2021-Q3

PAKISTAN GENERAL INSURANCE INDUSTRY ANALYSIS FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 2021

BADRI

December 9, 2021

8th MIDDLE EAST
INSURANCE INDUSTRY AWARDS 2021

STRATEGIC PARTNER OF THE INDUSTRY

BADRI MANAGEMENT CONSULTANCY

STRATEGIC PARTNER OF THE INDUSTRY
2021 WINNER

Badri Management Consultancy is proud to have won the Strategic Partner of the Industry at the 8th Middle East Insurance Industry Awards 2021 conducted by Middle East Insurance Review.

MIIA have held a predominant position by inspiring initiatives towards Product Innovation, Corporate Social Responsibility & Long-Term Sustainability. The fact that we won this award a second time around bring fruits to the efforts we are putting in. These awards are the reflection of the trust and loyalty of our esteemed clients, and the hard work and dedication of all our people at Badri.

We have started many new trends like regular research reports and industry workshops and training with the intention of raising the level of transparency and technical expertise within the industry. We consider ourselves as solution architects strengthening our partners to optimize performance and winning this prestigious award means we are going in the right direction.

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 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

2021

INDUSTRY HIGHLIGHTS

Gross Premium Written - Conventional

PKR **58.6** Bn

2020-Q3: PKR 49.8 bn

Gross Contribution Written - Window Takaful

PKR **7.7** Bn

2020-Q3: PKR 6.5 bn

Retention Ratio - Conventional & Window Takaful

55%

2020-Q3: 54%

Gross Loss Ratio - Conventional & Window Takaful

44%

2020-Q3: 48%

Net Loss Ratio - Conventional & Window Takaful

49%

2020-Q3: 50%

Combined Ratio - Conventional & Window Takaful

87%

2020-Q3: 89%

Investment Income - Conventional & Window Takaful

PKR **6.2** Bn

2020-Q3: PKR 4.1 bn

PBT - Conventional & Window Takaful

PKR **8.3** Bn

2020-Q3: PKR 5.7 bn

Investment Return - Conventional & Window Takaful

8%

2020-Q3: 7%

Return on Equity - Conventional & Window Takaful

14%

2020-Q3: 11%

INSURER FINANCIAL STRENGTH RATINGS

	2019		2020		2021	
Companies	JCR-VIS	PACRA	JCR-VIS	PACRA	JCR-VIS	PACRA
AGIC	AA	AA	AA	AA		
AICL		AA+		AA+		AA+
ASIC		A		A		A+
ATIL		AA		AA		AA
CENI	AA-		AA-			
CSIL		A-		A-		A-
EFU	AA+	AA+	AA+	AA+	AA+	AA+
EWIC		AA-		AA-		AA-
HICL		A+		A+		
JGICL	AA+	AA+	AA+	AA+		AA+
PIL	BBB+		BBB+			
PINL		A-		A-		A
RICL	A		A			
SHNI		A		A		A
TPLI		A+		A+		AA-
UNIC		AA		AA	AA	AA
UVIC		A-		A-		A-

ASIC, PINL and TPLI have experienced a rating upgrade.

**Companies with blanks in 2021 have not been rated as yet.*

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 AND PENETRATION

Year	Insurance Density (PKR)	Insurance Penetration
2016	249	0.17%
2017	244	0.16%
2018	254	0.16%
2019	270	0.15%
2020	265	0.14%
2021	292	0.15%

The Insurance Penetration ratio measures the proportion of GDP contributed by the written premium. The listed general insurance premiums contribute less than 0.2% to Pakistan's GDP compared to a ratio of 0.9% and 0.7% for regional comparable countries namely India and Sri Lanka. While the insurance penetration in the US is around 7%

The Insurance Density measures the general Gross Written Premium per capita. The ratio for Pakistan lies in the range between PKR 240 to PKR 290 which is very low compared to our neighboring country India with a ratio of about PKR 3,060. For developed countries such as the US, this number may reach PKR 772,000.

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 and awareness campaigns on financial literacy.

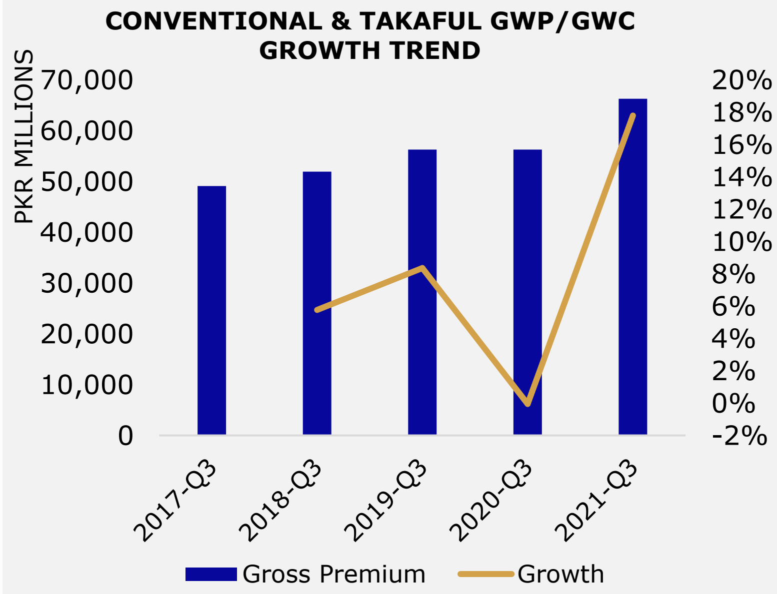
EARNINGS PER SHARE

Company	EPS 2020-Q3	EPS 2021-Q3
AGIC	4.09	3.87
AICL	3.40	6.49
ASIC	0.91	0.20
ATIL	5.03	6.64
CENI	3.01	3.99
CSIL	0.40	0.28
EFU	8.88	9.78
EWIC	1.76	1.84
HICL	0.22	0.60
JGICL	5.83	6.63
PINL	(2.40)	(0.83)
PKGI	(0.37)	(0.46)
RICL	0.81	0.78
SHNI	0.56	0.34
TPLI	(0.81)	0.99
UNIC	1.74	2.33
UVIC	(2.06)	(0.07)

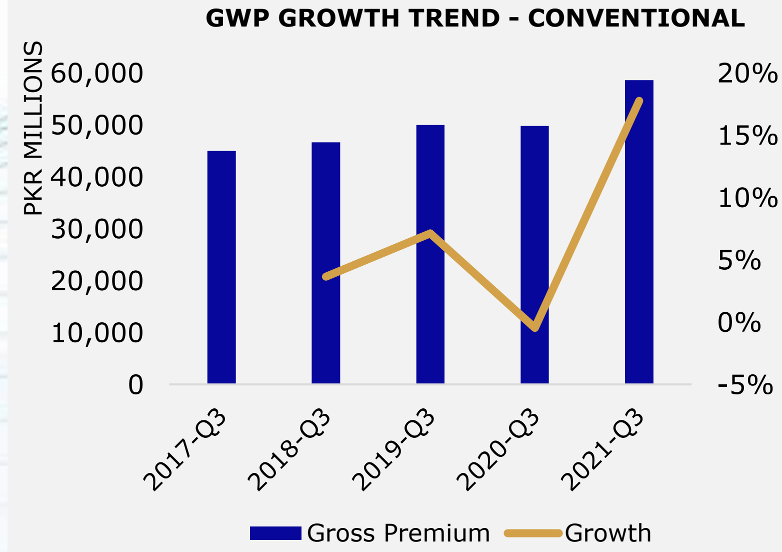
The listed general insurance market experienced an overall increase in earnings in 2021.

GROSS WRITTEN PREMIUM - MARKET

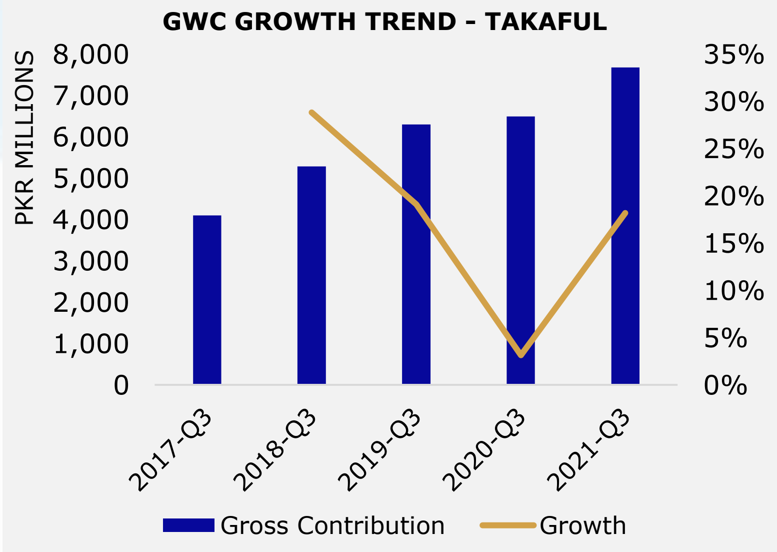
The listed general insurance industry of Pakistan experienced an 18% increase in the gross written premium/contributions during the nine months period ended 2021 of PKR 66 billion. This was witnessed due to successful containment of the pandemic. This resulted in a broad-based growth in Pakistan which is supported by a variety of indicators such as increased power consumption, cement dispatches and automobile sales volume along with increased vaccination rates of the population.



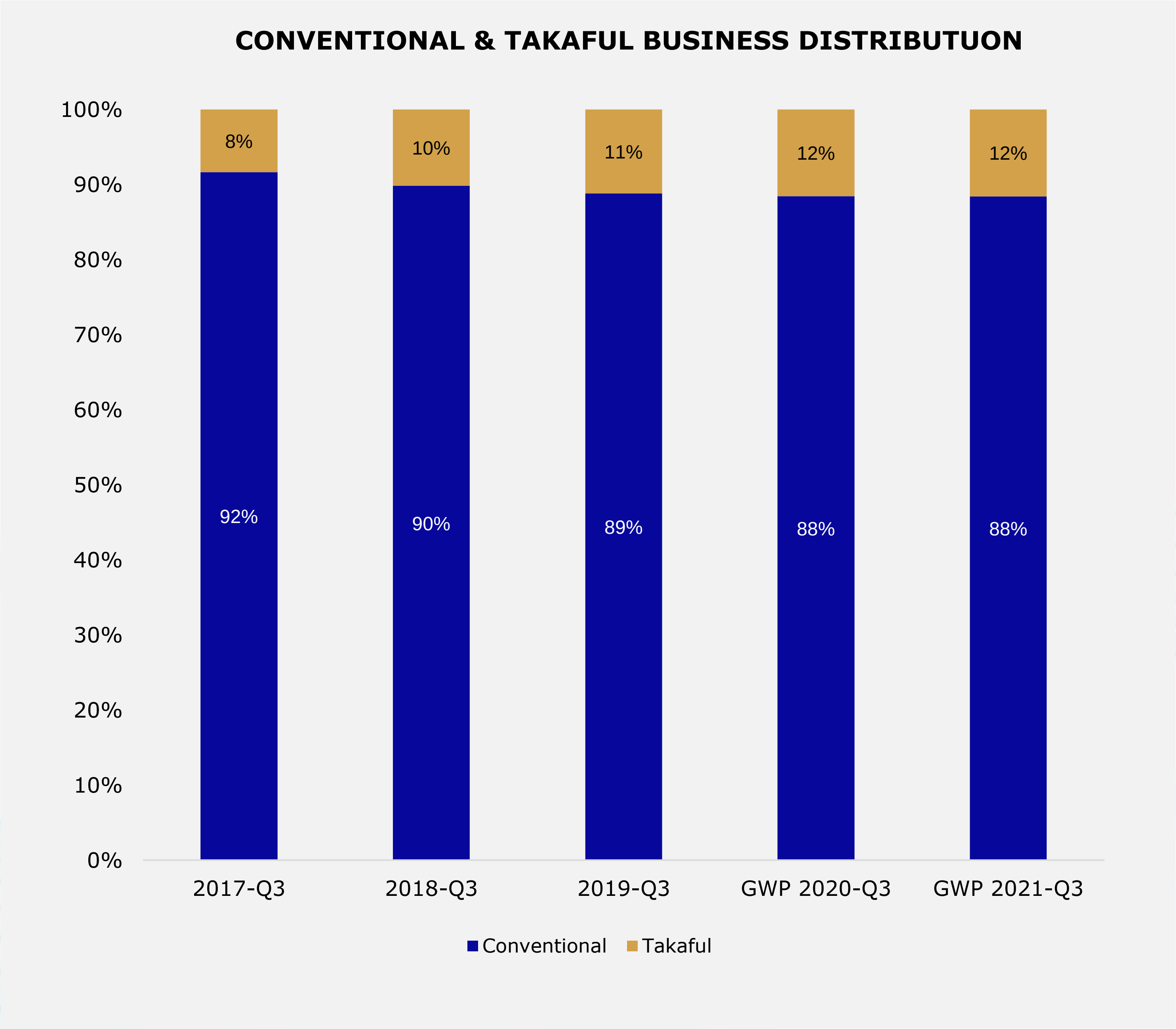
Conventional business is the main contributor to the industry's premiums; almost 88% of the Gross Written Premium is contributed by the conventional business. The nine months period ended September 2021 experienced an 18% growth in premium resulting in the market premium of PKR 59 billion.



The listed takaful market experienced a decreasing growth rate till 2020 which bounced back to a double-digit growth in 2021. Despite the COVID-19 lockdowns in 2020, the GWC experienced a positive growth of 3%. It should be noted that the 2021 growth rate reflects the pre-COVID takaful GWC growth rates experienced in 2019. The GWC for the listed takaful market stands at PKR 7.7 billion



CONVENTIONAL VS TAKAFUL - GWP



Following the approval given by SECP in 2014, general insurers have started operating window takafuls along with their conventional business. 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 2021 which is similar to the level in 2020.

GROSS WRITTEN PREMIUM - COMPANIES

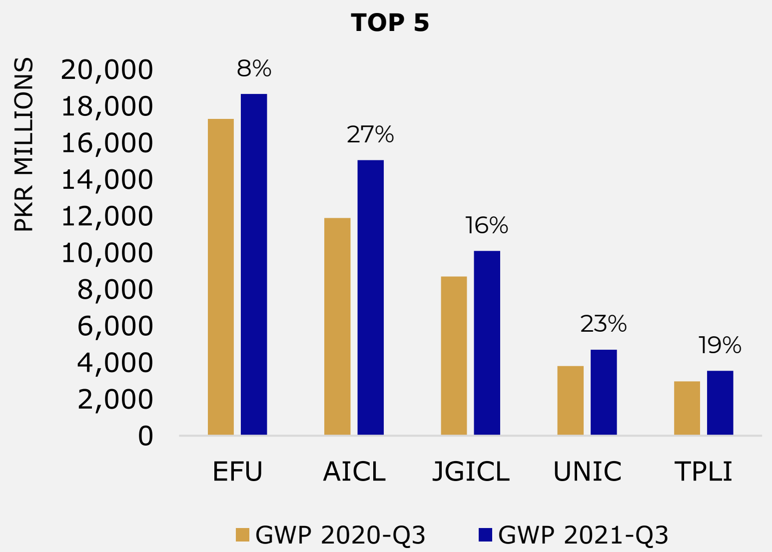
The top 5 companies contributed PKR 52 Billion out of the PKR 66 Billion premium which constitutes 79% of the market.

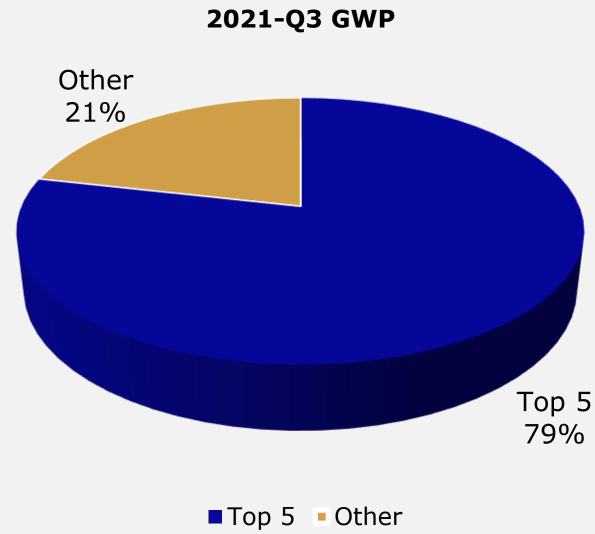
EFU can be seen as the market leader in the listed general insurance industry based on GWP with a market share of 28% for September 2021 followed by AICL and JGICL at 23% and 15% respectively. The top 5 companies have experienced double digit growth in GWP with EFU as an exception.

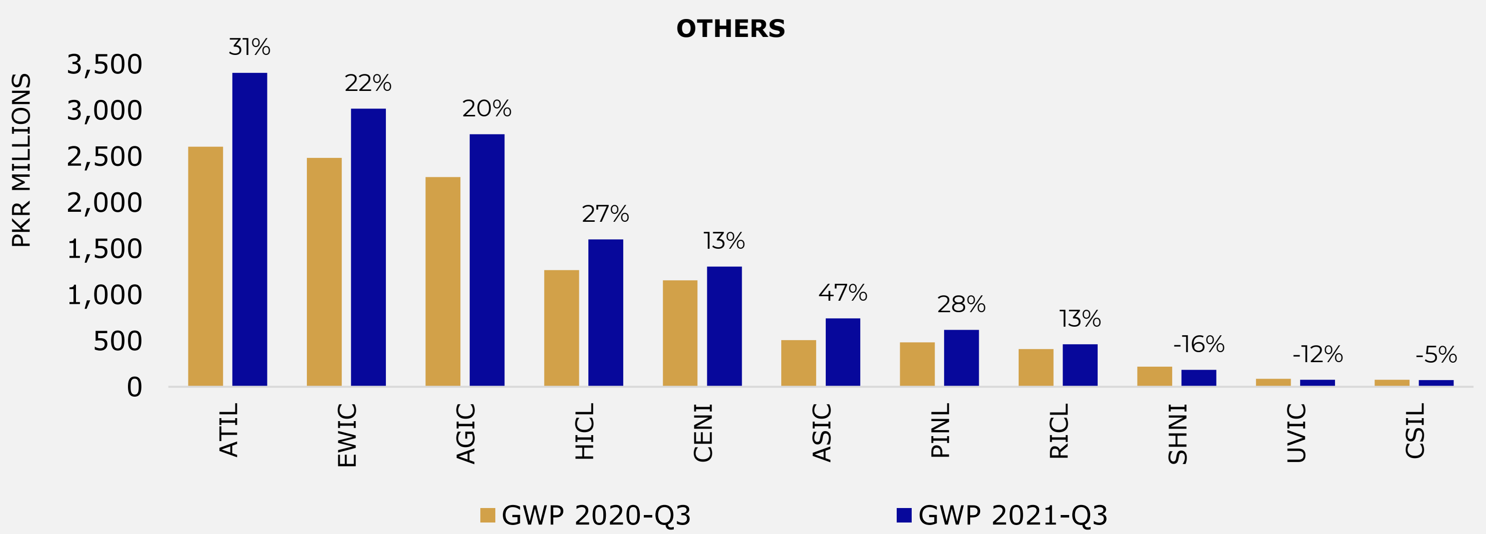
The rest of the market players experienced high GWP growth rates as well which were mostly in double digits. ASIC experienced the highest growth rate of 47%. Only 3 companies experienced a fall in their premiums.

