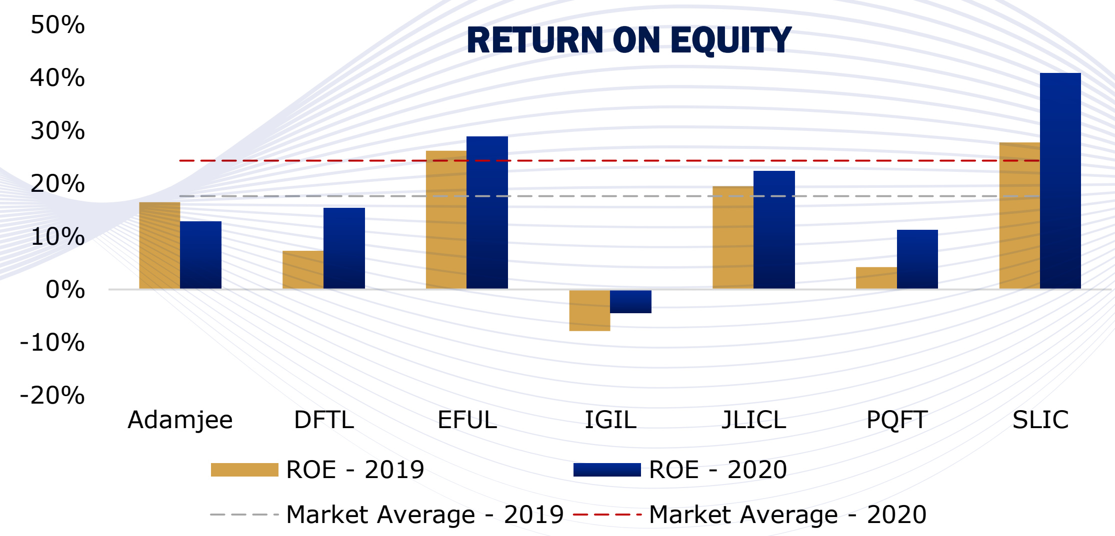
The Return on equity is calculated using the PAT over the year end value for equity. The ROE graph shows a similar pattern to the PAT trend with a slight decrease in 2019 followed by a sharper increase. It is important to note that equity value has been increasing year on year as well with an increase of 8% in 2019 followed by an increase of 17% in 2020. However, the PAT growth has outpaced the growth in equity for 2020 which resulted in this increase.

It can be noted that the ROE for life insurance market is more than 3 times higher than the listed general insurance market for the same period.

The ROE is negative for the three companies namely IGIL, ALAC and TPLI that experienced an accounting loss in 2020. The highest ROE numbers were attained by SLIC which corresponds with their strong performance figures. EFUL and JLICL experienced healthy ROE figures in excess of 20%. Strong ROE numbers indicate an efficient use of the company's resources to generate profits.

*TPLI and ALAC have been removed from the graph since they are distorting the graphs.