The overall growth in market premiums can be attributed to the economic recovery which gathered momentum in 2021. This was supported by an accommodative monetary policy of lower policy rates which significantly increased auto financing with higher housing and construction loans as well.

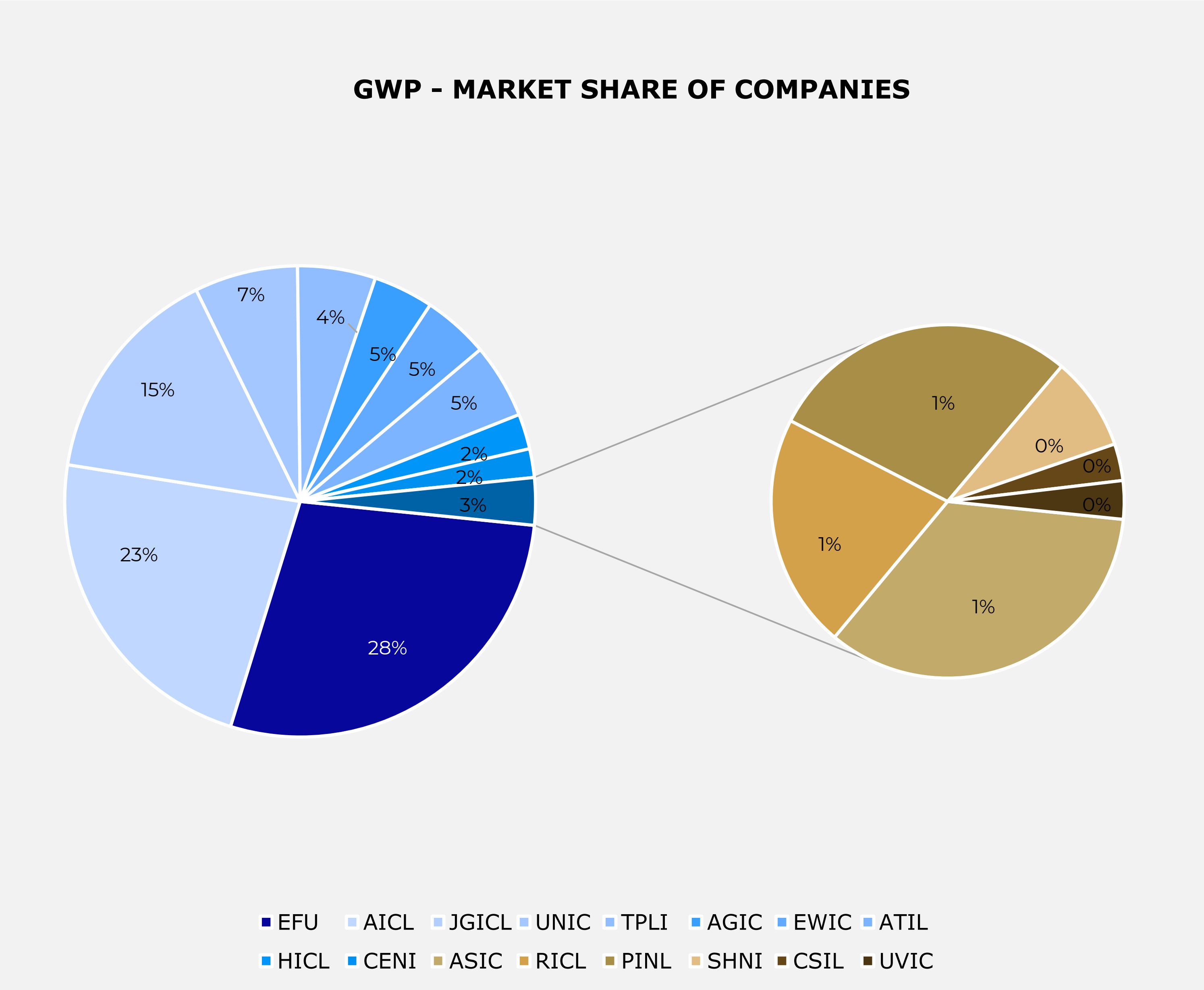
AICL includes business underwritten inside Pakistan only







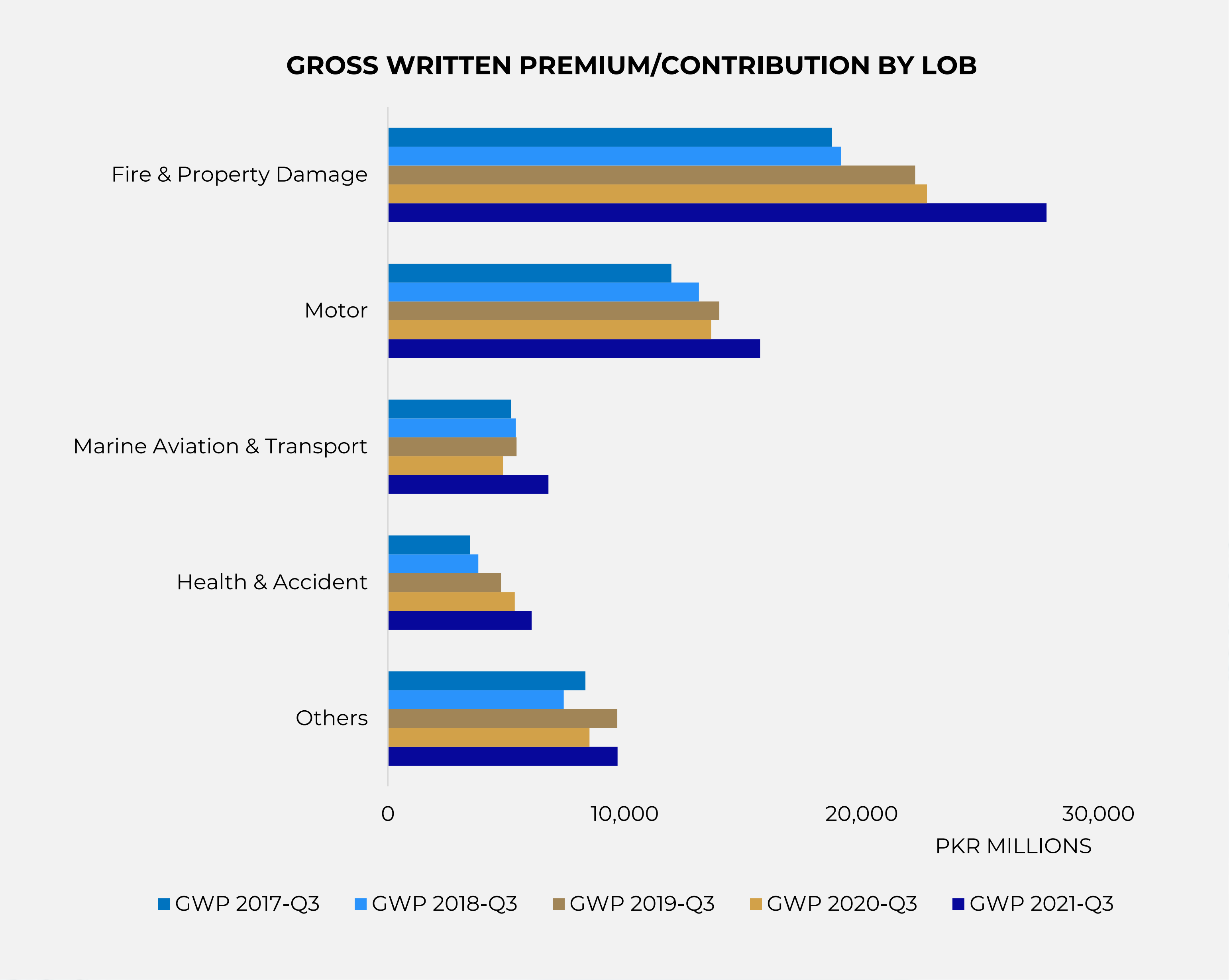
MARKET SHARE OF COMPANIES - GWP



EFU can be seen as the market leader in general insurance based on GWP with a market share of 28% for 2021 followed by AICL at 23% and JGICL 15% respectively. The pie chart shows companies with decreasing market shares as you go from the left chat to the right.

*****AICL includes business underwritten inside Pakistan only***

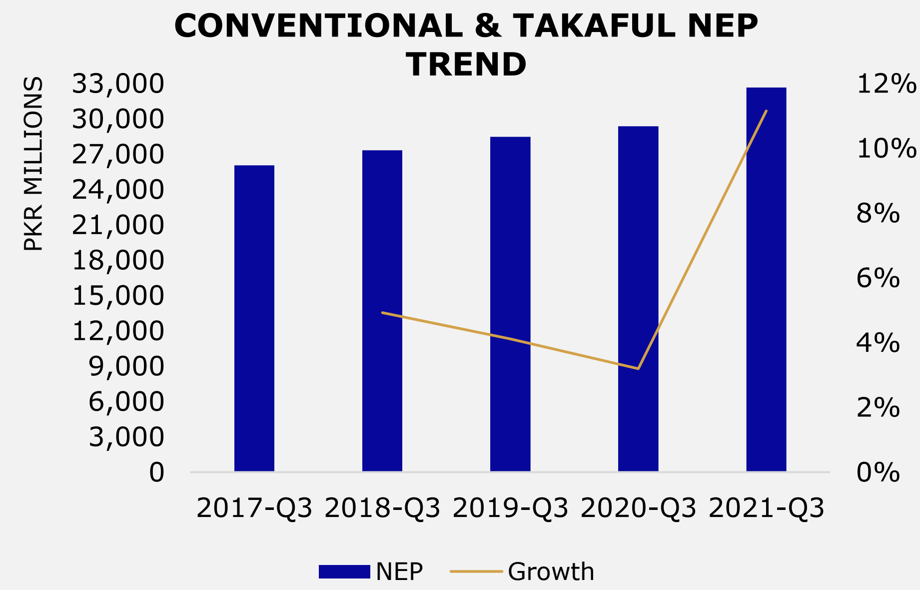
GROSS WRITTEN PREMIUM BY LINE OF BUSINESS



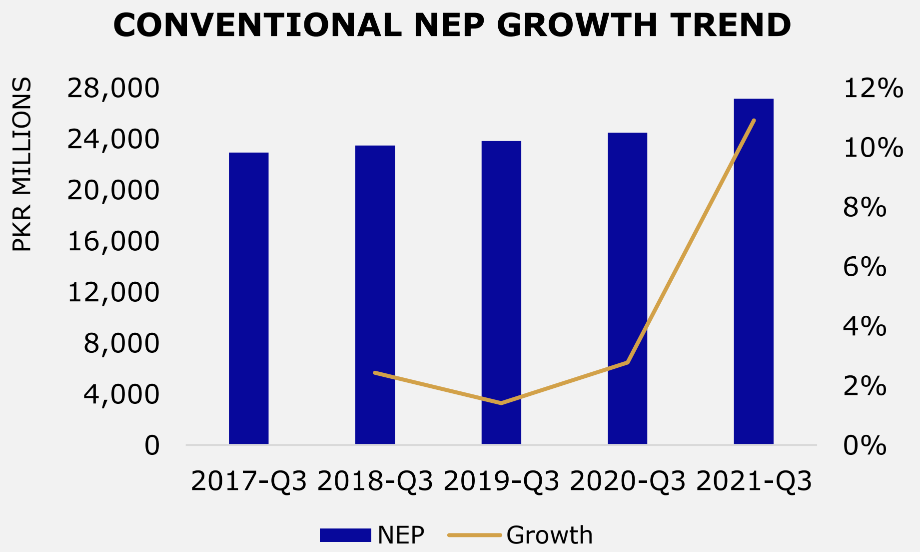
The nine months period ended September 2021 saw GWP of PKR 66 billion which is the highest premium written over the five-year period. All the lines of business experienced an increase in premiums with the highest increase of 40% in the Marine line of business which is due to the economic recovery experienced in 2021 resulting in higher trade activity. The Fire business experienced a 22% increase in premiums while the motor line experienced a 15% increase. The State Bank Of Pakistan has maintained an accommodative monetary policy with low policy rates which have resulted in sharp increases in auto financing which has been supported by higher demand due to newer models in the market and delayed purchases from 2020. The Health business has also experienced a year-on-year increase in business written.

NET EARNED PREMIUM - MARKET

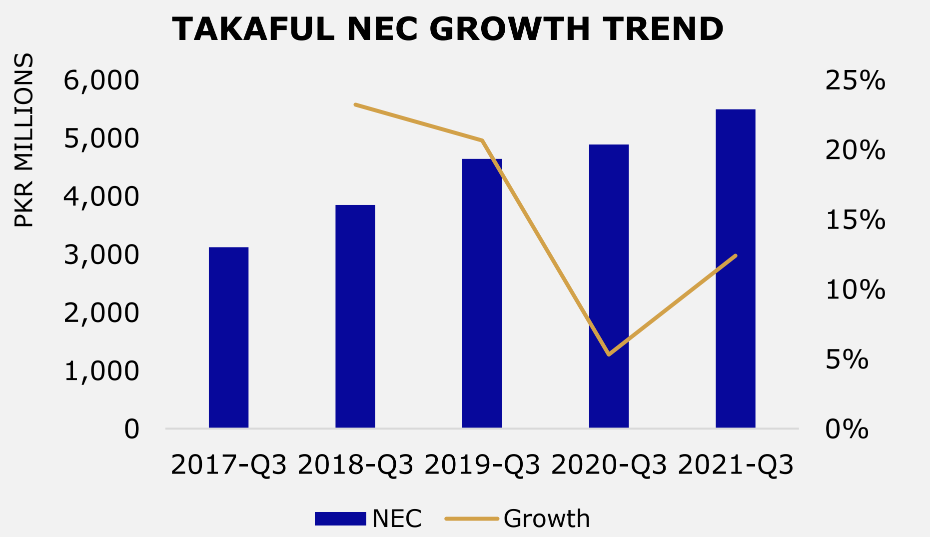
The total net earned premium for the conventional and takaful business combined amounted to PKR 33 billion for 2021, an increase of 11% compared to the corresponding period in 2020. The impact of increased GWP is reflected in the NEP as well. The 5-year trend shows a consistent year-on-year increase in NEP with a decreasing growth rate witnessed till 2020.



The conventional insurance business contributed PKR 27 billion to the market NEP which amounts to a proportion of 83%. The NEP growth rate has been relatively stable at around 3% with a higher growth rate of 11% experienced for the nine months period ended September 2021 compared to the corresponding period in 2020.



The takaful insurance business has been growing in terms of the NEP by 12% with PKR 5 billion earned in 2021. The NEP growth rate has experienced a decline since 2018 and the growth rate for the current period has not been able to keep up with the pre-covid growth rates of 21% experienced in 2019.



NET EARNED PREMIUM - COMPANIES

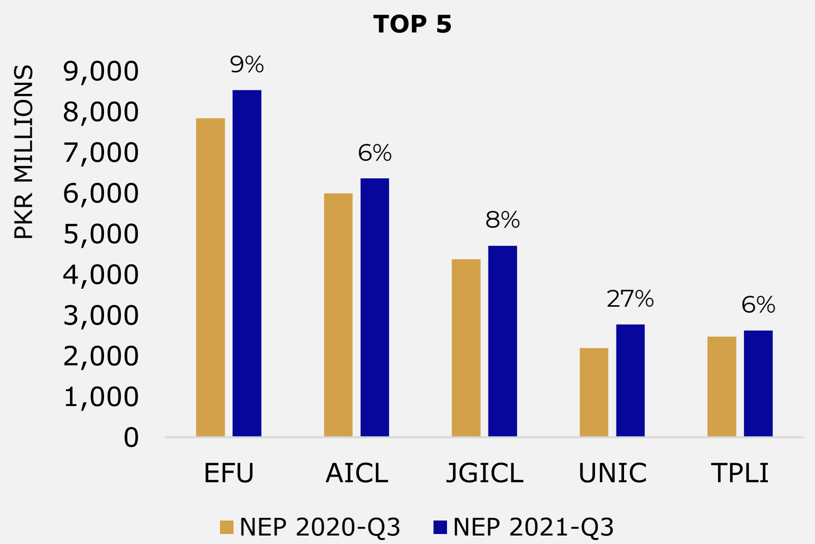
The net earned premium for the top 5 companies amounts to PKR 25 Billion which shows an 9% increase compared to the same period last year. The top 5 companies have 77% of the market in terms of the NEP.

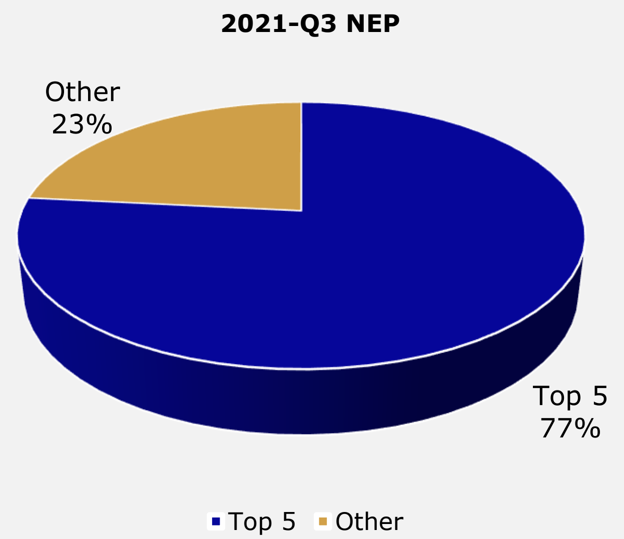
EFU leads the listed general insurance industry with a NEP of PKR 8.5 billion followed by AICL and JGICL of PKR 6.3 billion and PKR 4.7 billion respectively.

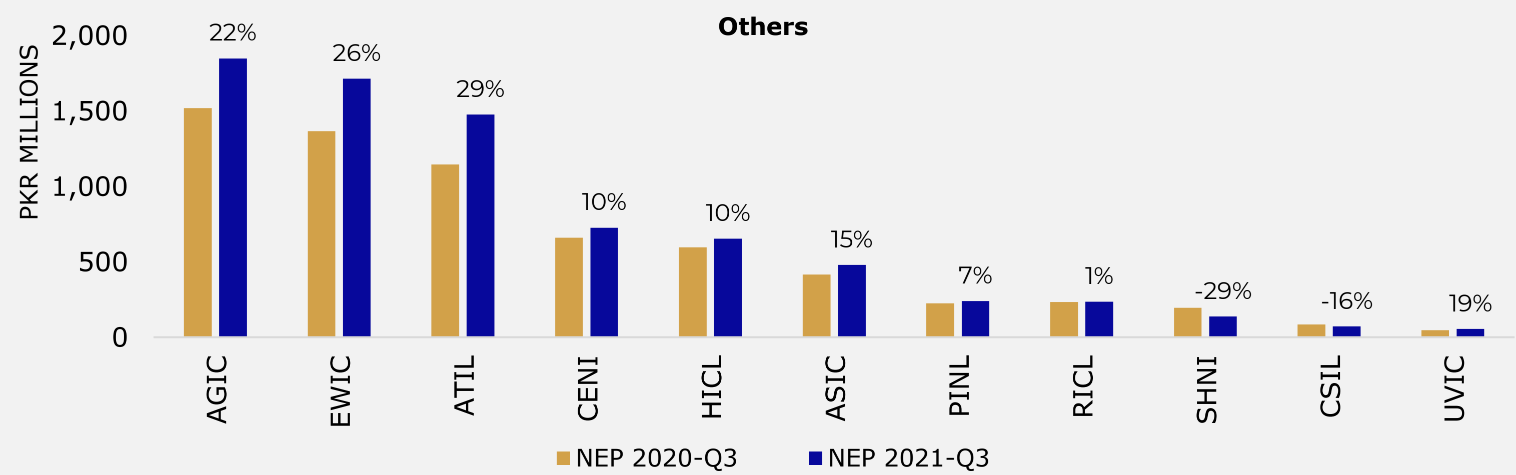
Amongst the top 5 companies, UNIC experienced the highest growth in their NEP of 27% in 2021 compared to the corresponding period in 2020.

The other industry players hold a 23% market share in terms of the NEP which is up by 1% compared to the 2020 market share. The NEP by the other industry players amount to PKR 7.6 billion. The majority of the companies experienced a positive double digit NEP growth rate.

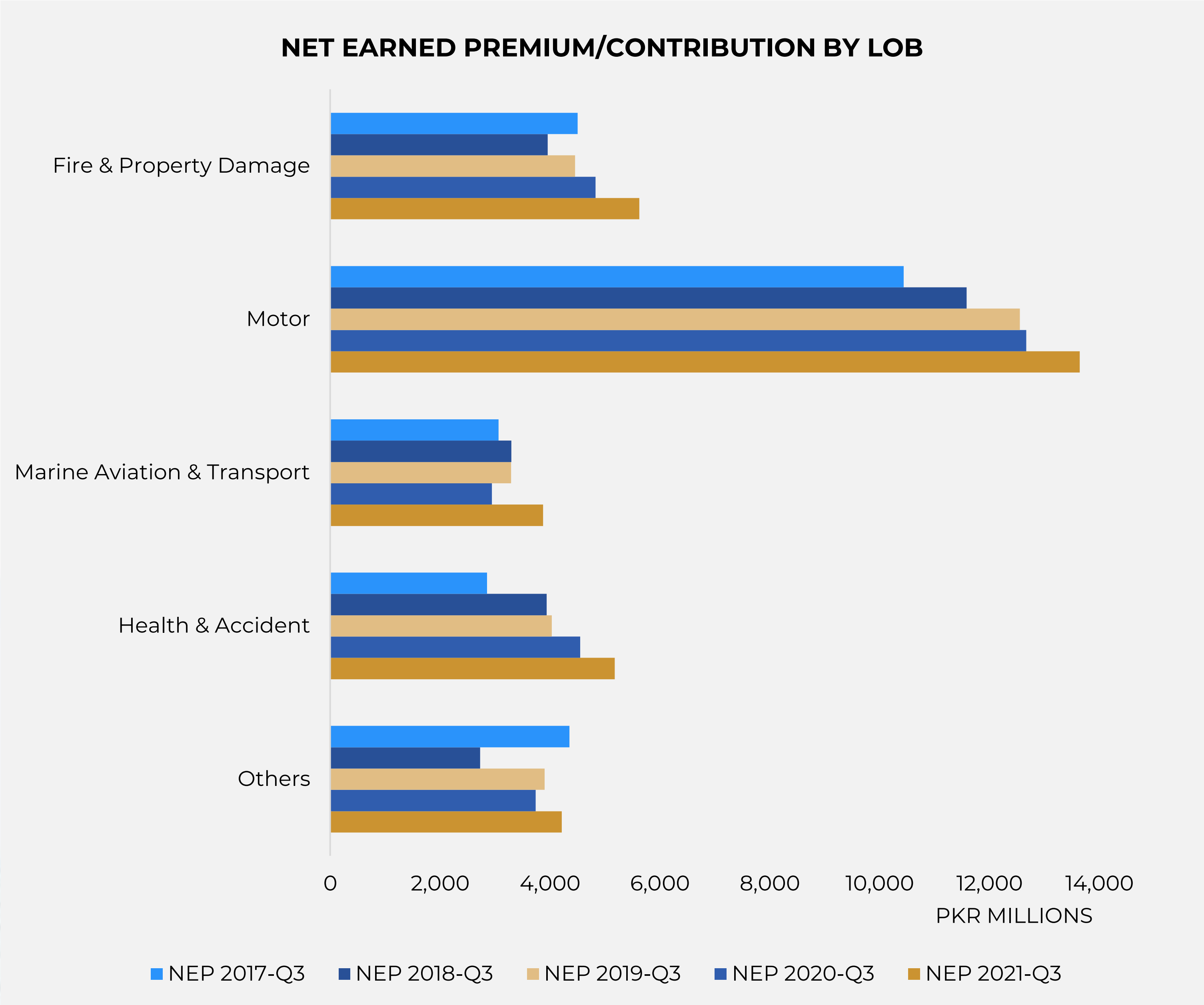
*****AICL includes business underwritten inside Pakistan only***





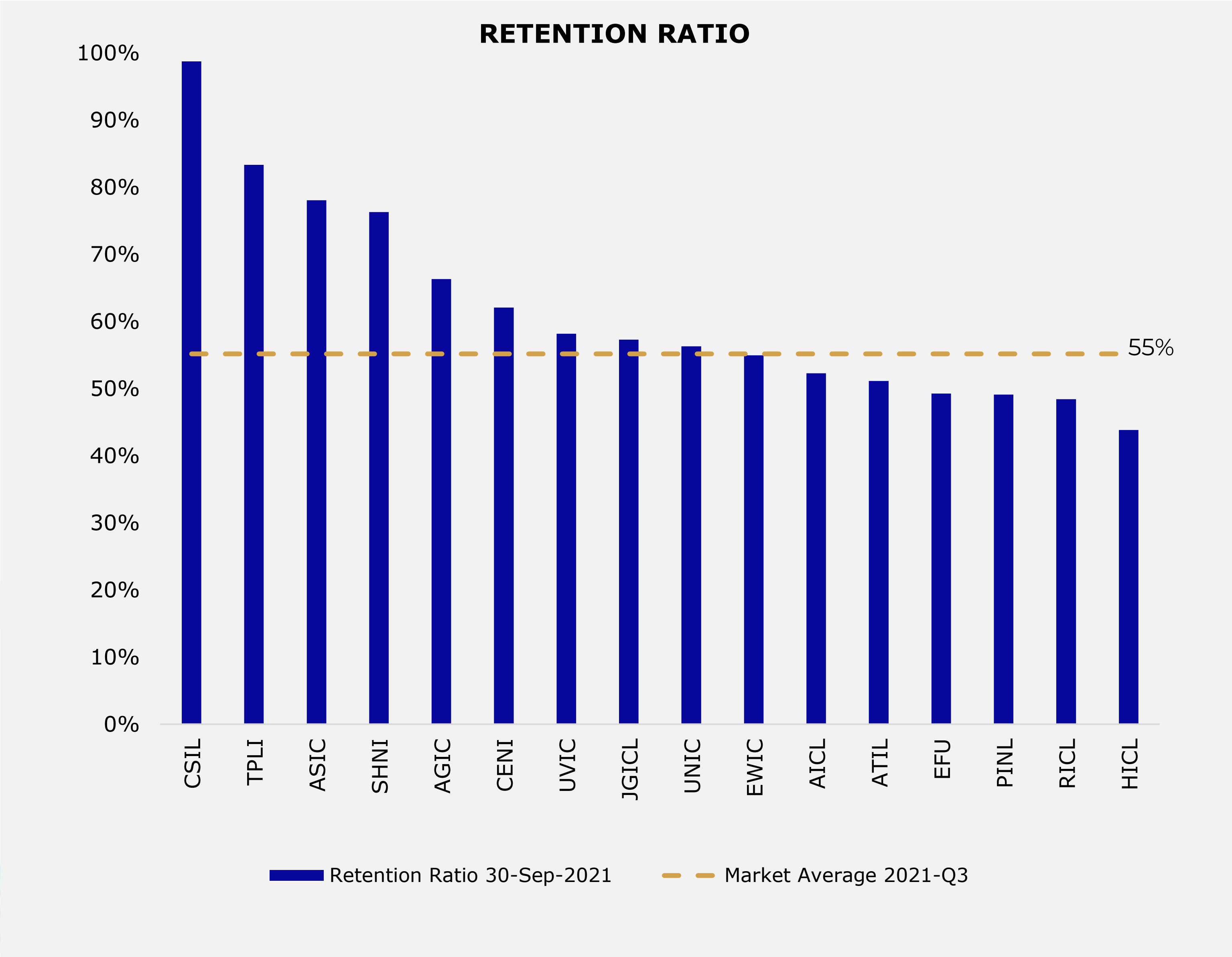


NET EARNED PREMIUM BY LINE OF BUSINESS



The higher premium written has also resulted in higher NEP which were about 13% higher than the 2020 level. The NEP depends on the earning pattern as well as the reinsurance arrangement of a particular business segment. The Fire and Property line has experienced a year-on-year increase in its NEP however, when comparing the GWP of this segment to its NEP, it can be observed that this segment is highly reinsured along with the Marine portfolio. This is because commercial lines are generally low frequency and high severity which requires a transfer of risk by the insurer. Furthermore, the motor line has been observed to consistently earn the highest net premium.

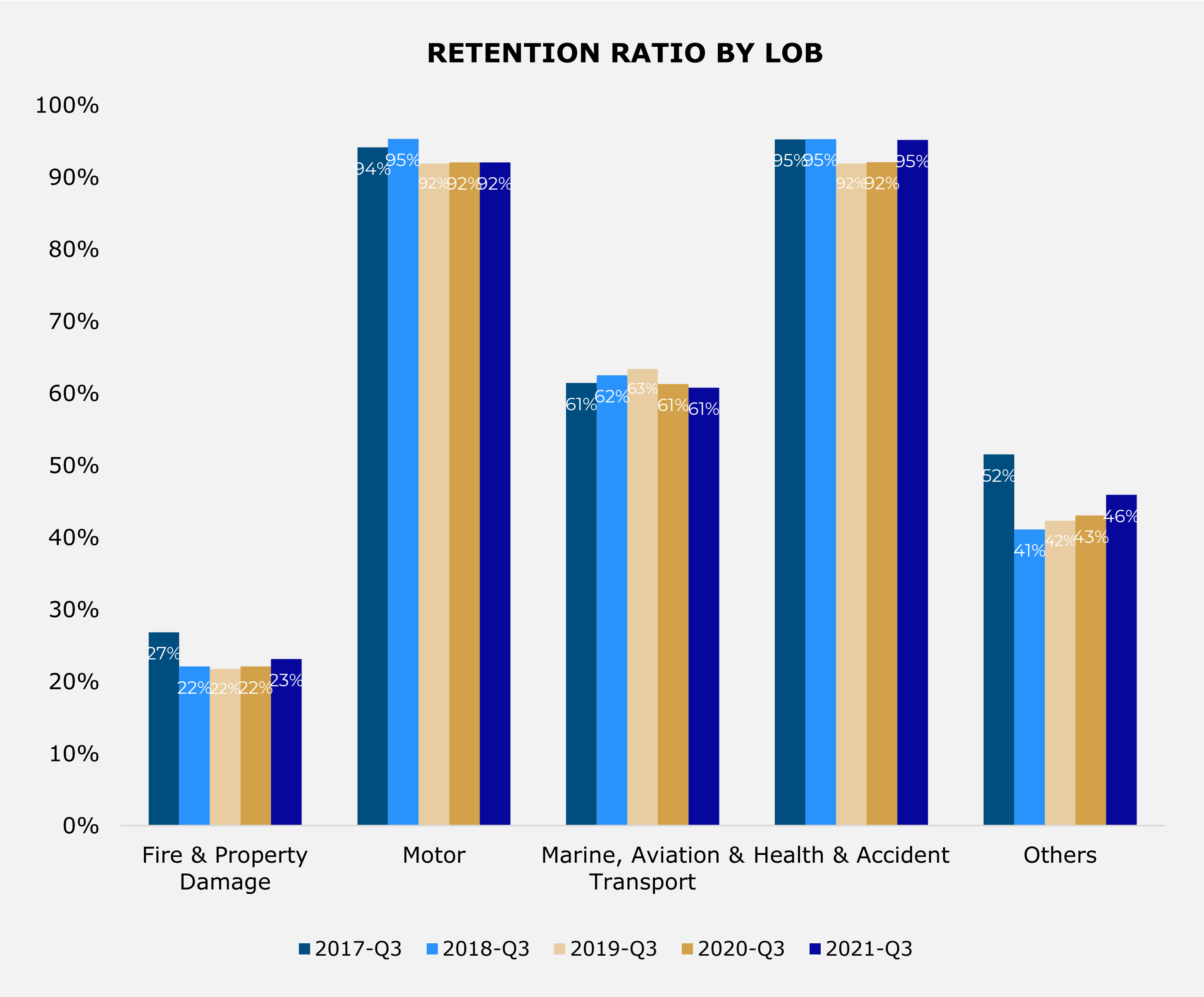
RETENTION RATIO



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 55% which is the weighted average ratio for the nine months period ended September 2021 and serves as a benchmark for our analysis.

The highest retention ratio of around 99% 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 44% which has its' main business proportion in the Fire and Property line. 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.

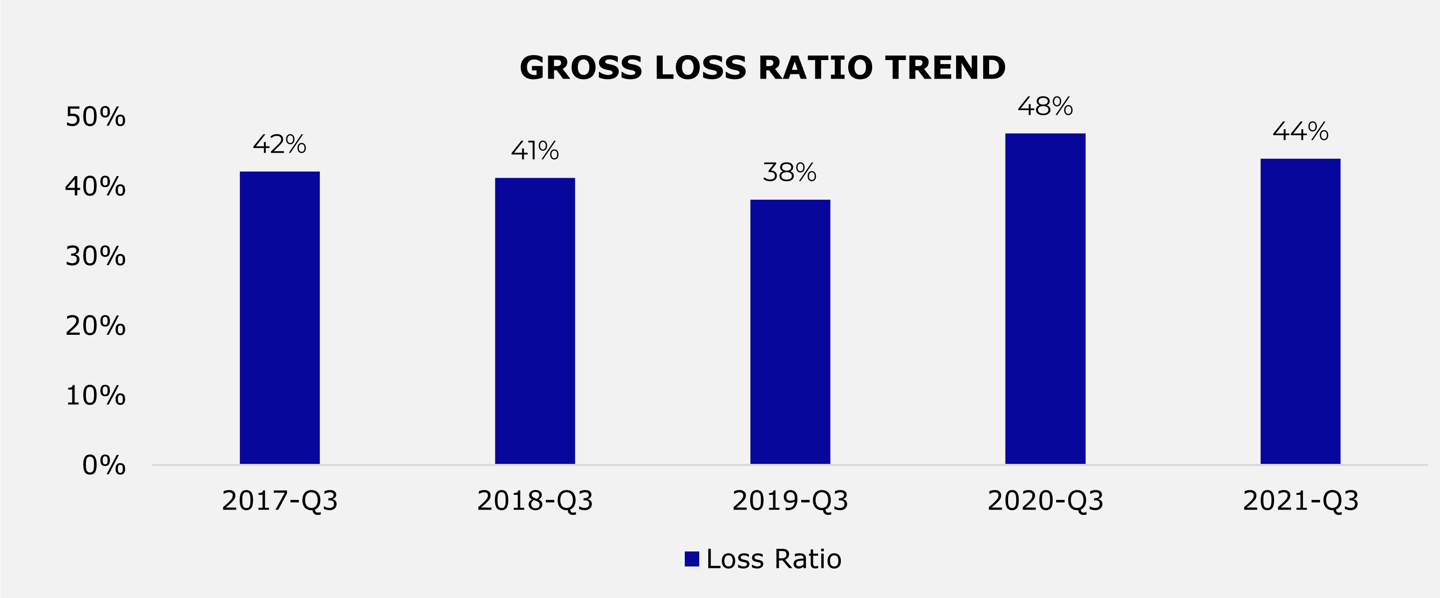
RETENTION RATIO BY LINE OF BUSINESS



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 having a low retention ratio. Capital and capacity issues mean most large property risks in Pakistan are ceded out to the foreign reinsurance market.

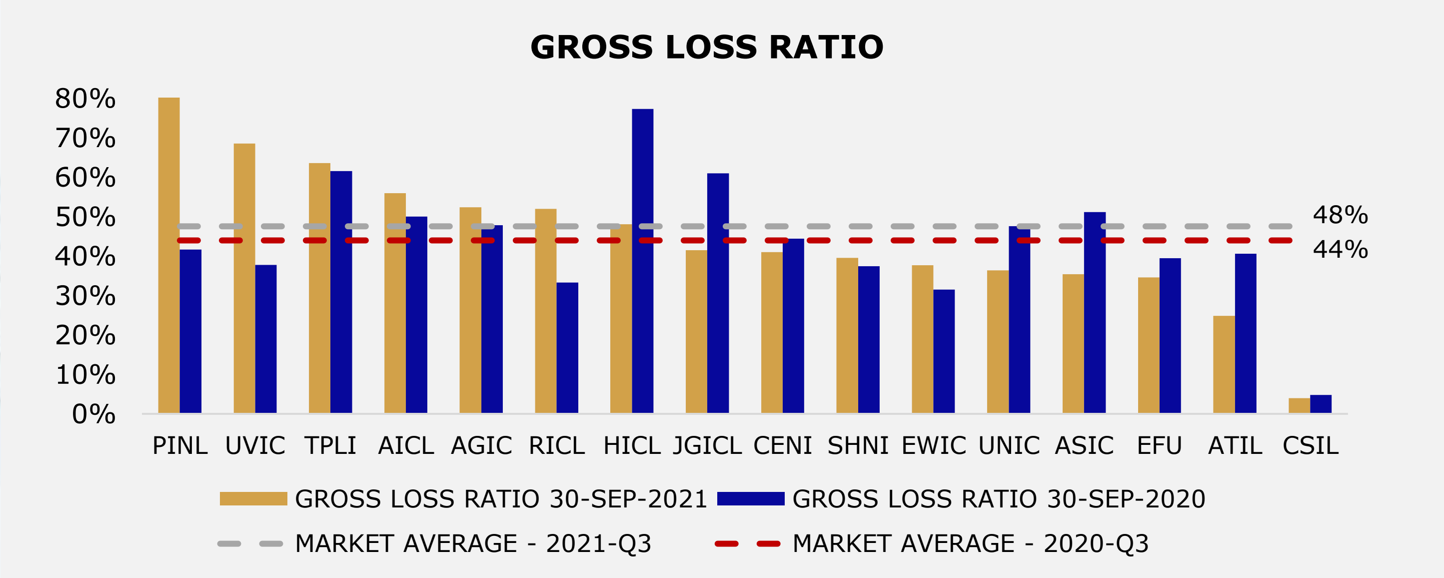
The bar graph shows that the retention ratios have been consistent within each line of business over the 5 year period with relatively higher retention ratios experienced by the Fire and Others line in 2017 when compared within these lines over time.