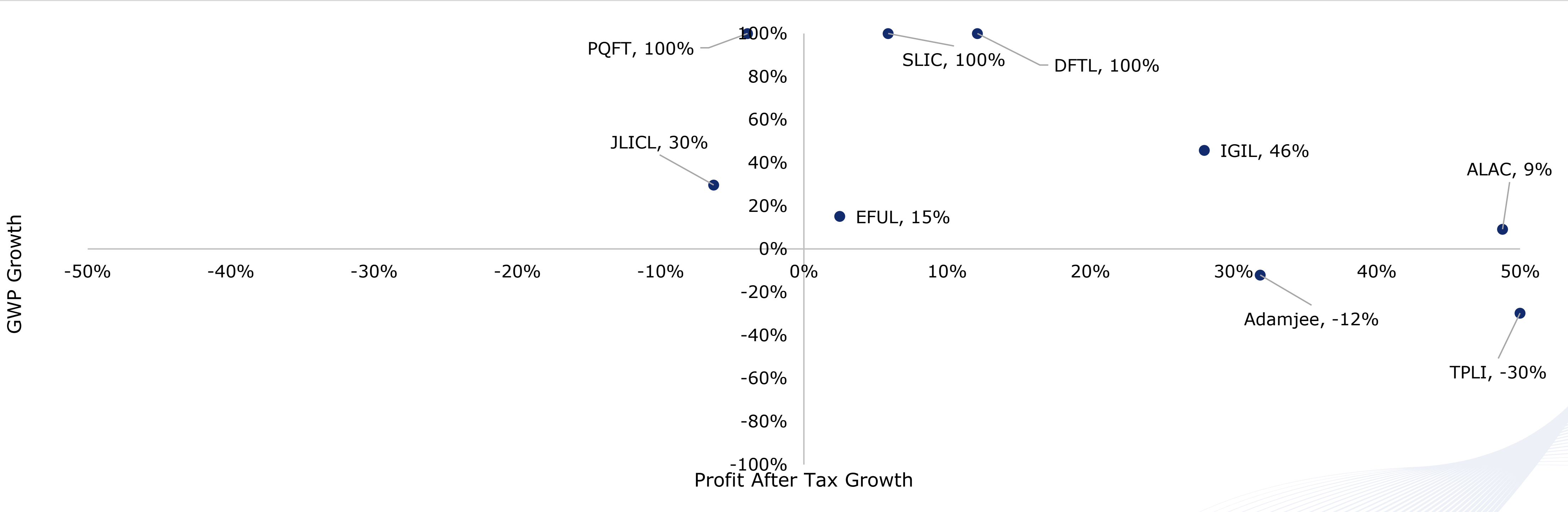
PREMIUM BENCHMARKING ON THE BASIS OF PROFITABILITY

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

SLIC holds the first rank in both the GWP and the PAT followed by a consistent rank for JLICL and EFUL. Adamjee, PQFT, IGIL and TPLI hold a lower rank in profitability compared to the GWP rank while DFTL and ALAC have a higher profitability rank when compared to the GWP rank.

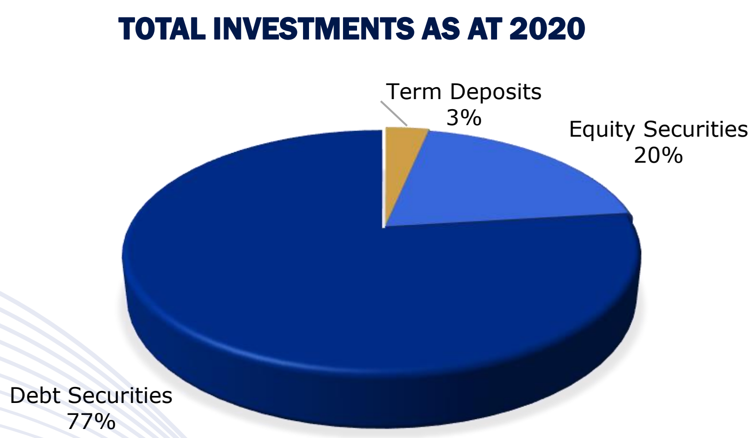
Company	Ranking		Indic
	GWP	PAT	
SLIC	1	1	⇨
JLICL	2	2	⇨
EFUL	3	3	⇨
Adamjee	4	5	⇩
PQFT	5	6	⇩
IGIL	6	7	⇩
DFTL	7	4	⇧
TPLI	8	9	⇩
ALAC	9	8	⇧

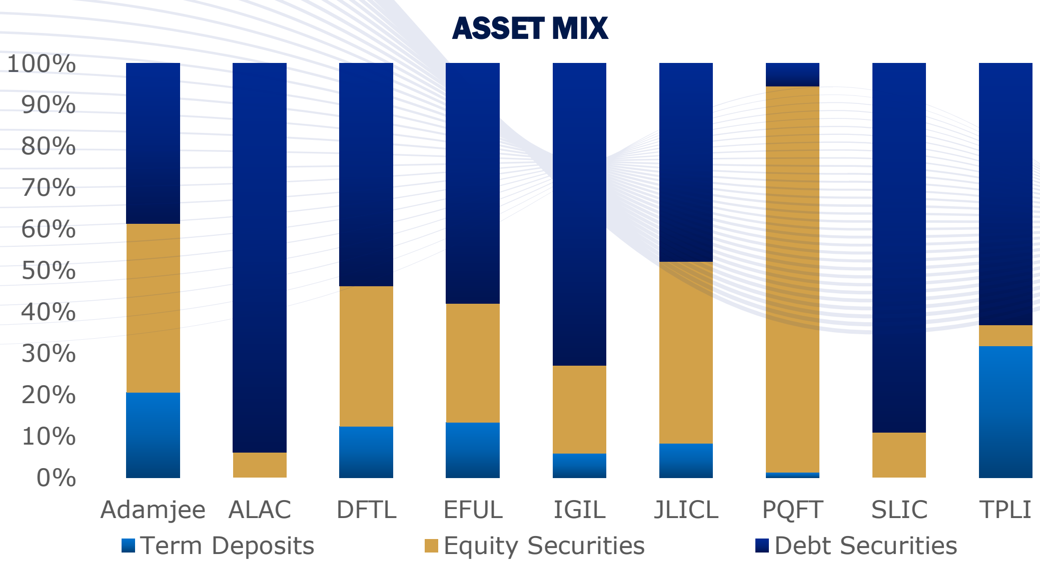
PREMIUM & PROFIT ANALYSIS



The graph shows gross written premium (GWP) growth on the x- axis and profit after tax growth on the y-axis. The profit after 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 After tax and GWP which is desirable. Presence in the top left quadrant might indicate worsening GWP but improvement in investment and other incomes(or fall in expenses). 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 GWP with decreases in investment and other income (or increases in claims or other expenses).