GROSS LOSS RATIO



The gross loss ratio has been calculated as the ratio of gross incurred claims to gross earned premium/contribution (Gross of wakala numbers are used for the takaful segment).

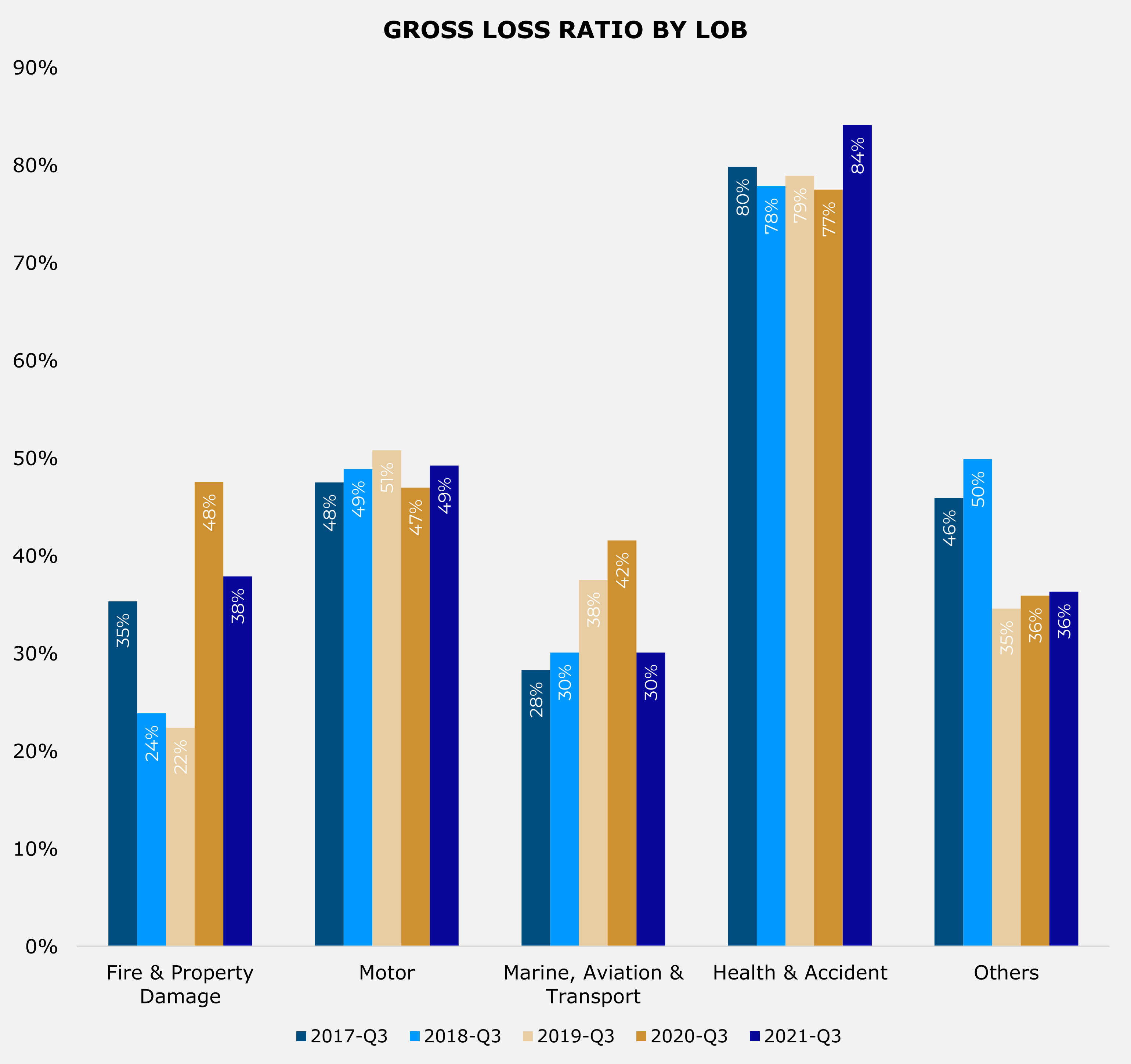
The market gross loss ratio exhibits a declining trend till 2019 followed by a steep rise of 10% in 2020 followed by a slight fall of 4% in 2021. The lower loss ratio in 2021 can be explained by lesser Fire and Property and Marine losses.



Overall, the gross loss ratio is lower for most listed companies 2021 when compared to the corresponding period in 2020. EFU, JGICL and UNIC have managed to remain below the market average numbers while AICL experienced an increase in their ratio to 56%.

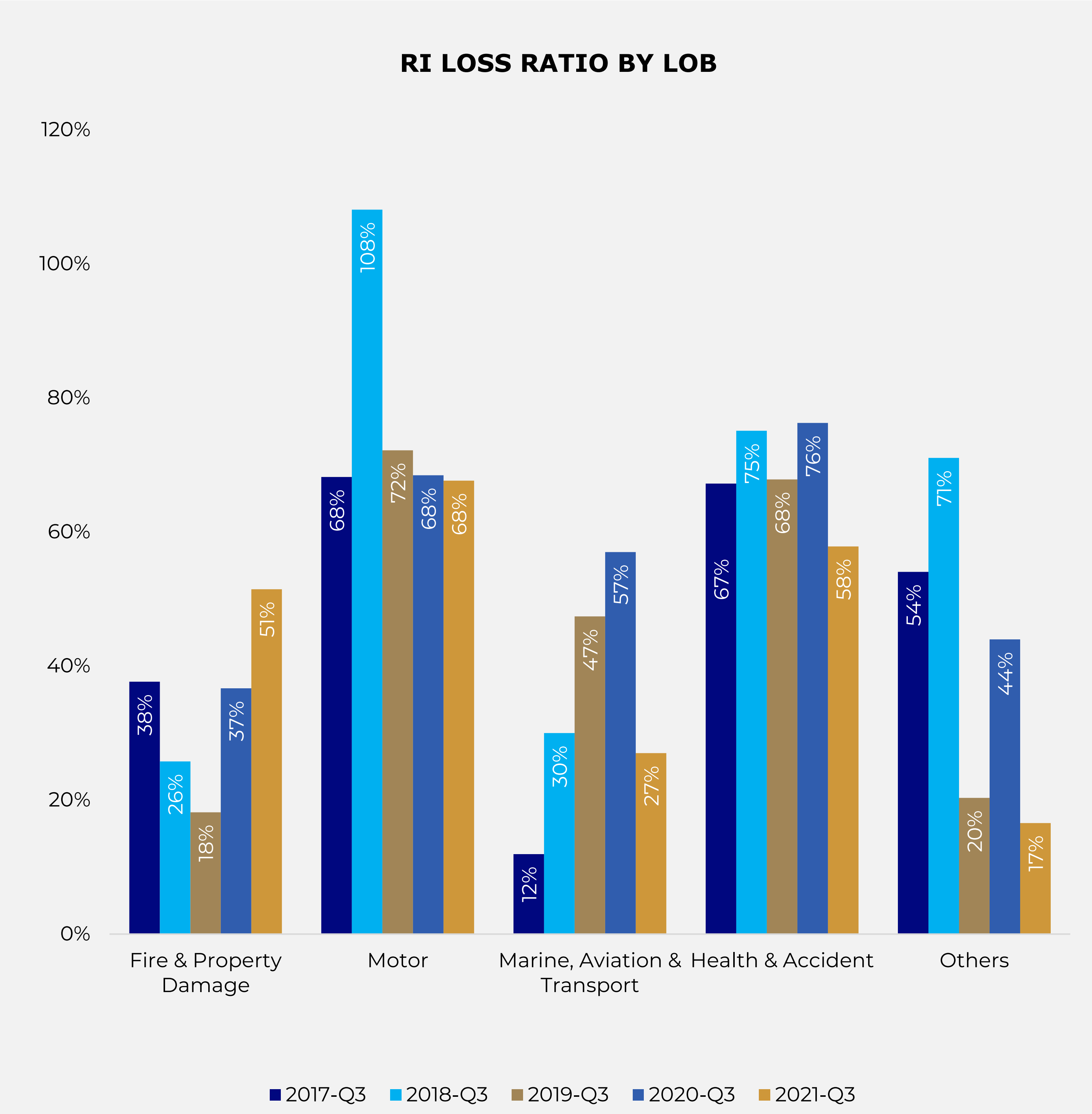
Disclaimer
*The graph has been capped at 80%. PINL has a gross loss ratio exceeding this number.

GROSS LOSS RATIO BY LINE OF BUSINESS



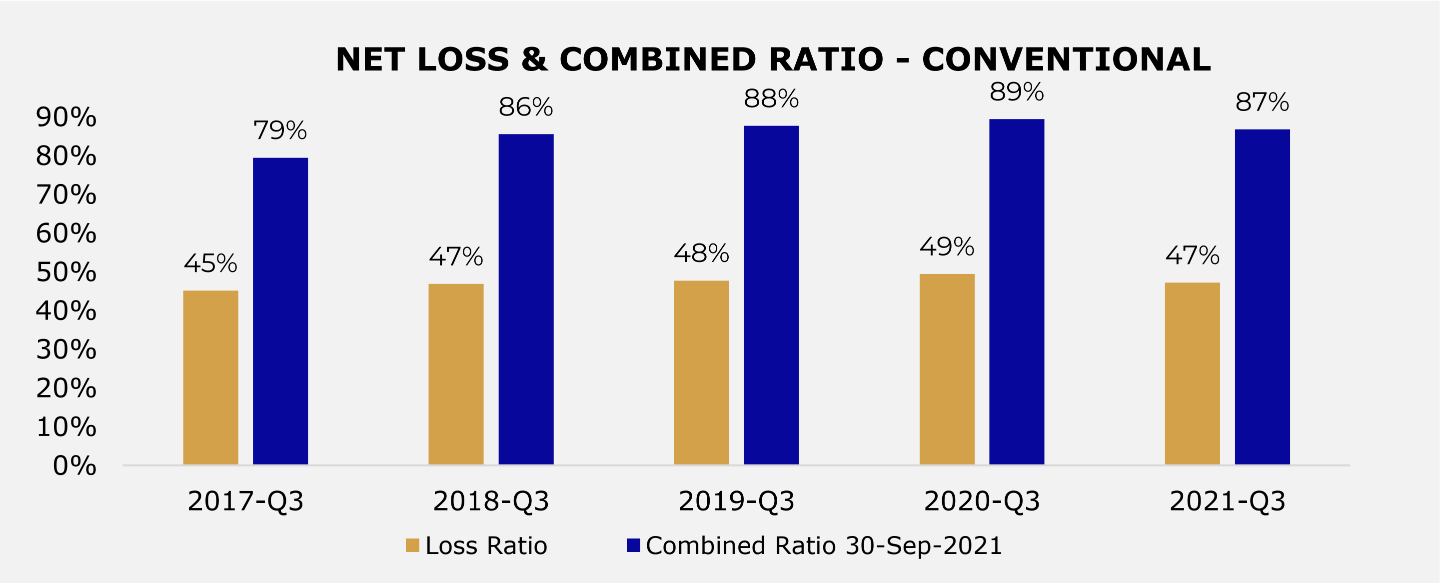
The gross loss ratios have trended up for the Health and Motor segment in 2021 with an increase of 7% and 2% respectively when compared to 2020. Lower Fire and Marine losses were experienced in 2021 compared to 2020. This is because 2020 saw large textile fire losses along with flash floods in some parts of the country especially the metropolitan city of Karachi. While the higher Marine losses would be due to hampering of global supply chains and trade due to lockdowns and covid restrictions.

RI LOSS RATIO BY LINE OF BUSINESS

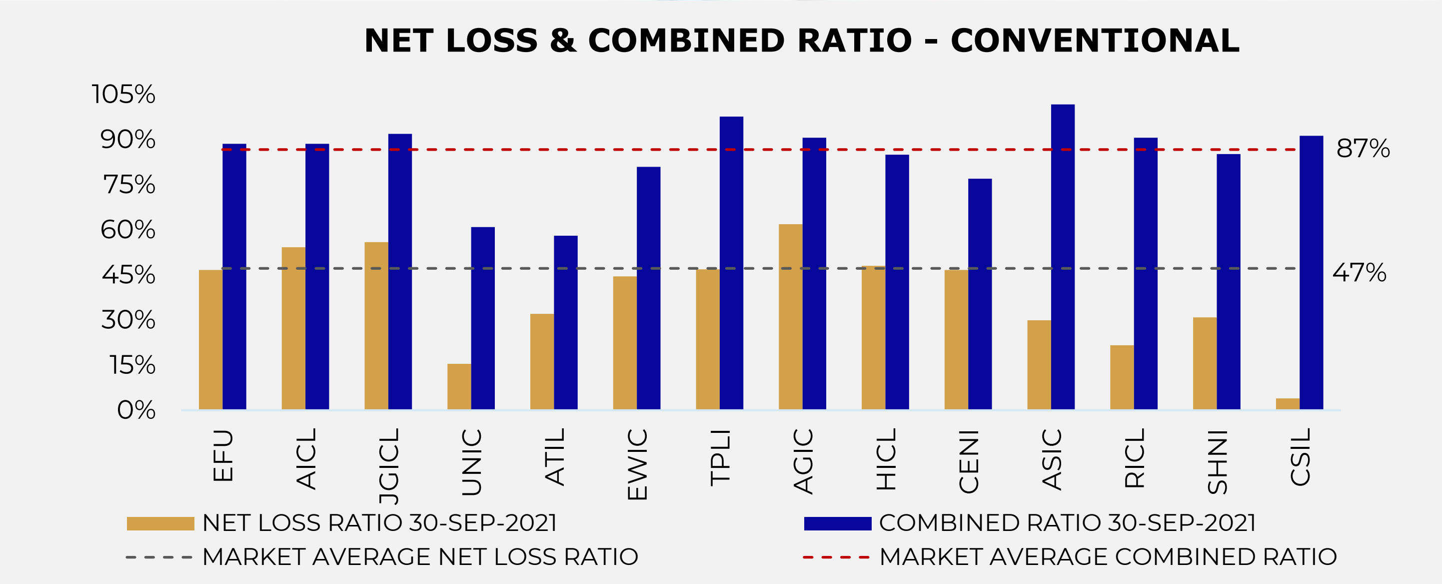


RI loss ratios have increased in 2021 for the Fire business only. Apart from this, there is no clear trend seen in the above ratios. This is expected since reinsurance is bought to absorb volatility enabling the cedant to smoothen their results across years.

NET LOSS AND COMBINED RATIO - CONVENTIONAL



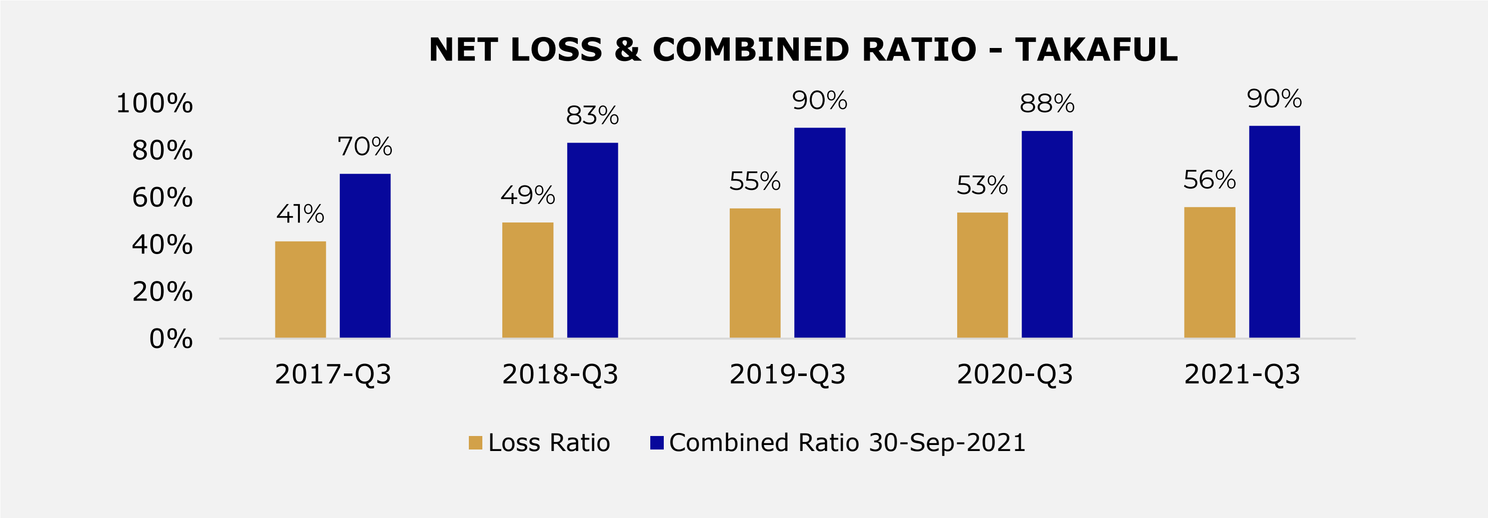
The net loss and combined ratios have remained relatively stable at around 47%-49% and 86%-89% respectively excluding 2017 which had lower values for both the ratios. It is interesting to note that the net loss ratios have been higher than the gross loss ratios throughout the period suggesting the need for reinsurance optimization.