ASSET MIX





The chart shows the industry's invested assets breakdown as at December 2020. More than three quarters of the investments are made in debt securities with less than one-third allocated to the equity market.
Life insurers in the region have a longer term investment horizon with a low risk tolerance. Investment in equities can yield higher returns but their market value is more volatile. Overall, the total investments increased to PKR 1,333 billion compared to PKR 1,124 billion in 2019.

The bar graph shows the investments of companies by asset class.

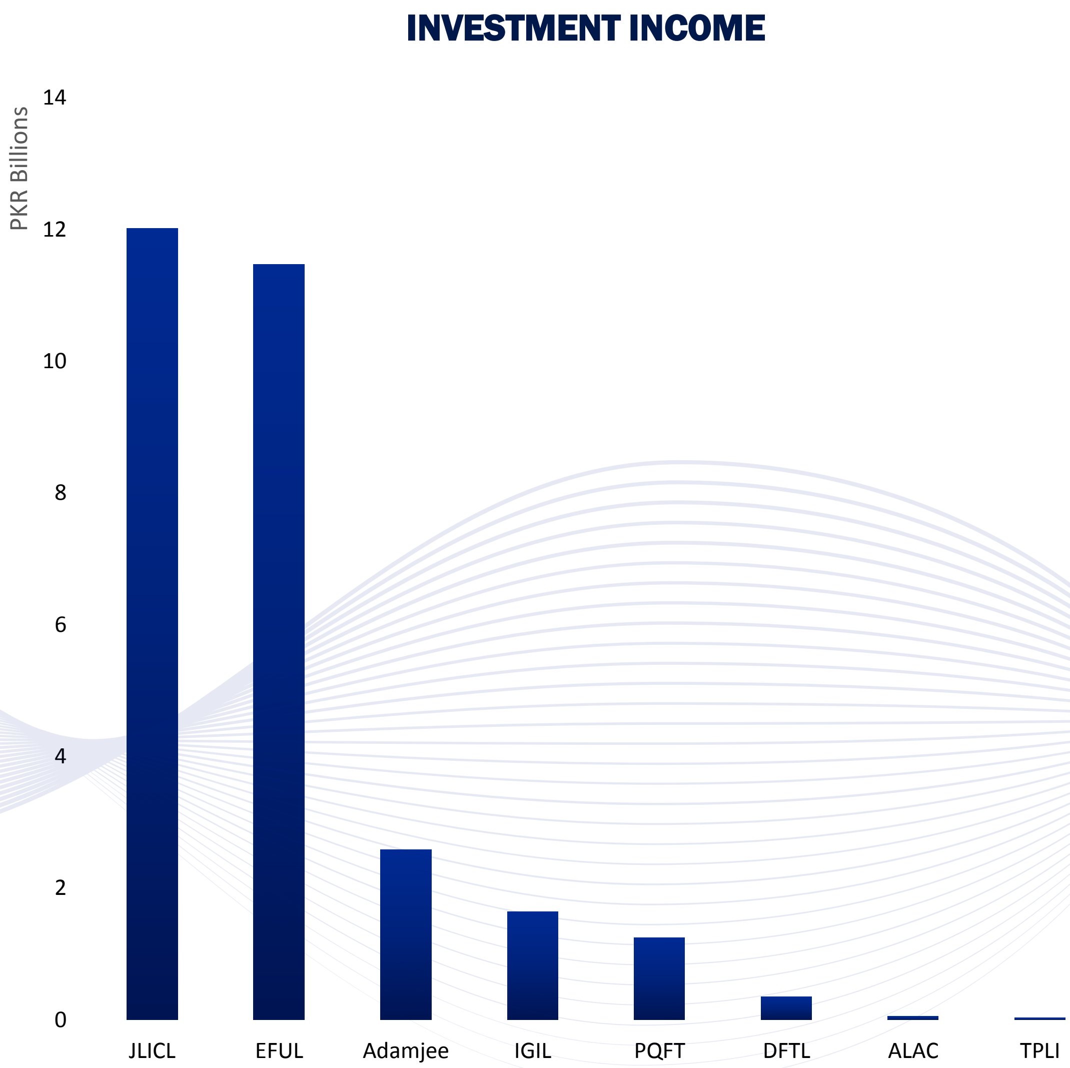
PQFT has a major proportion invested in the equity market whereas ALAC, IGIL & SLIC have focused more on debt. JLICL has a relatively similar proportion invested in the equity and debt markets with a slightly higher reliance on debt. TPLI has the highest proportion of investments in short term deposits compared to other companies which stem from their larger business proportion in shorter term group policies.

The investment portfolio is reflective of the risk profile of the company with higher debt and term deposit reliance signaling a higher risk aversions.