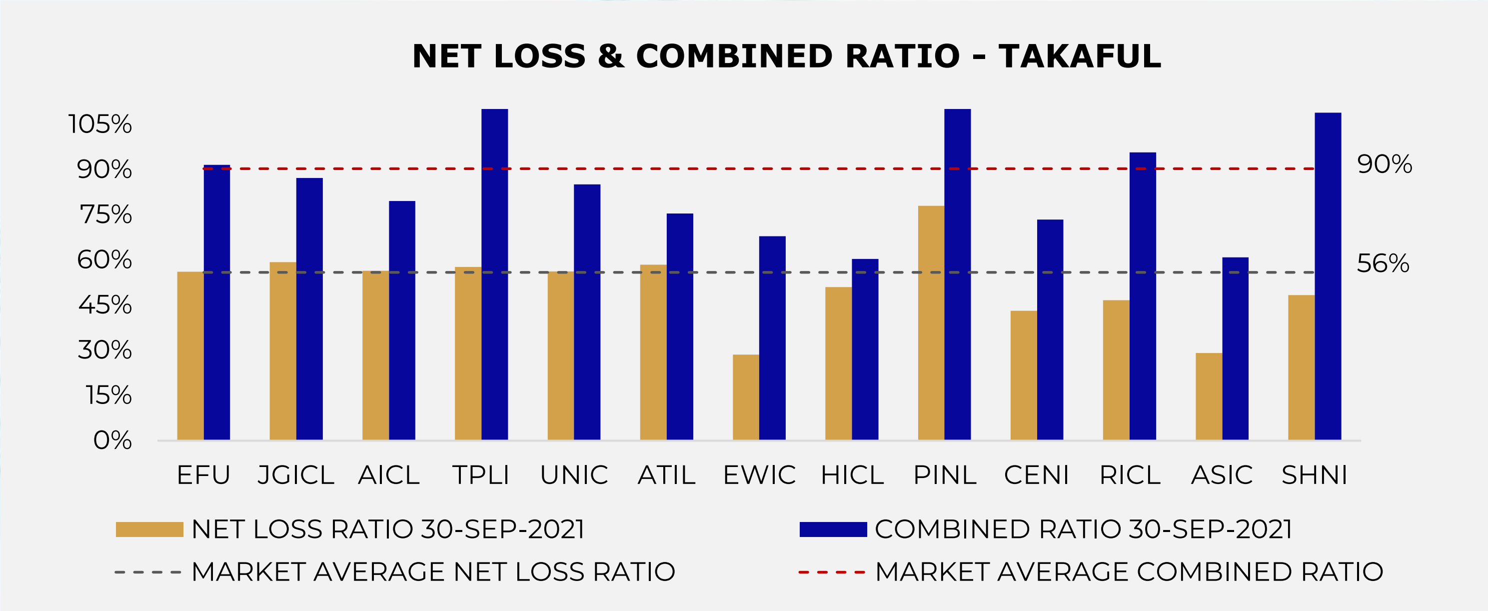
The net loss ratio is the ratio of net incurred claims over the net earned premium while the combined ratio includes management expenses and net commission as well.
The market net loss ratio is the weighted average net loss ratio which stands at 47% while the market combined ratio stands at 87%.

PINL has the highest net loss ratio while CSIL has the lowest net loss ratio of about 4%. In terms of the combined ratio, PINL has the highest ratio while ATIL has the lowest ratio of 58%. It should be noted that a combined ratio greater then 100% translates into a net underwriting loss.
Disclaimer: PINL & UVIC have combined ratio in excess of 150%. Hence, they have been excluded from the graph.

NET LOSS AND COMBINED RATIO - TAKAFUL



The net loss ratio has risen since 2017 and remained at a stable level over the last 3 years between 53%-56%. While the market combined ratio has been in the 88%-90% range for the last 3 years. The market net loss and combined ratios decreased in 2020 while 2021 shows the highest levels for these ratios over the 5-year period. It should be noted that the takaful net loss ratios are higher than the conventional ratios while the combined ratio numbers are similar suggesting cross subsidization of expenses between the conventional and takaful business.

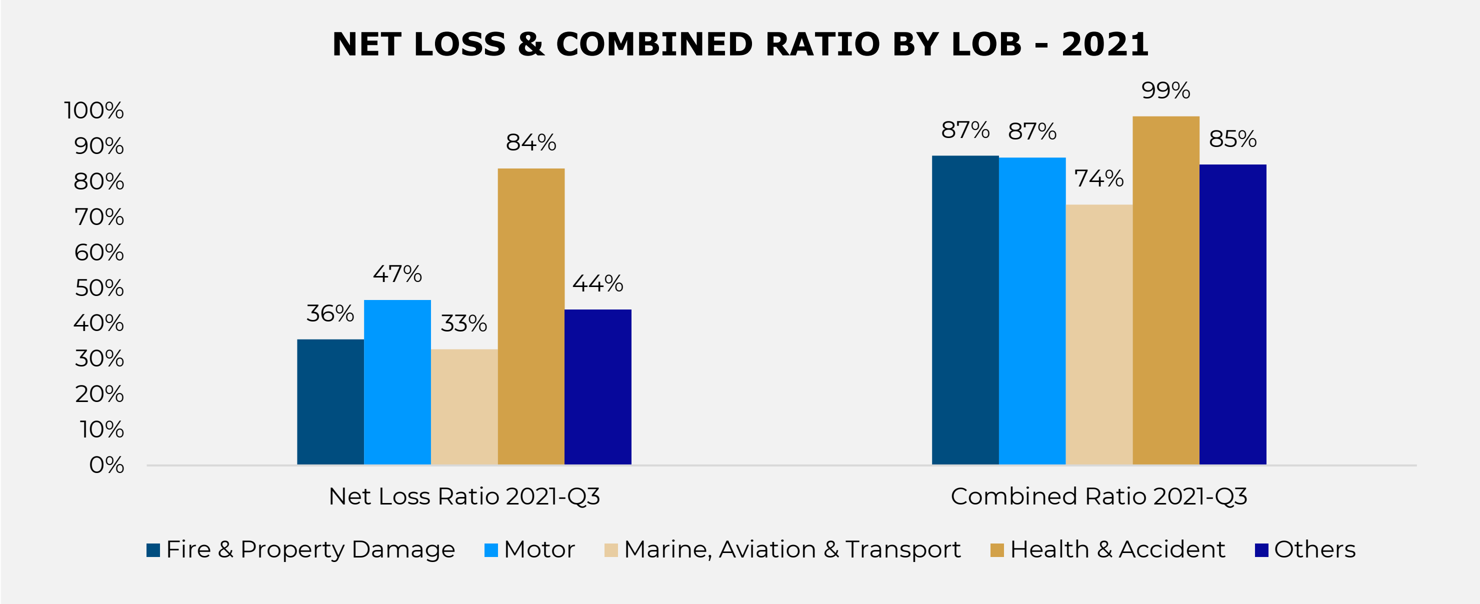


The market net loss ratio stands at 56% while the market combined ratio stands at 90% for 2021.

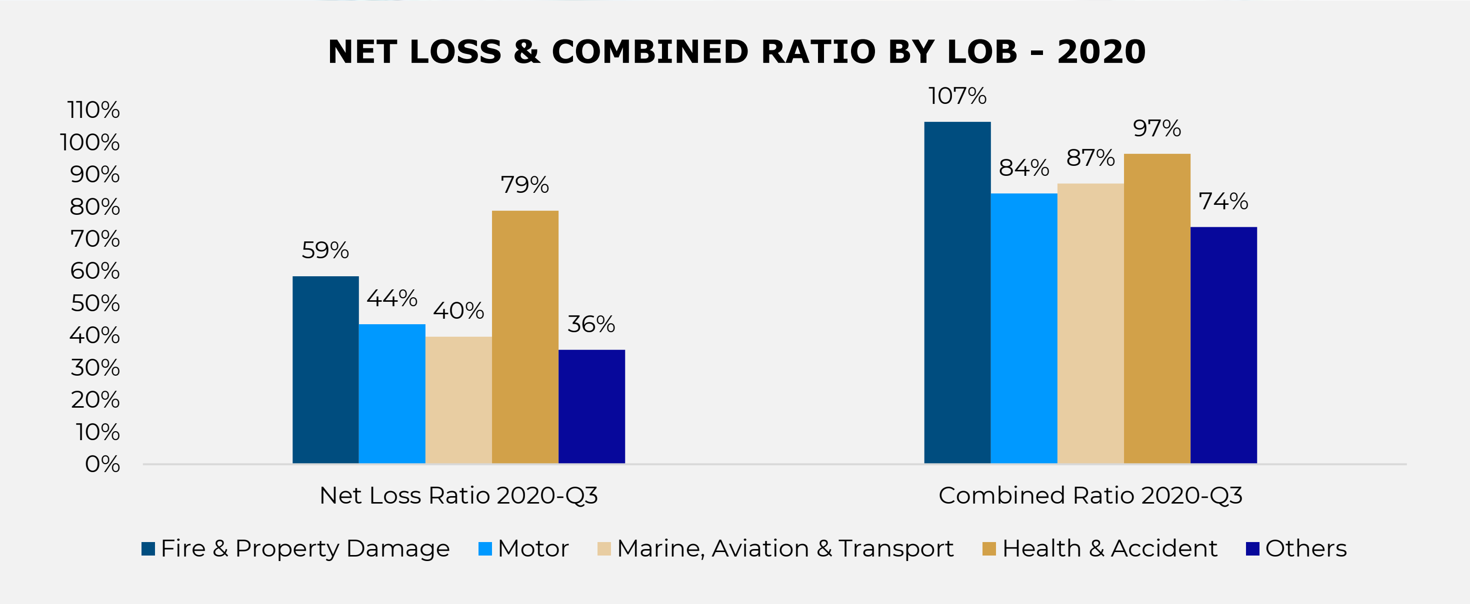
PINL has the highest net loss ratio of 78% while EWIC and ASIC has the lowest net loss ratio of 29%. In terms of the combined ratio, PINL has the highest ratio while HICL has the lowest ratio of 60%. The combined ratio depicts the underwriting performance of the company along with the underwriting expense management. Hence, a combined ratio greater then 100% translates into a net underwriting loss.

Disclaimer: *The graph has been capped at 105%. PINL has a combined ratio exceeding this number.

NET LOSS AND COMBINED RATIO BY LINE OF BUSINESS

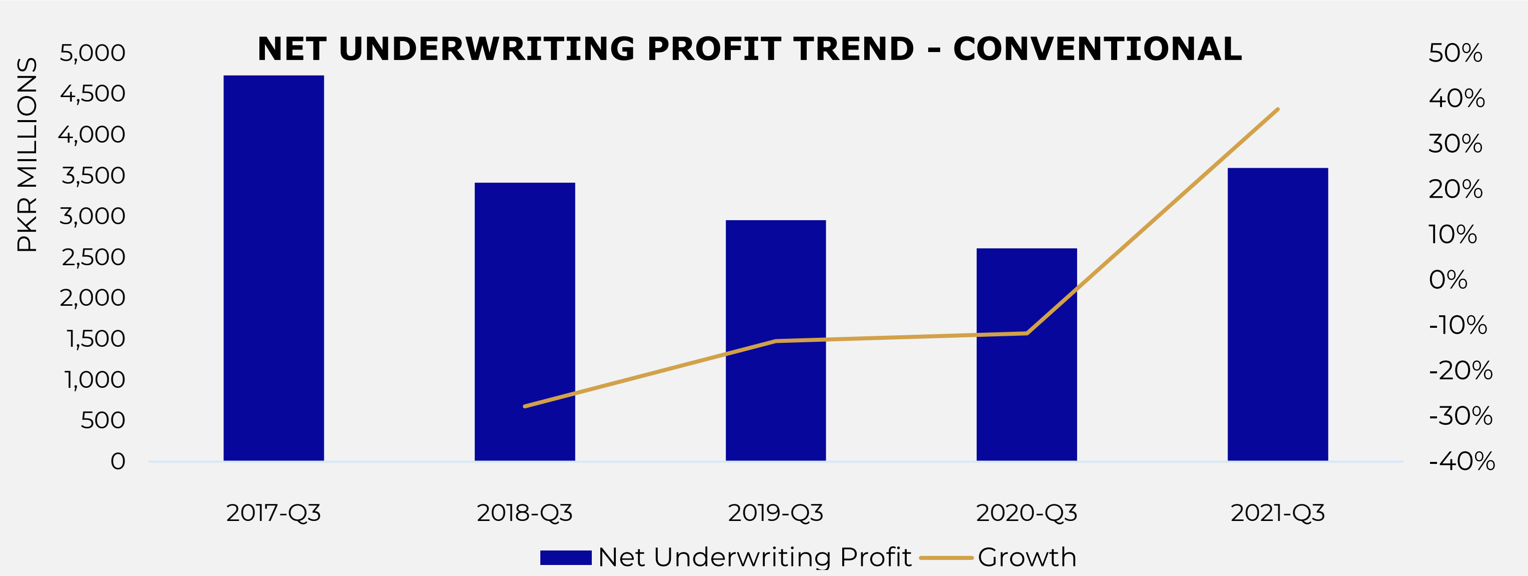


The bar chart shows the net loss and combined ratios across the various business lines for conventional and takaful segments combined. The overall net loss ratio was higher for Motor and Health in 2021 compared to 2020. The Fire line has lower net loss ratio when compared to the gross loss ratio which suggests that some of the impact of the losses have been absorbed by the reinsurance arrangements in place. Similarly, the combined ratio has a similar trend to the net loss ratio trend. It can be observed that the Medical portfolio is barely profitable due to very high combined ratios for both periods while the Fire business has become profitable in 2021.

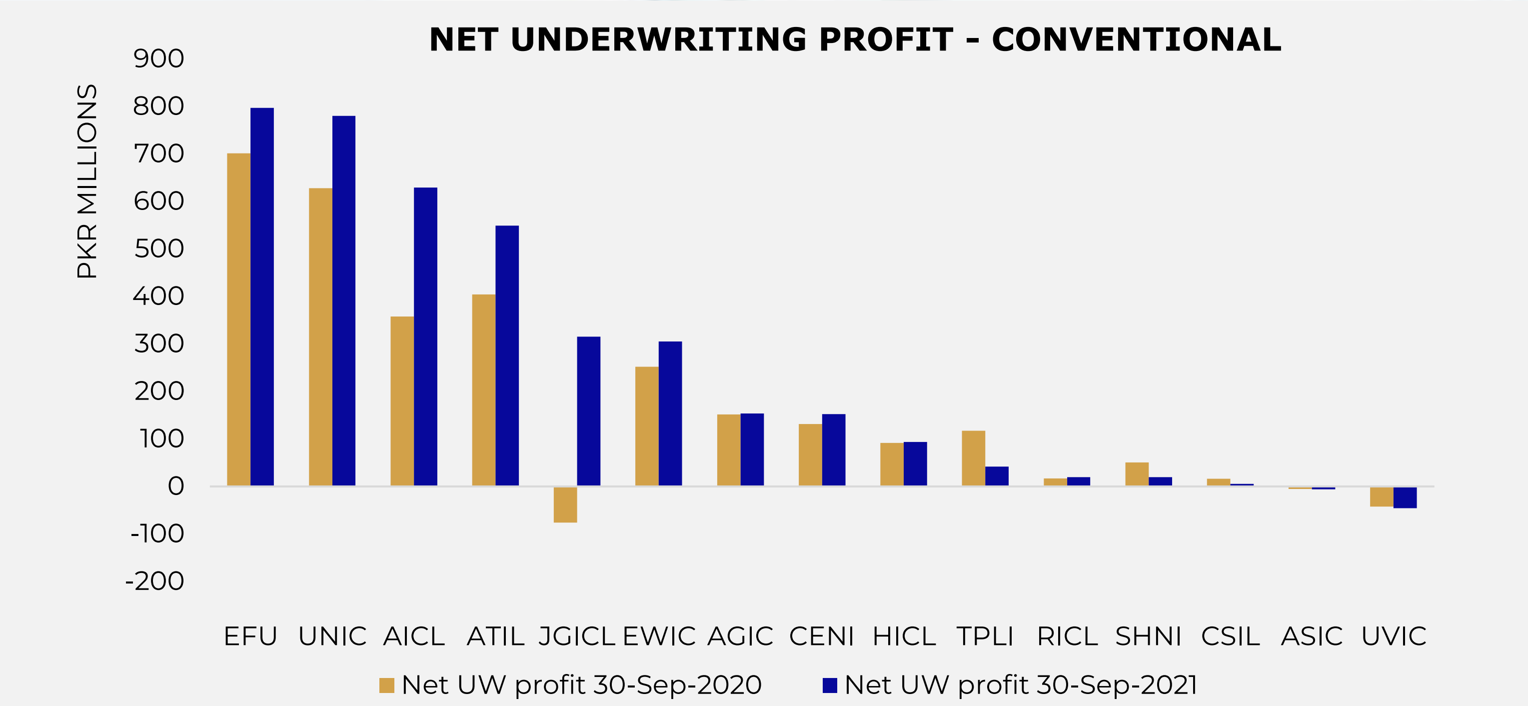


Expense ratios have not changed much year-on-year for most lines as can be seen in the difference between net and combined ratio bars. At an overall level expense ratio has reduced by 1%.

NET UNDERWRITING PROFIT - CONVENTIONAL



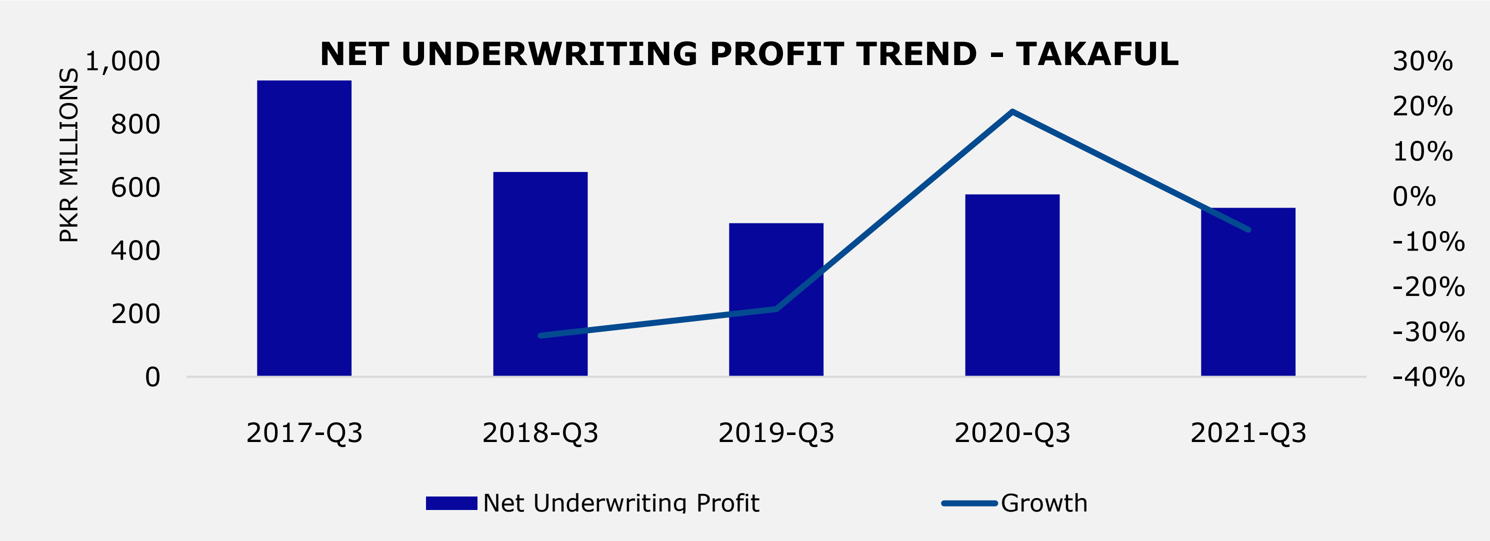
The net underwriting profit for the conventional market has been on a year-on-year decline till 2020. This corresponds with the higher net loss and combined ratios witnessed over this period. 2021 experienced a sharp increase in underwriting profitability due to an improvement in business written, lower net claims and management expenses for the market. The market UW profit stands at PKR 3.6 billion which is a 38% increase compared to the level in 2020.



The bar graph for the net underwriting profit shows EFU as the top company with an underwriting profit of PKR 797 million followed by UNIC and ATIL with an underwriting profit of PKR 781 million and PKR 629 million respectively.

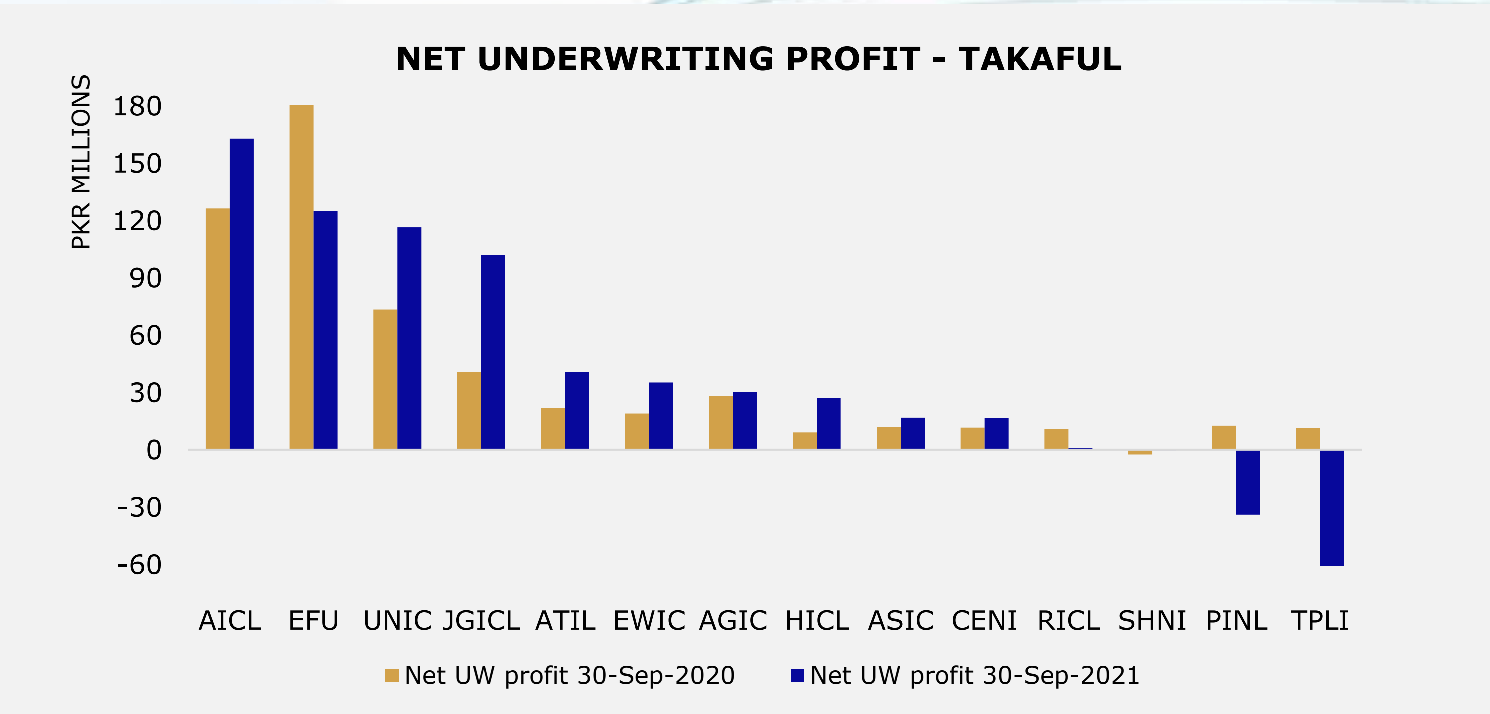
The top 5 companies in terms of GWP show a double-digit growth in underwriting profitability while JGICL has experienced a triple digit growth and TPLI on the other hand experienced a double-digit fall.

NET UNDERWRITING PROFIT - TAKAFUL



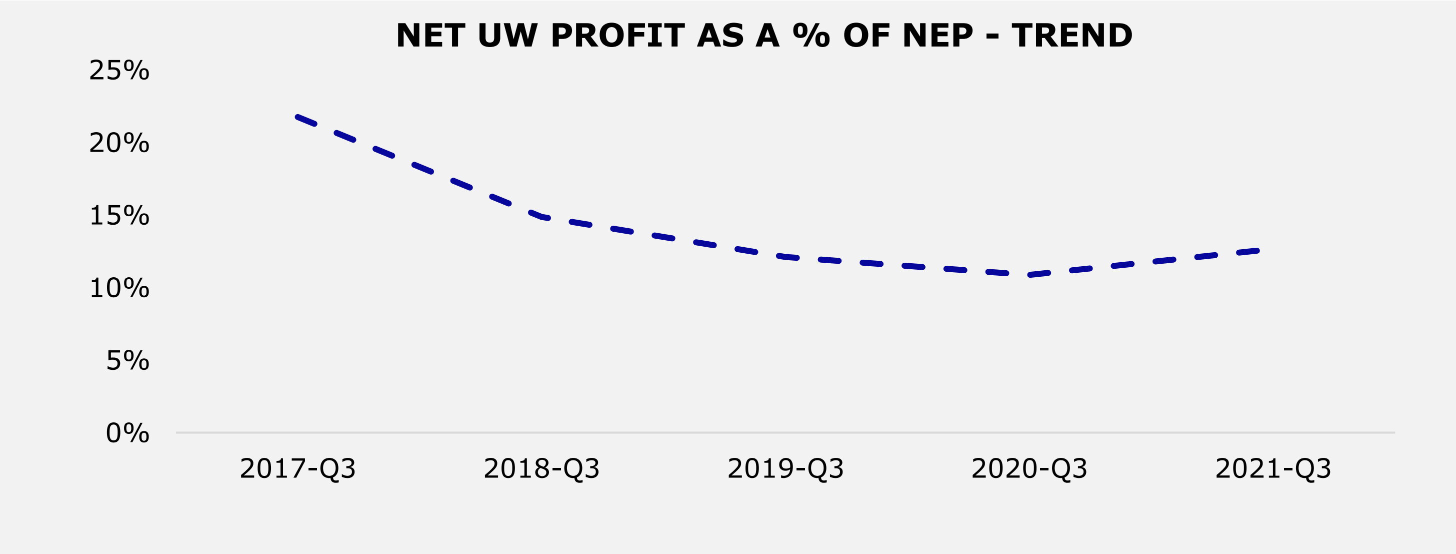
The window takaful operations have been a success since their launch in 2015 but have experienced a fall in underwriting profitability till 2019. 2020 saw a 19% increase in underwriting profitability which dipped by 7% again in 2021. The markets underwriting profitability amounts to PKR 535 million in 2021.

The decline in UW profitability could be attributed to higher net loss ratios for the Motor segment. It should be noted that Motor constitutes about 57% of the window takaful's market gross written contribution.

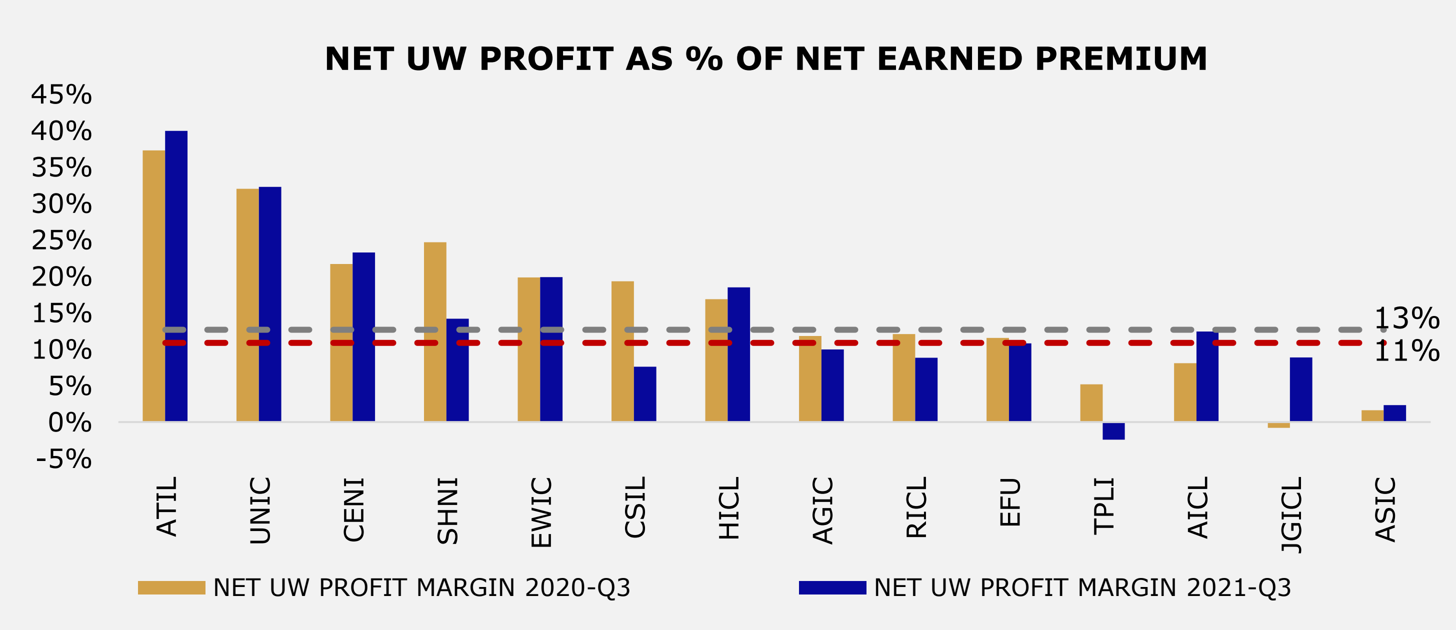


The bar graph shows that AICL earned the highest UW profits followed by EFU and UNIC. The takaful market experienced a fall in UW profits in 2021. While AICL and UNIC experienced a rise in their underwriting profitability compared to the level in 2020, EFU experienced a 39% fall.

NET UNDERWRITING PROFIT AS A % OF NET EARNED PREMIUM



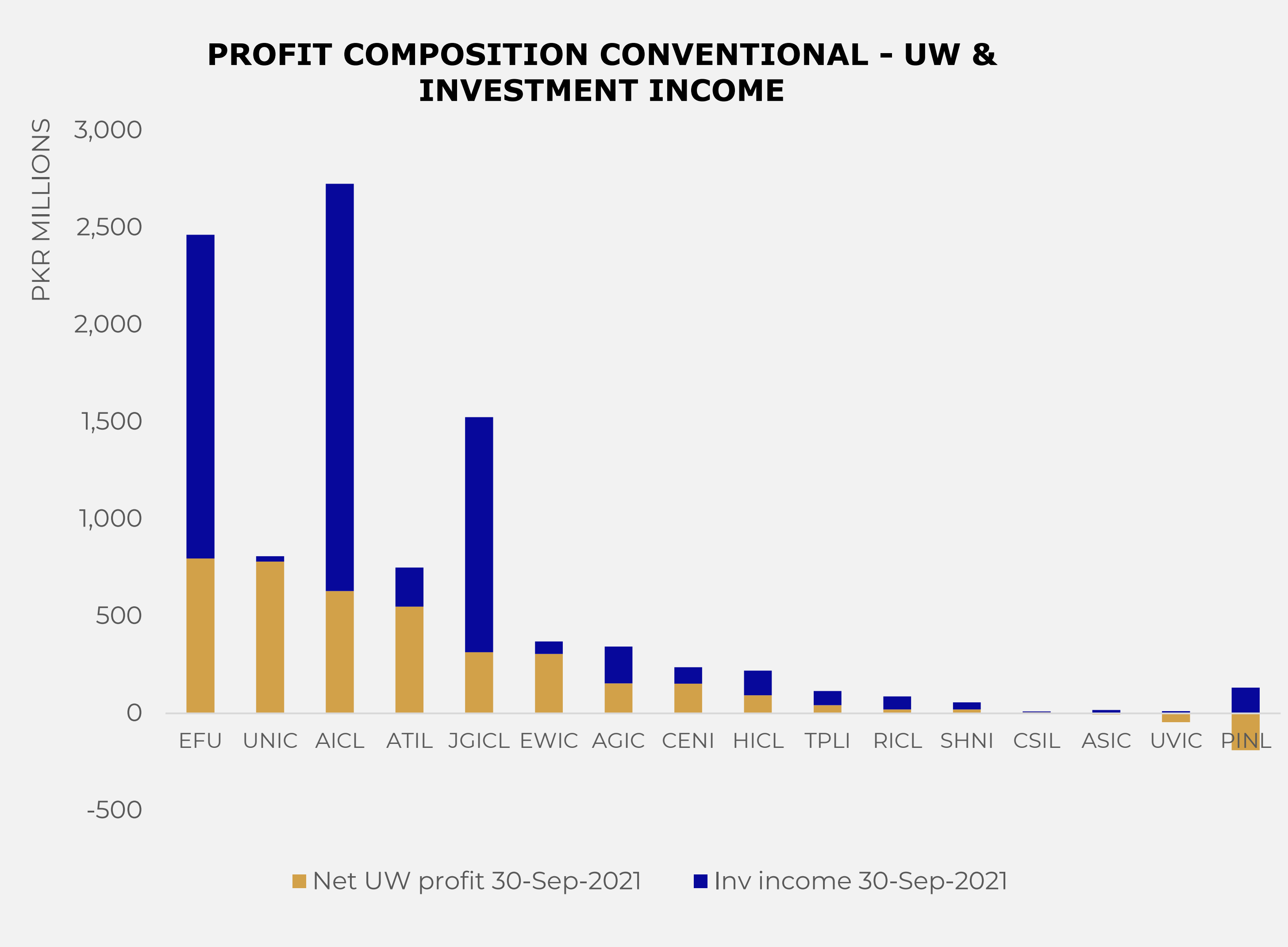
The net underwriting profit margin has fallen over the 5 year period for the conventional and takaful business and currently stands at 13%. This corresponds with the trend observed for the combined ratio which has increased since 2017.



ATIL has the highest UW profit margin which amounts to 40% in the current period while the lowest ratio is reflected in PINL's financials of -93% (not shown in the chart). On average, companies have experienced a faster rise in net UW profitability in the current period than the increase NEP. Hence, the market net UW profit margin has risen.

**UVIC and PINL removed from the graph since they were outliers*

INVESTMENT INCOME - CONVENTIONAL

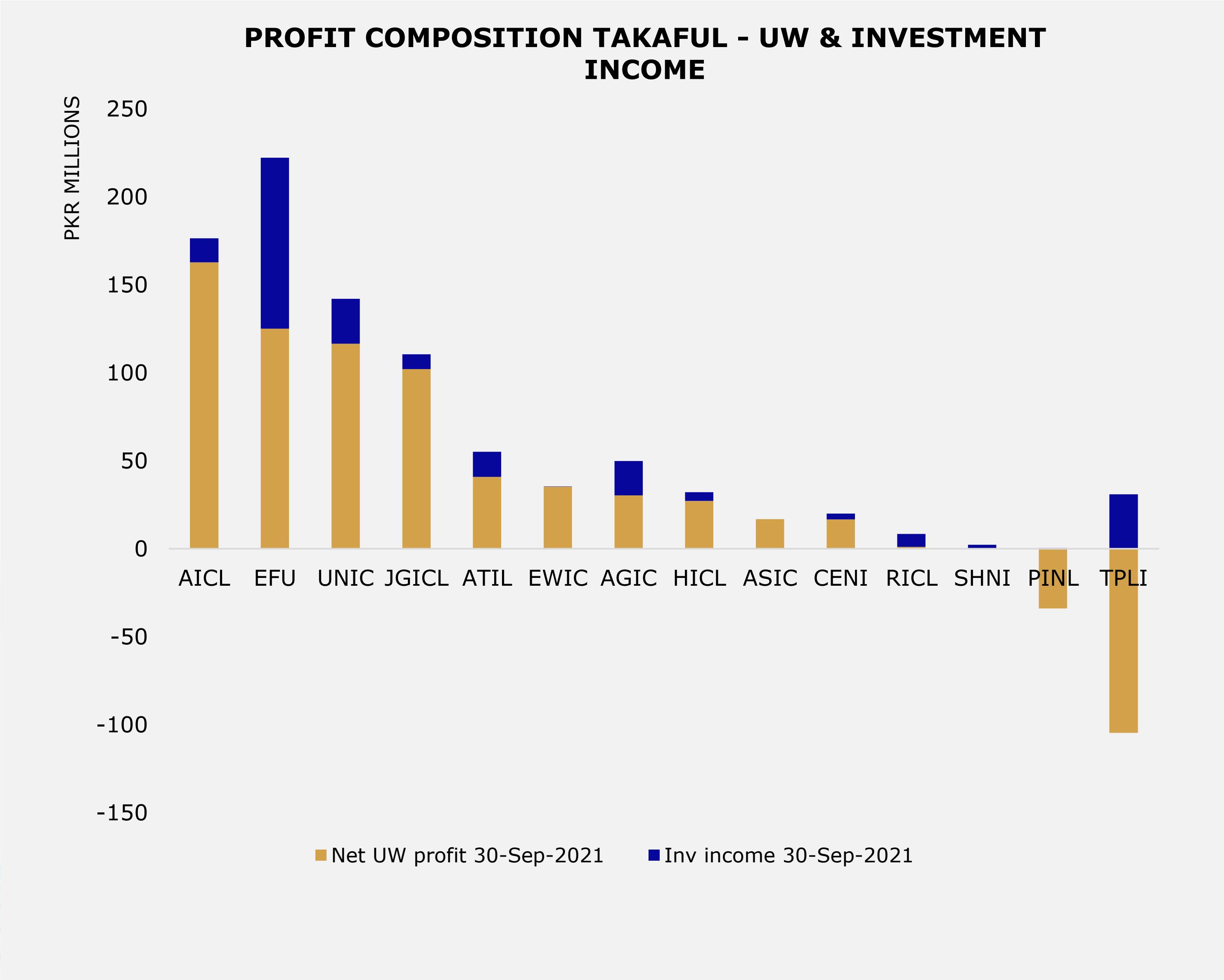


The total investment income earned for the listed conventional market amounts to PKR 6 billion.

The graph shows the profit composition of the conventional business with the companies ranked in terms of UW profits. It can be seen that investment income is a major performance driver for general insurers. Especially for the top 3 companies namely EFU, AICL and JGICL which have investment incomes at a multiple of more than 2X their underwriting profits. This shows that insurers have been able to reduce their underwriting risk with their exposure to higher investment risk. Out of the four companies in an underwriting loss one company, namely ASIC, have been able to recoup their underwriting losses with their investment income.