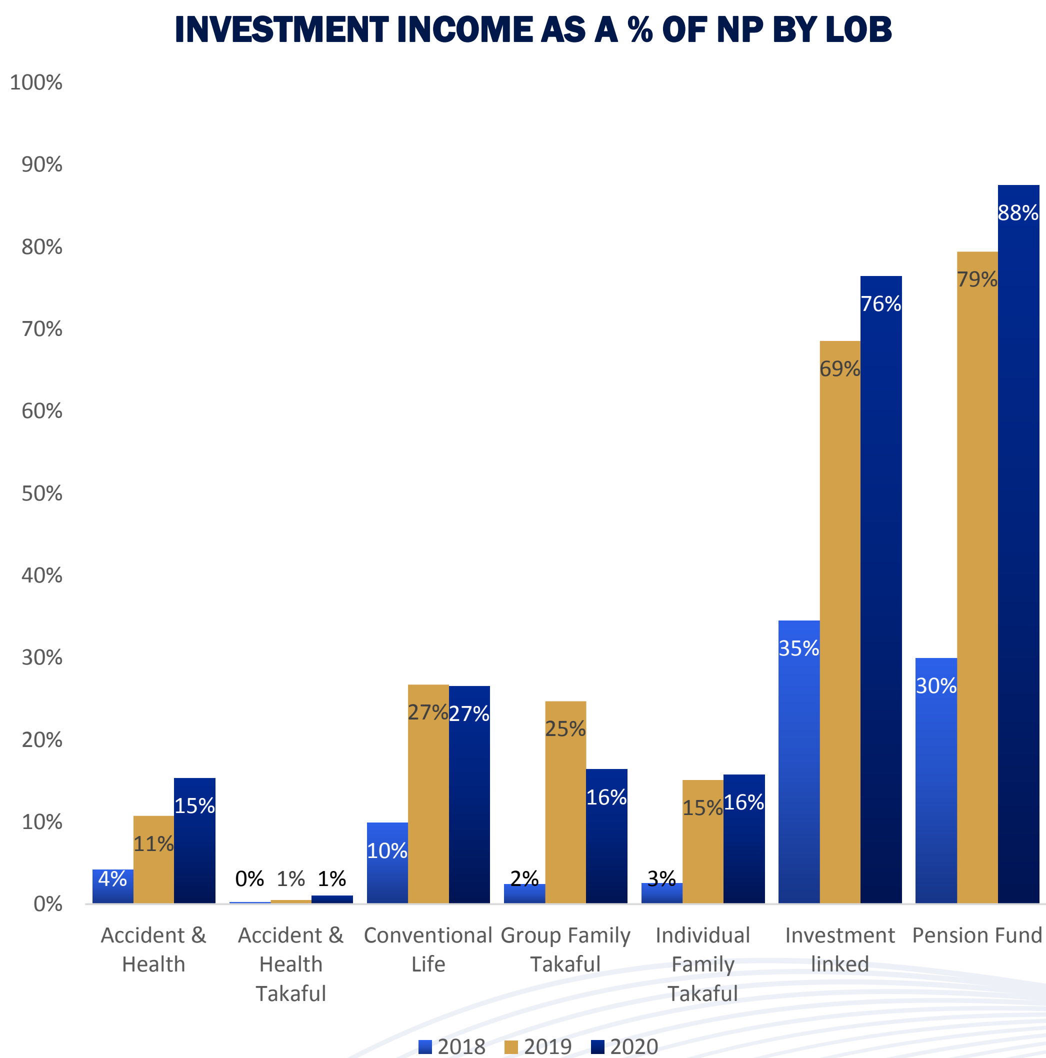
INVESTMENT INCOME

Life insurance policies are long-term policies which gives them a longer investment horizon. Hence, this enhances their ability to generate investment incomes. SLIC has the highest level of investment income of PKR 87 billion with the major proportion of investment income being generated on government and debt securities. While the lowest investment income was generated by TPLI of about PKR 27 million since they write group policies which are short-term policies. This shows the disparity in investment incomes between the major players and the others.

***SLIC removed from the graph since it was an outlier**



SEGMENT WISE INVESTMENT INCOME



This ratio calculates the investment income over the net premium.