EFU has outperformed their competition in terms of underwriting profits while AICL has outperformed in terms of their investment income.

INVESTMENT INCOME - TAKAFUL

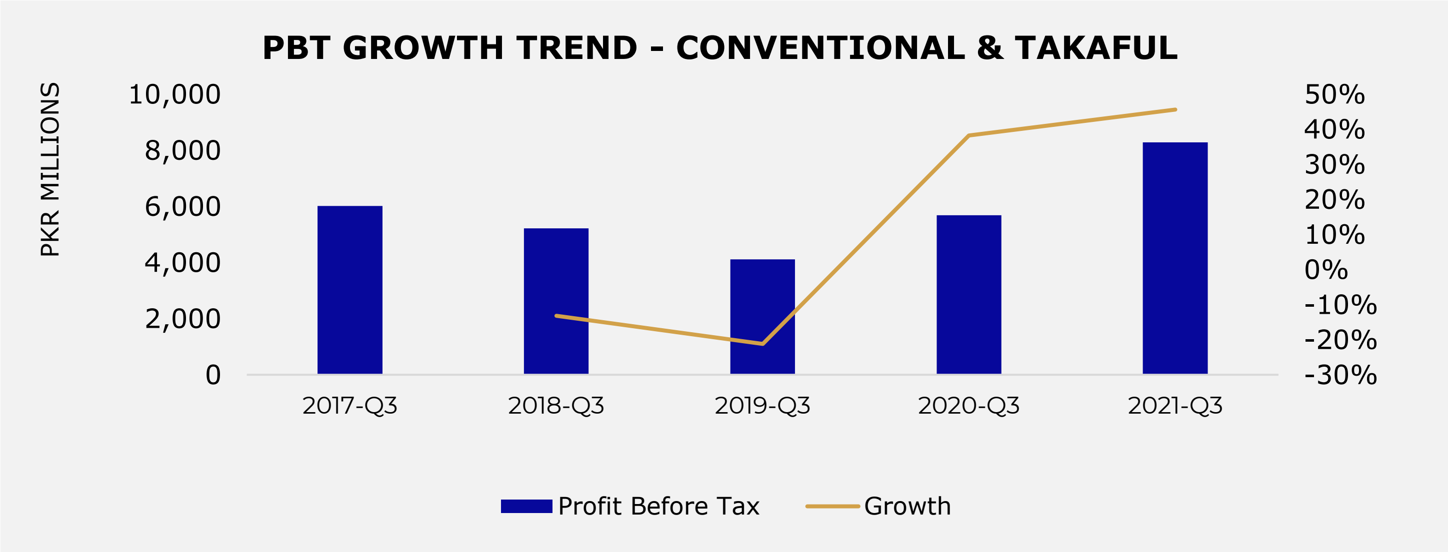


The total investment income earned by the listed window takaful market amounts to PKR 228 million.

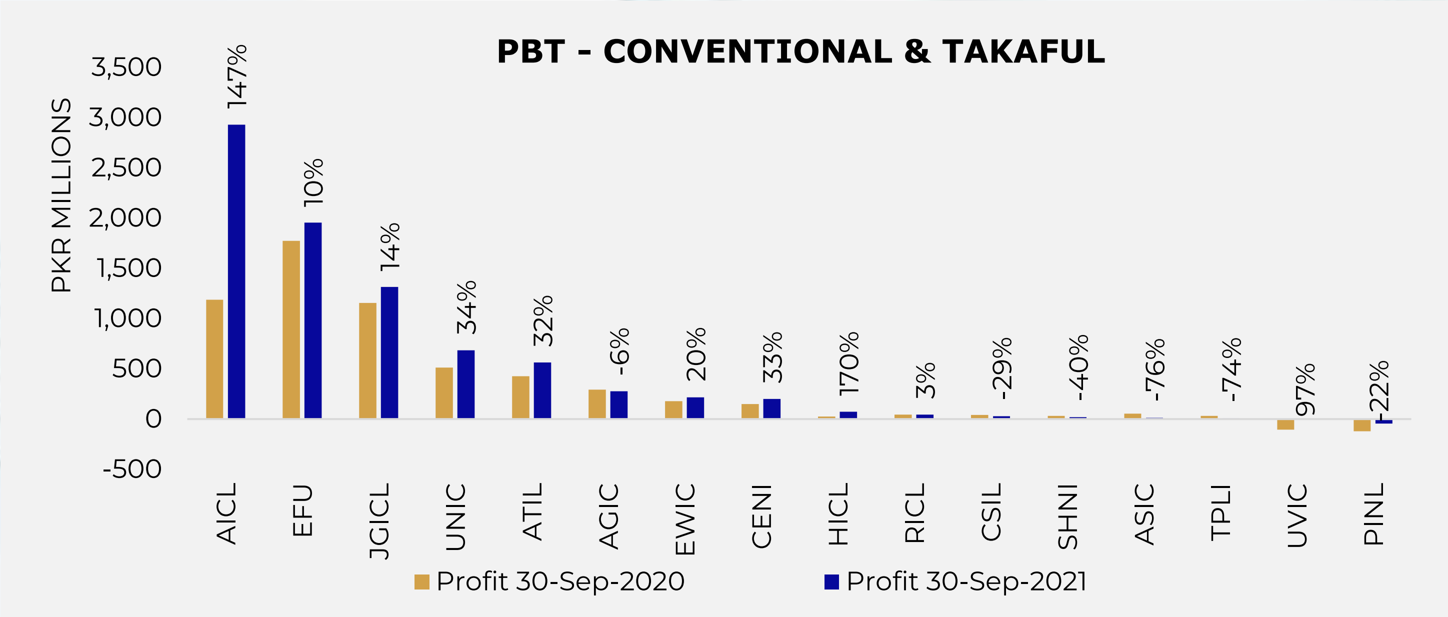
The graph shows the relative levels of net underwriting profit and investment income for the Takaful business ranked in terms of UW profits. AICL has earned the highest underwriting profits while EFU has generated the highest investment income. it is important to note that the reliance on investment incomes to support earnings is relatively lower as compared to the conventional business.

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

PROFIT BEFORE TAX



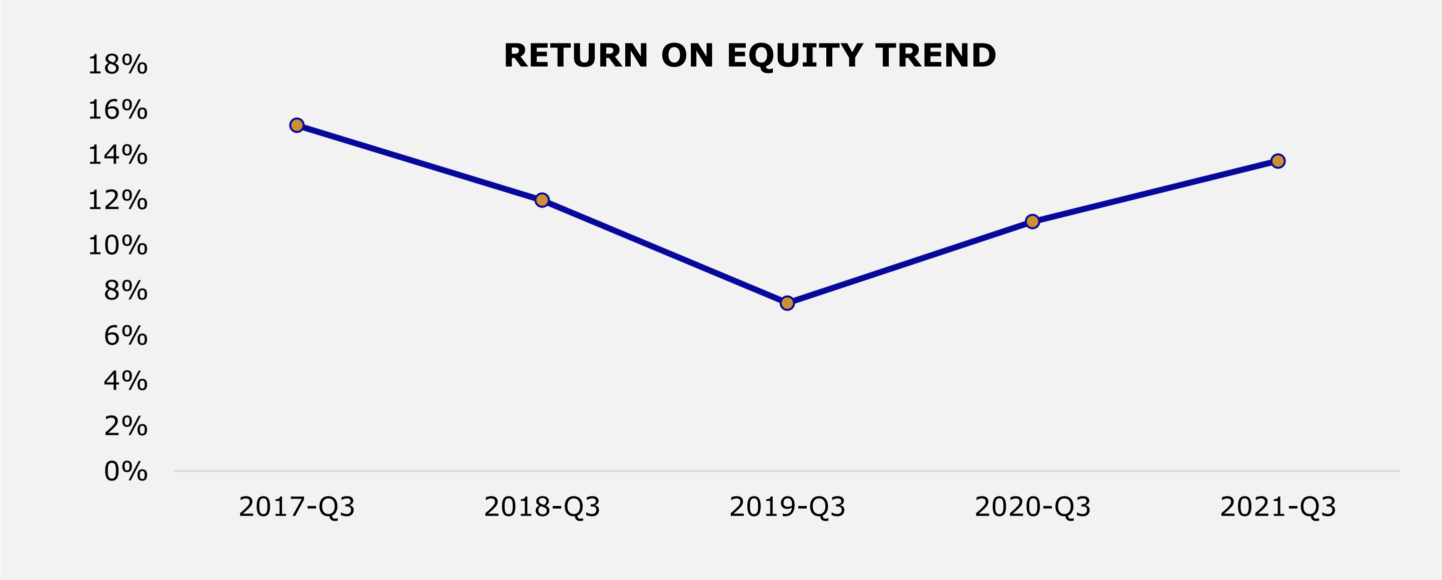
The market PBT reflects a decreasing trend till 2019 and showed an increase since then. The nine months period ended September 2021 experienced the highest market PBT of PKR 8.3 billion which is a 46% increase to the 2020 level. Higher earnings are supported by higher gross written premiums, better underwriting performance and improved investment incomes.



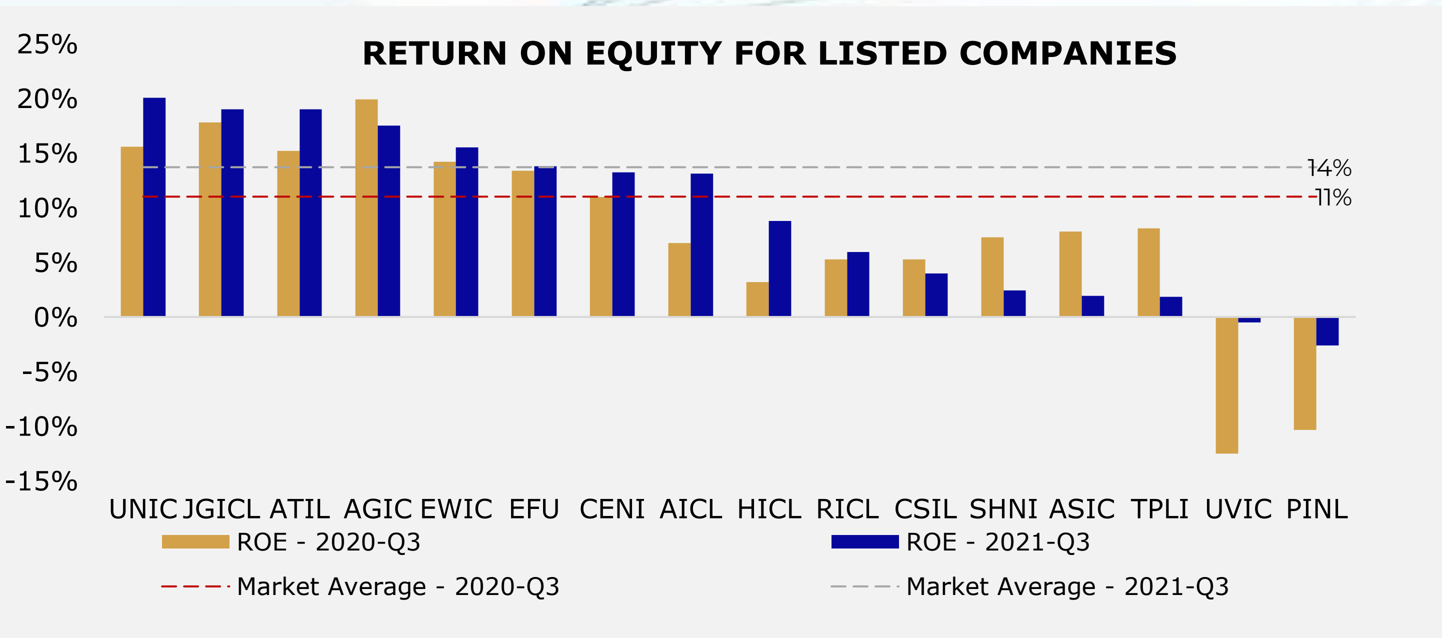
AICL leads the general insurance market with the highest profit before tax of PKR 2.9 billion followed by EFU at PKR 2.0 billion and JGICL at PKR 1.3 billion. The top 3 companies have experienced a double-digit growth in earnings with AICL attaining a growth of 147%.

Disclaimer: AICL includes business underwritten inside Pakistan only

RETURN ON EQUITY



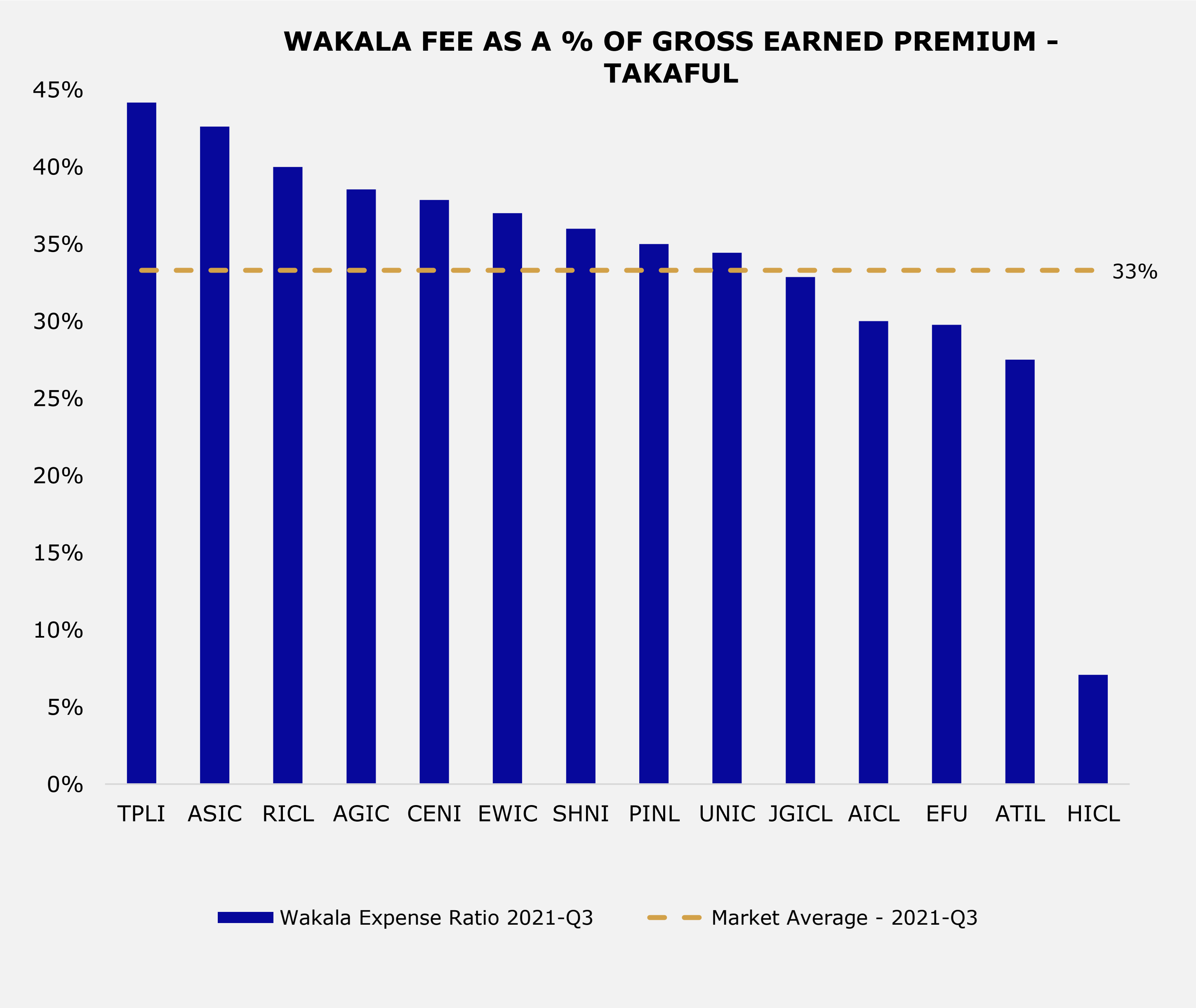
The return on equity shows how well a company is using its' capital to generate profits. The weighted average return on equity shows a V-shaped trend with an inflection point at 7% reached in the nine months ended September 2019. The market PBT has increased faster than the market equity figures since then resulting in a ROE of 14% in 2021.



UNIC shows the highest return on equity of 20% while PINL has the lowest return on equity of -3%. A noticeable observation that can be seen is that most market players have a positive ROE figure in 2021 which shows that most companies experienced positive earnings.