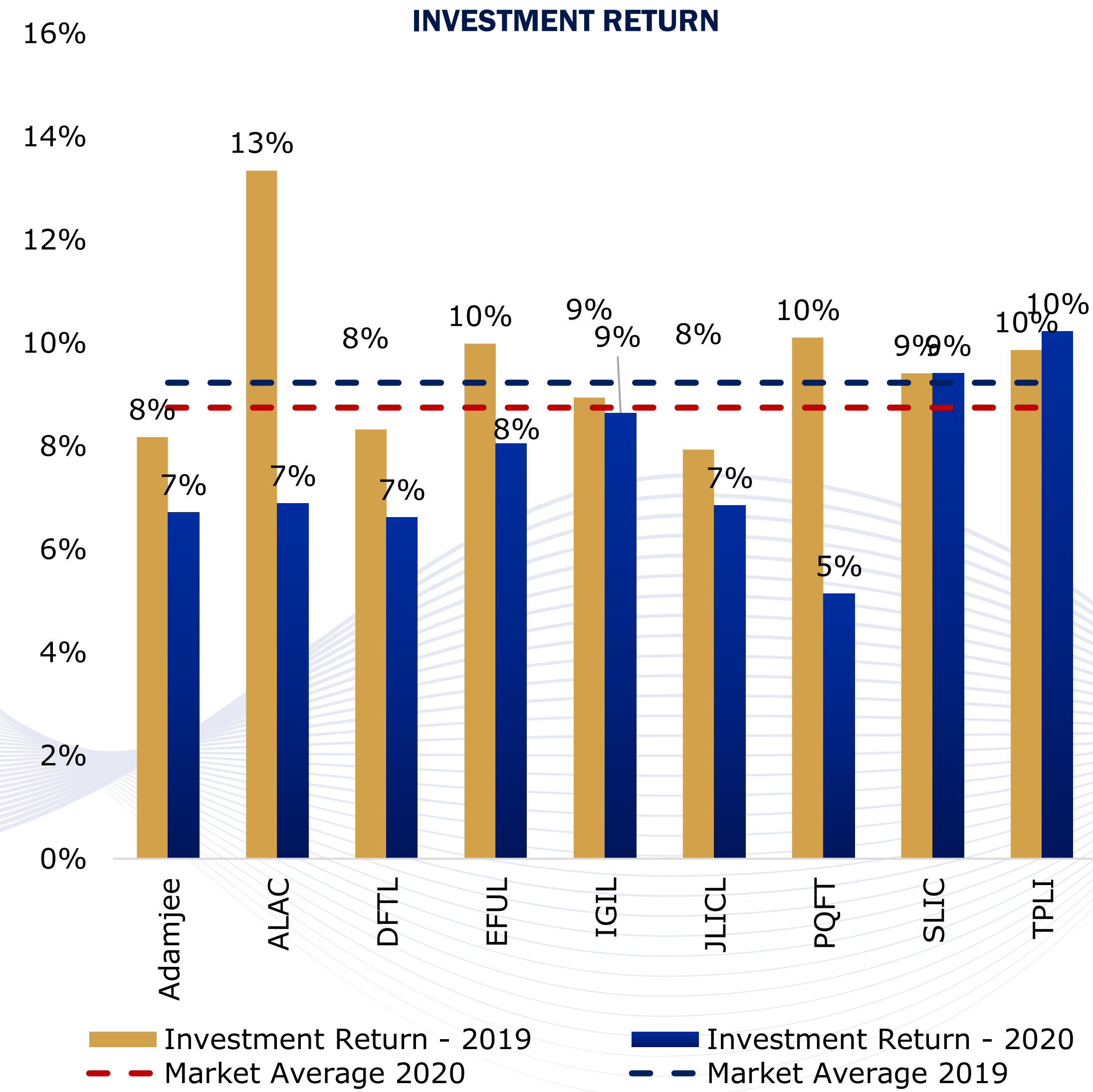
The investment income proportion is higher for products which have a savings component in the policy. Pension funds offer the highest investment income as a % of annual premium in 2020 followed by investment linked policies.

The financial markets have performed better after Q1 of 2020 and have surpassed the pre-COVID investment performance which is why this ratio is higher overall in 2020.

INVESTMENT RETURN

The investment return is computed as total investment income over the total invested assets. The ratio for the industry averages around 9.2% in 2020 while it was 8.7% in 2019.

TPLI has earned the highest investment return which is 10% and the majority of their investments lie in debt securities and term deposits. PQFT had the lowest returns of 5% and their investments are majorly in equity securities. These results are reflective of the market changes brought about by COVID-19 as equities returns fell substantially by the end of Q1 with the markets recovering during Q3. Therefore, higher returns have been achieved on more stable fixed income securities.

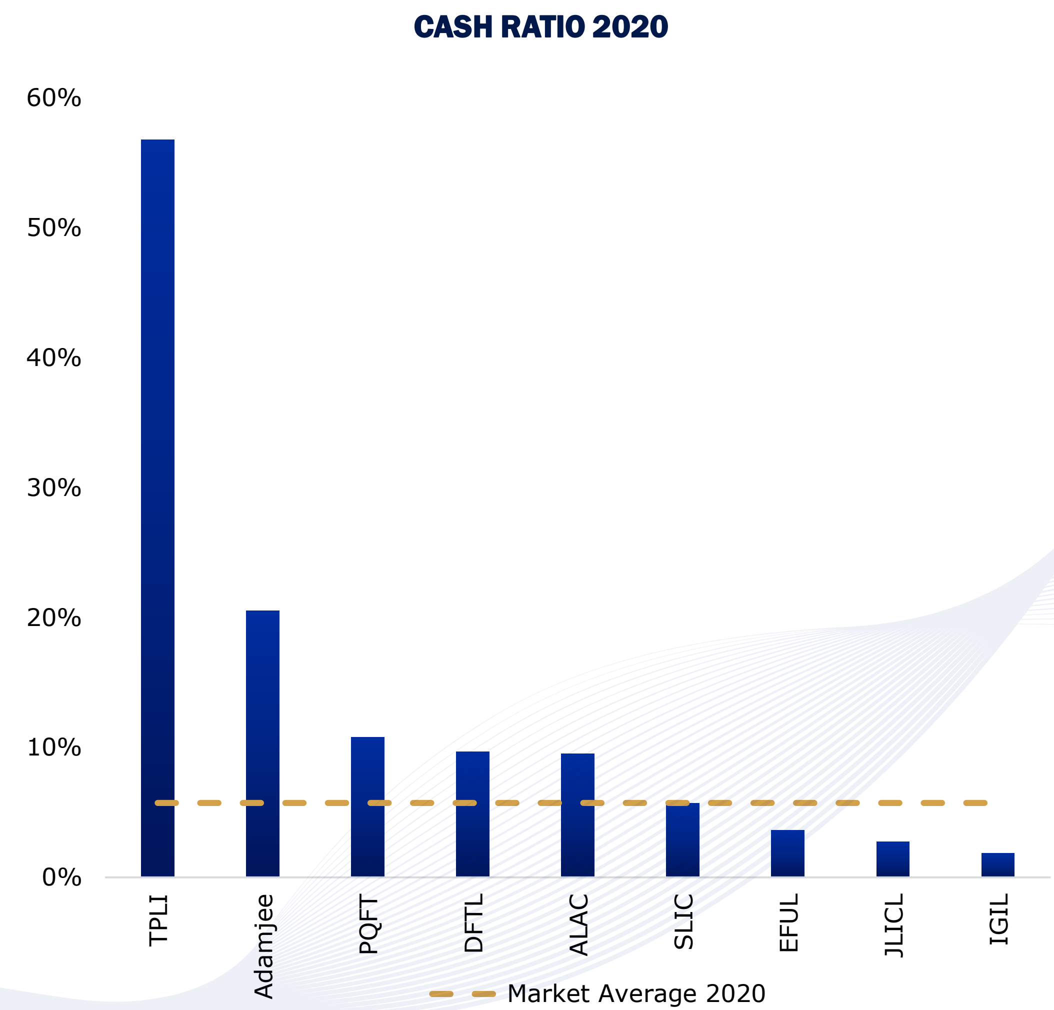


CASH RATIO

The cash to invested asset ratio has been taken as the ratio of cash & bank to total invested assets including cash. Life insurers aims to keep minimum of assets as cash to meet unexpected liquidity requirements. The liquidity requirements are different for life insurers as opposed to general insurers since general insurers may have a higher chance of facing a single large or catastrophic losses i.e due to earthquakes while the concentration risk in life insurance is much lower.

Cash generally earns a lower return compared to other asset classes and hence a higher cash and cash equivalents number might suggest inefficient investment allocation.

The market cash ratio is calculated to be 6%. TPLI has the highest level of 57% maintained as cash, while the lowest ratio of about 2% is maintained by IGIL. TPLI's higher cash ratio can be explained by the concentration of its portfolio in short term group business with high liquidity needs.



INSURANCE LIABILITIES

The pie chart shows that Unit linked investment component forms the biggest proportion of total insurance liabilities for the life insurers amounting to 93%, followed by Other insurance liabilities contributing 4% and gross outstanding claims including IBNR amounting to 3%.

The constituents of Other Insurance Liabilities are different for each company and not always disclosed. For the most part, these are mortality risk reserves for unit linked policies. In case of companies writing short term business, this will also premium reserves like UPR (Unearned Premium Reserve) & PDR (Premium Deficiency Reserve).

Reserves are backed by assets which earn investment income for the company.

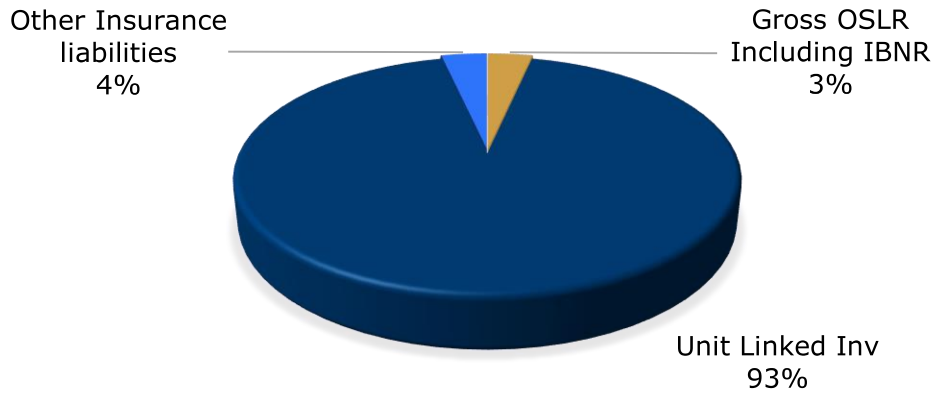
The bar graph represents the insurance liabilities as at December 2020 over the gross premium written in calendar year 2020.

SLIC ranks the highest with a ratio of 969% while TPLI has the lowest ratio of 59%.

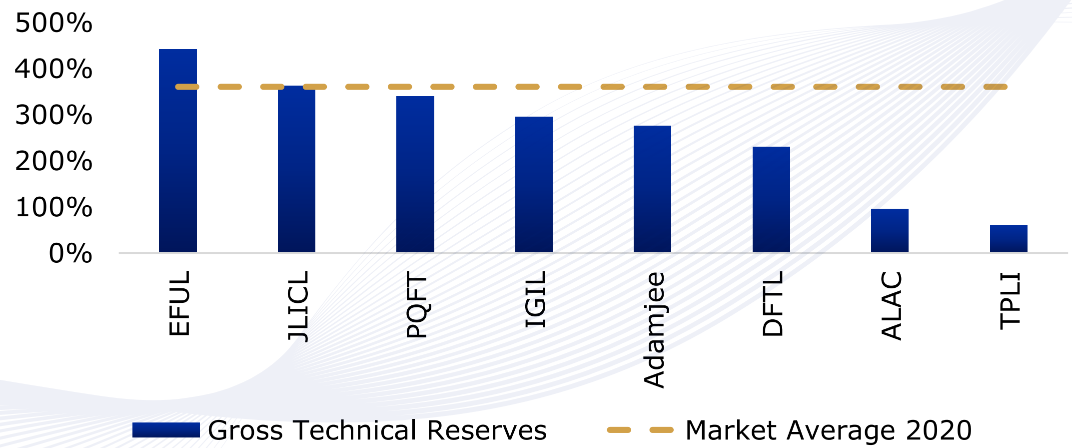
Insurers try to avoid both under reserving as well as over reserving. Over reserving would lead to a deferral of profit and taxes while under reserving can result in a premature pay out of dividends.

*SLIC removed from the graphs since it was an outlier

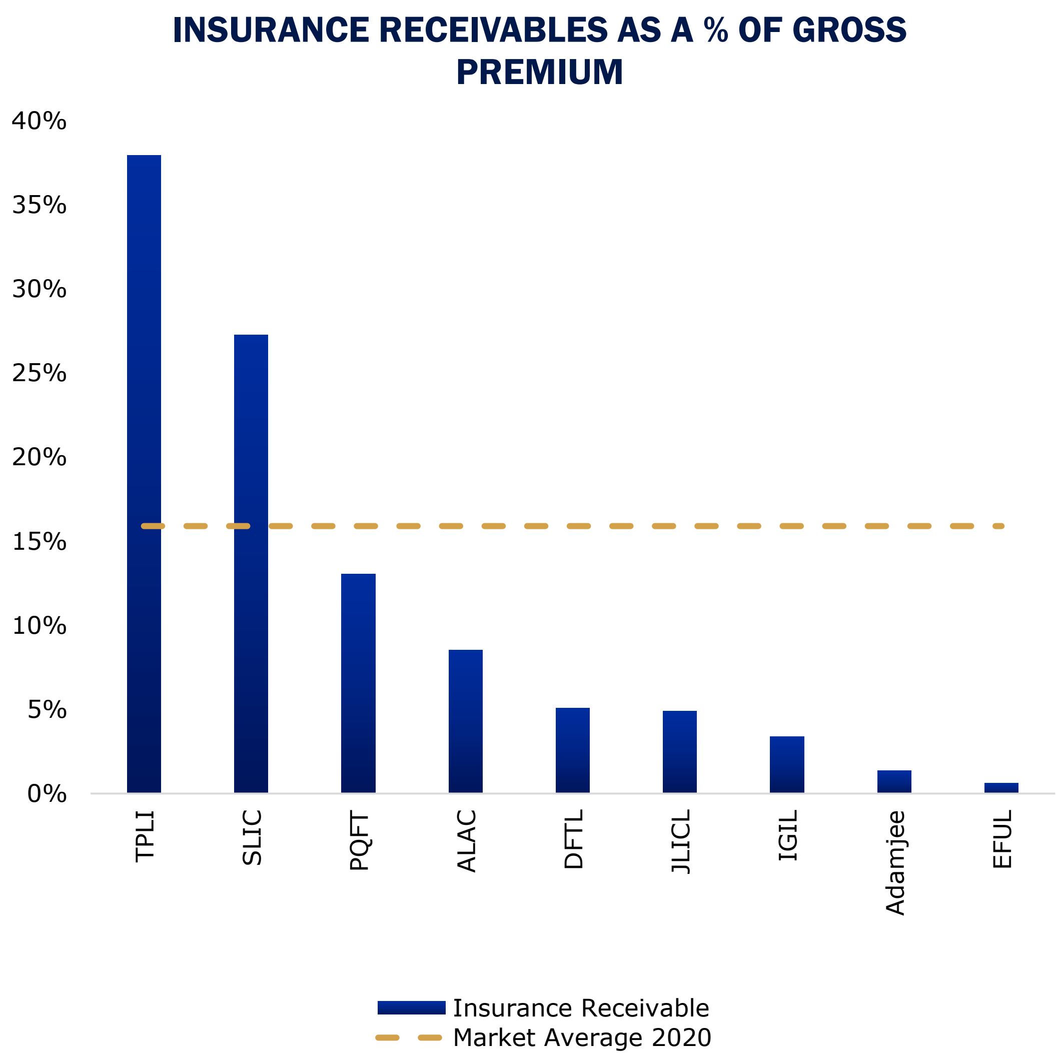
INSURANCE LIABILITIES AS AT DECEMBER 2020



INSURANCE LIABILITIES AS A % OF GROSS PREMIUM



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 16%. TPLI has the highest ratio of 38% followed by 27% of SLIC. While Adamjee and EFUL have achieved ratios below 2%.

Insurance receivables here include reinsurance receivables as well.

The ratio depicts the collection performance of each company. Quicker collection can improve the liquidity position and favorably impact the investment income.

Generally in the life insurance industry in Pakistan premiums are paid upfront and policies may not be issued before payment of premium. However, even when premium is expected to be paid upfront there may be delays in case of corporate clients and other administrative lags depending on the distribution channel.

CONCLUSION

Despite the difficult economic situation created by the COVID-19 pandemic, the life insurance industry still managed to improve its earnings and book values. The life insurance industry is dominated by a few major players which significantly drive the industry's performance.

The private sector experienced a 3% increase in its GWP while the public sector experienced a 6% increase in 2020. Life insurance policies are mainly sold through the bancassurance channel which has experienced a decline of 2% in 2020. The first and subsequent year persistency has remained stable at 72% and 87% respectively. The takaful business has seen a year-on-year growth of approximately 1% in its proportion of the total market and stands at 13% for 2020.

The investment income stands at PKR 117 billion which is a 12% increase compared to the 2019 level. Some companies have also increased gains on financial assets which have improved their Other Incomes section of the profit & loss statement.

The claims to premiums ratio trend has also increased year on year and stands at 57% for 2020. However, the rise in claims has not been able to compromise the profitability of the industry due to a decrease in expenses. The marketing and admin ratio stands at 7% while the acquisition expenses stand at 15%. The profit after tax for the industry stands at PKR 9 billion which is a 61% increase to the level in 2019.

The ongoing regulatory changes to promote digitalization are expected to significantly impact the landscape of the life insurance industry over the next couple of months and years.

KEY TAKEAWAY POINTS

PRIVATE SECTOR GWP TIMELINE

2018	2019	2020
PKR 110bn	PKR 110bn	PKR 114bn

PUBLIC SECTOR GWP TIMELINE

2018	2019	2020
PKR 115bn	PKR 113bn	PKR 119bn

Highest GWP recorded by **SLIC** at PKR 119bn

Highest Growth in GWP Recorded by **TPLI** at 50%

Highest first year persistency **ADAMJEE** at 75%

Highest subsequent year persistency **SLIC** at 92%

Lowest claim to premium ratio **DFTL** at 29%

Highest Investment Income Recorded by **SLIC** at PKR 87bn

Highest invested assets by **SLIC** at PKR 927bn

Highest PAT Recorded by **SLIC** at PKR 4.2bn

Highest Growth in PAT by **PQFT** at 196%

Highest ROE by **SLIC** at 41%

LIST OF COMPANIES INCLUDED IN THE ANALYSIS

Life Insurance Companies			
Sr. No.	**Symbol**	**Name**	**Market**
1	Adamjee	Adamjee Life Assurance	Unlisted
2	ALAC	Askari Life Assurance Company Ltd.	PSX
3	DFTL	Dawood Qatar Family Takaful	Unlisted
4	EFUL	EFU Life Assurance Ltd	PSX
5	IGIL	IGI Life Insurance Ltd.	PSX
6	JLICL	Jubliee Life Insurance Co Ltd	PSX
7	PQFT	Pak Qatar Family Takaful	Unlisted
8	SLIC	State Life Insurance	Unlisted
9	TPLI	TPL Life	Unlisted

DISCLAIMER

- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the life 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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- As part of this analysis public sector only includes SLIC.

- DFTL's financials for 2018 followed the pre 2018 reporting format because of which some comparison metrics could not be produced

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BADRI

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

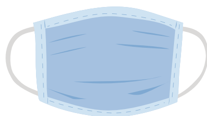
Total Strength = 88

SOME SAFETY TIPS FROM TEAM BADRI

You're braver than you believe and stronger than you seem, and smarter than you think - so follow guidelines & stay safe.

Take extra care of Hygiene

Don't forget to wear protective mask



Avoid touching eyes, nose and mouth

Maintain safe distance

Contact us!

Hatim Maskawala

Ali Bhuriwala

Omar Khan

Mahnoor Mir

Afnan Shaukat

FEEDBACK

Badri Management Consultancy is proud to present the 2020 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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