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

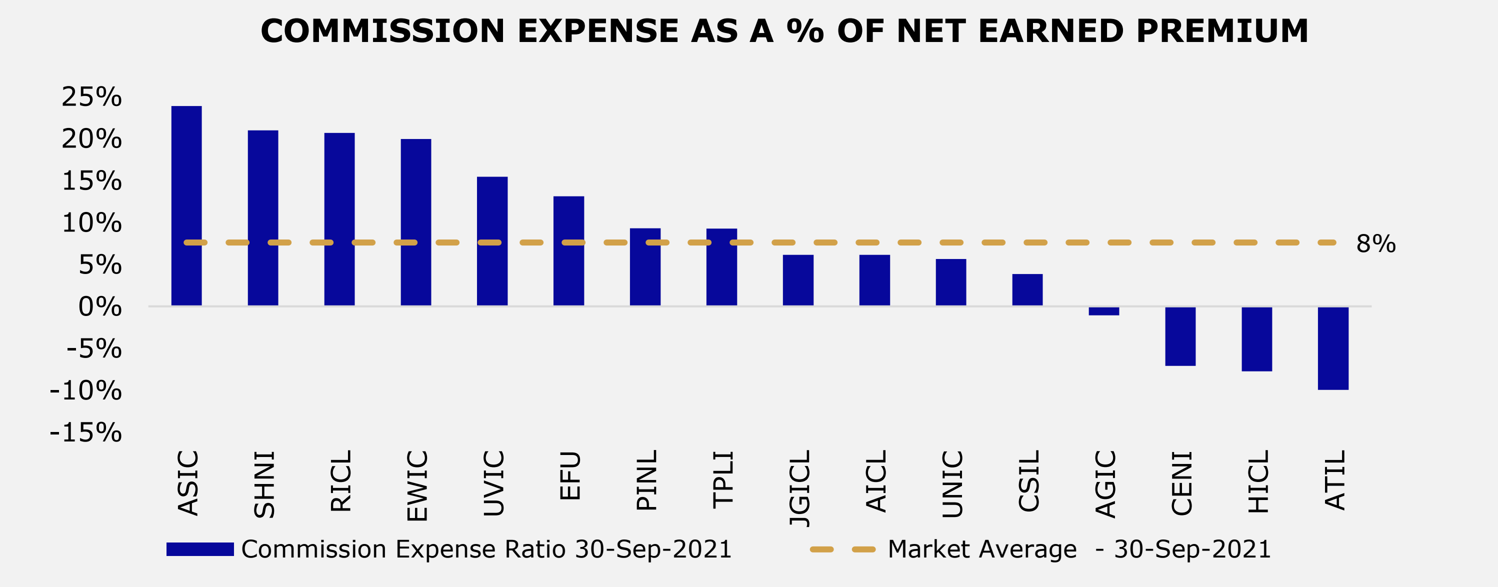
WAKALA EXPENSE % GEP



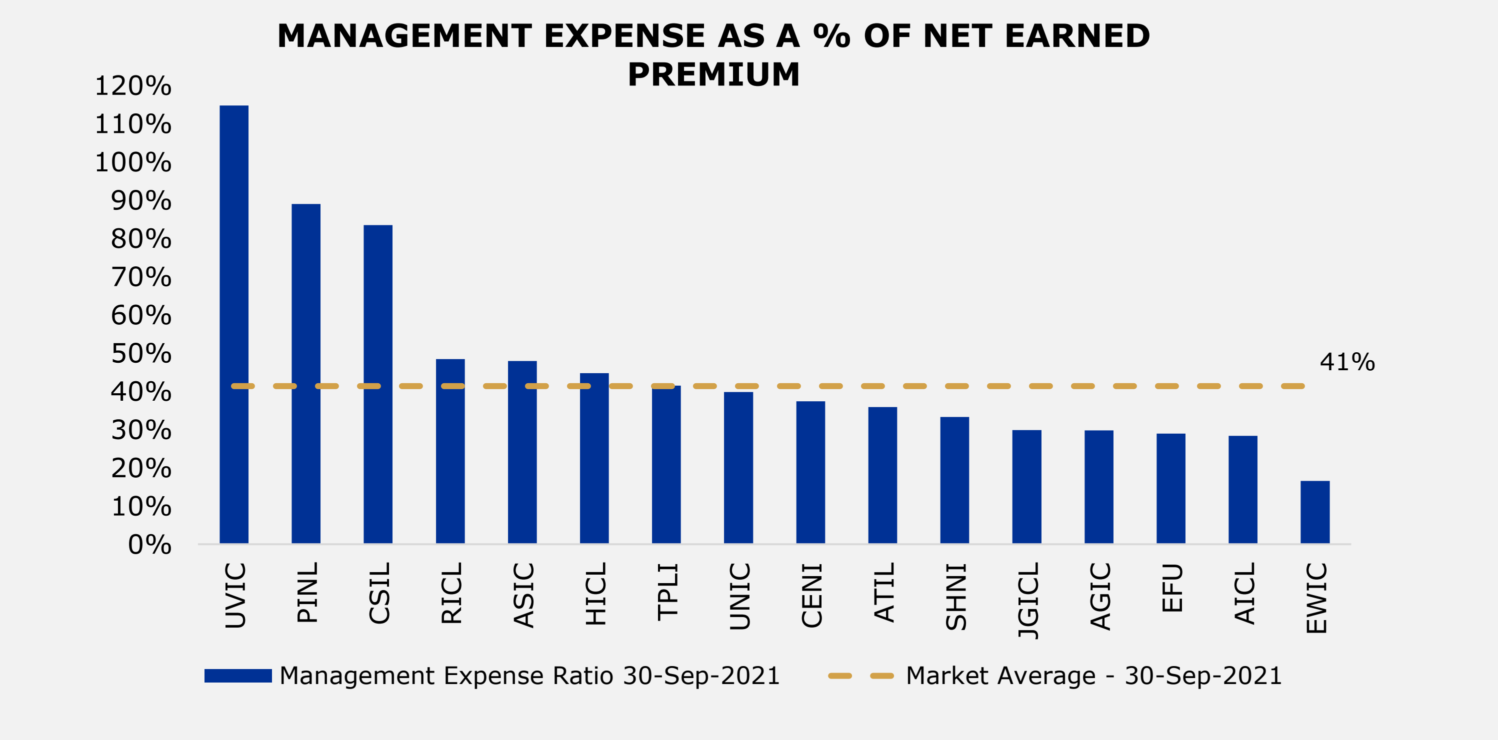
The Operator manages the participant fund and takes a fee as a percentage of written premium which serves as the income for the operator. This ratio calculates the earned wakala income over the gross earned contribution (gross of wakala).

The market ratio averages to 33%. The highest ratio is reflected in the financials of TPLI of 44% while the lowest ratio is reflected in the financials of HICL at 7%.

COMMISSION AND MANAGEMENT EXPENSE RATIO - CONVENTIONAL



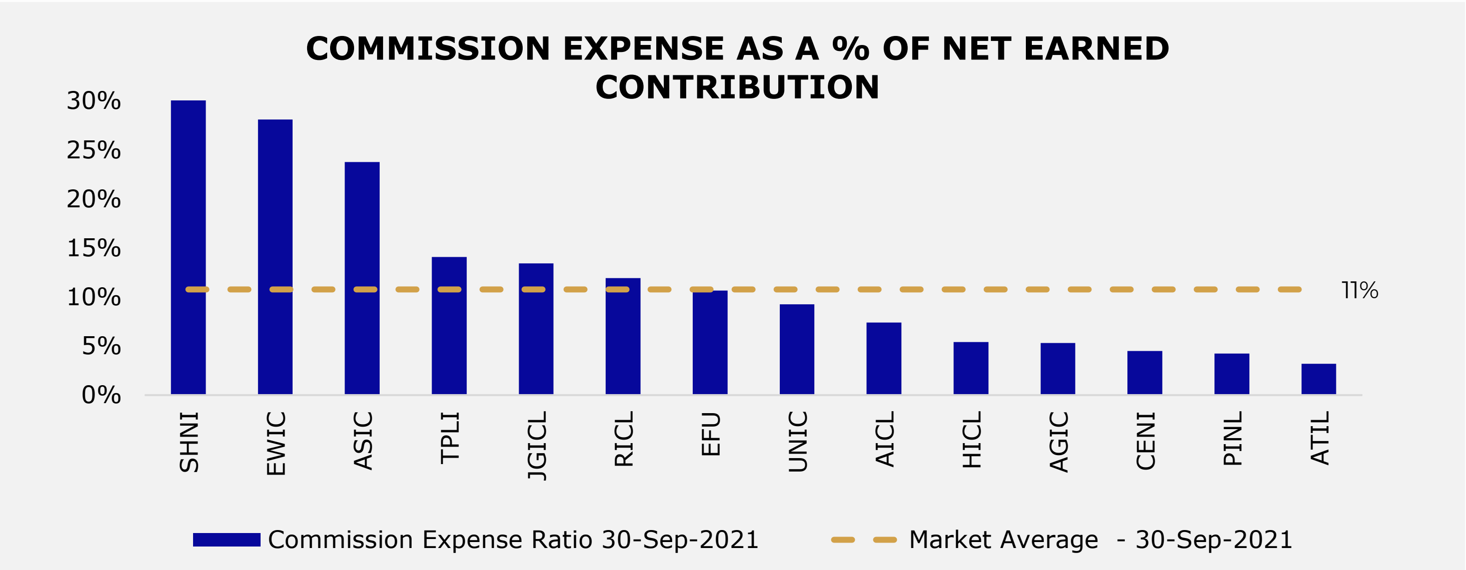
A negative ratio signifies that the commission earned outweighs the commission paid. The market ratio is the weighted average which stands at 8% for 2021. The highest commission expense ratio can be observed for ASIC at 24% while ATIL has the lowest ratio of -10%. Companies usually cede out a large proportion of commercial lines business and benefit from the reinsurance commission which results in an overall lower net commission expense.



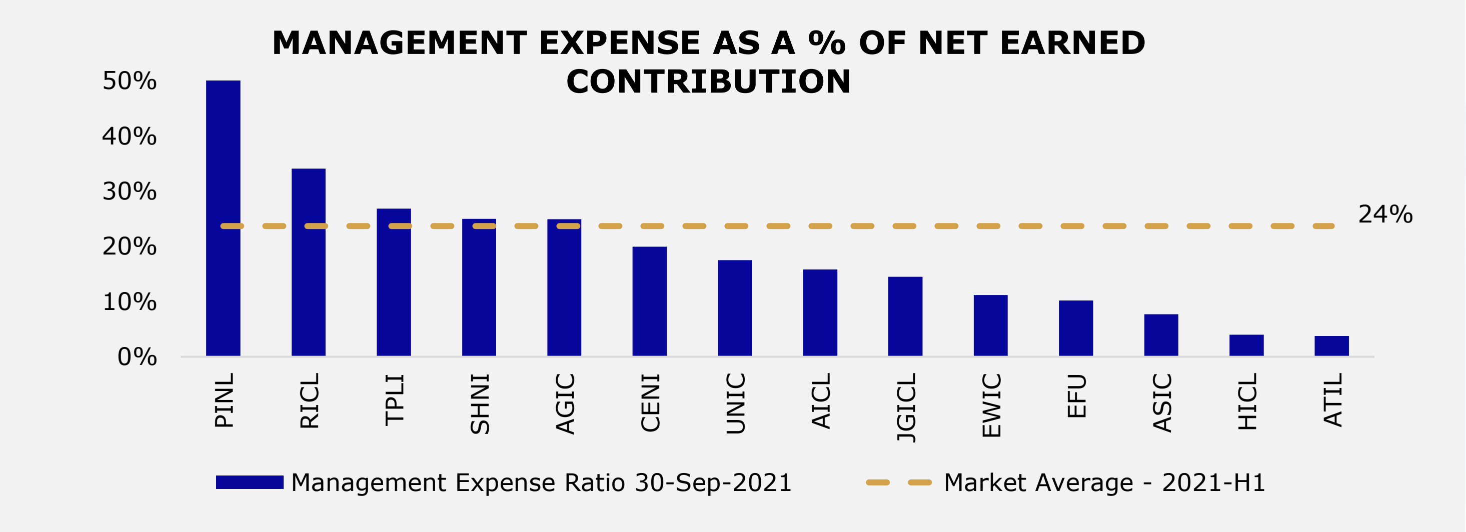
The market ratio calculates to 41% for 2021.

The industry leaders have been able to maintain their management expenses at or below the market average number with EFU and AICL at 29% and 28% respectively with JGICL at 30%. Higher management expenses on the other hand result in lower UW profits and earnings. Expense management is an important metric to control for a company to raise its' earnings.

COMMISSION AND MANAGEMENT EXPENSE RATIO - TAKAFUL



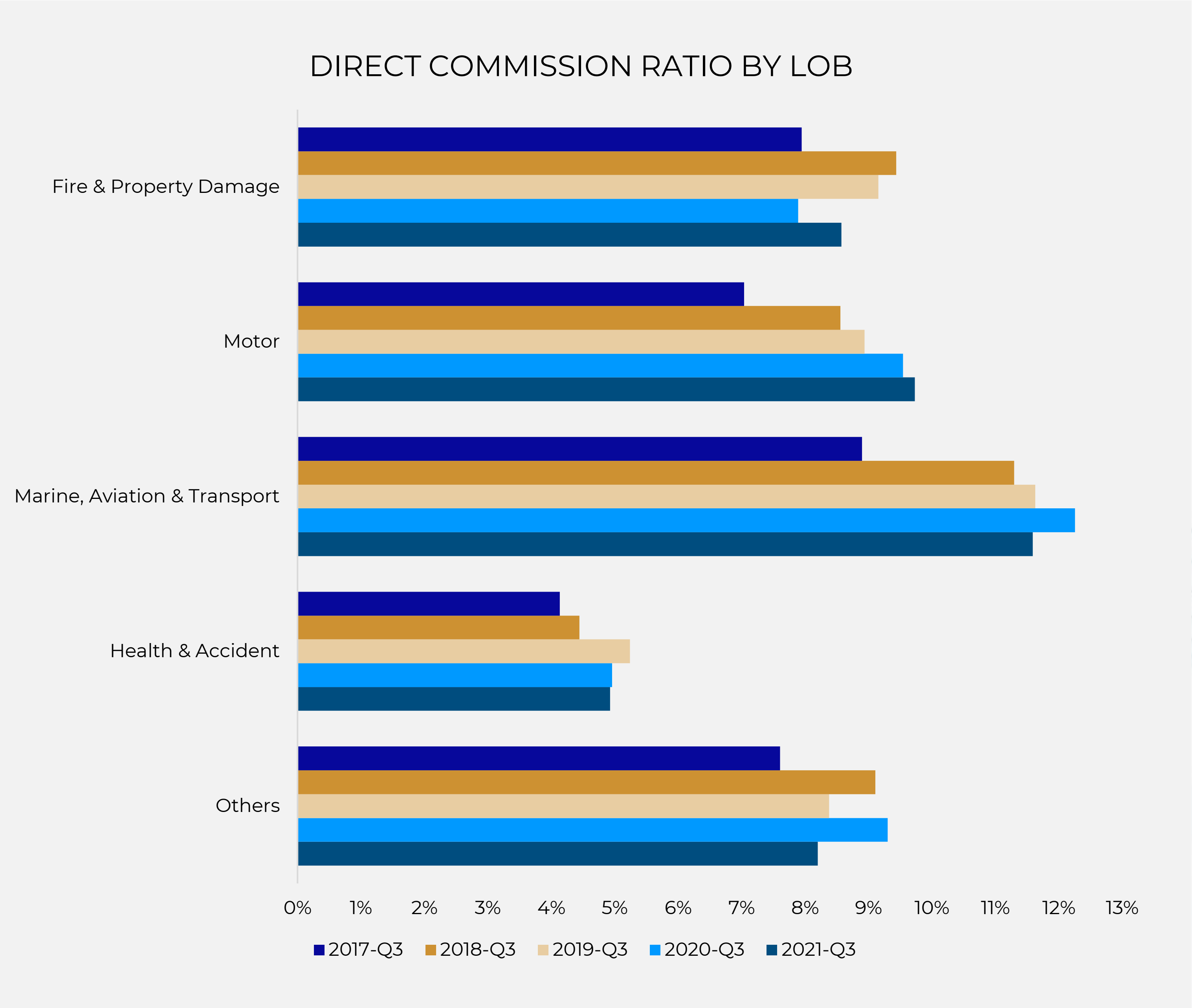
The commission expense ratio is calculated as net commission divided by the net earned premium (Gross of wakala expense). A negative ratio signifies that the commission earned outweighs the commission paid. The market ratio stands at 11% for 2021. The market number for the takaful business is higher than the conventional business which suggests companies willing to pay higher commissions to attract window takaful business. The highest commission expense ratio can be observed for SHNI at 36% while ATIL, PINL and CENI have the lowest ratio of 3%-4%. A big proportion of takaful business is in the motor line which does not have proportional treaties hence the commission expense is not set off by the retakaful commission.



The management expense ratio expresses management expenses over the net earned premium(gross of wakala) for a particular period. The market ratio calculates to 24% for 2021.

PINL has the highest ratio of 51% followed by RICL of 34%. A higher variance is observed between companies in the takaful segment which would be because window takaful is still relatively new for some companies. Higher management expenses numbers adversely afffect the combined ratio which ultimately results in lower profitability for teh company.

DIRECT COMMISSION RATIO BY LINE OF BUSINESS



The direct commission ratio is the gross commission incurred for acquiring business through agents and brokers as a % of gross earned premium. Motor has been experiencing year-on-year increase in its' commission rates. 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.

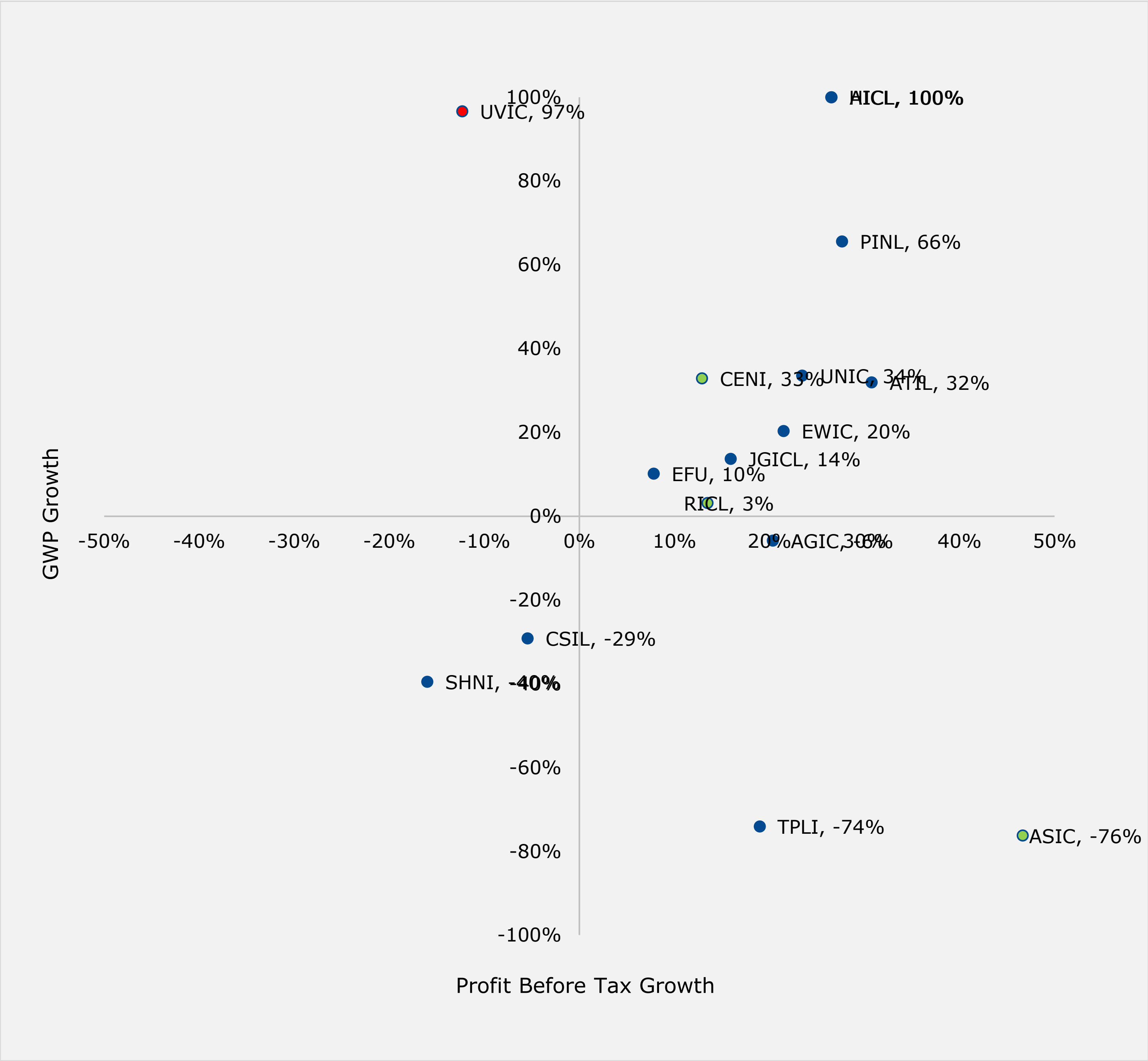
PREMIUM BENCHMARKED ON THE BASIS OF PROFITABILITY

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

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

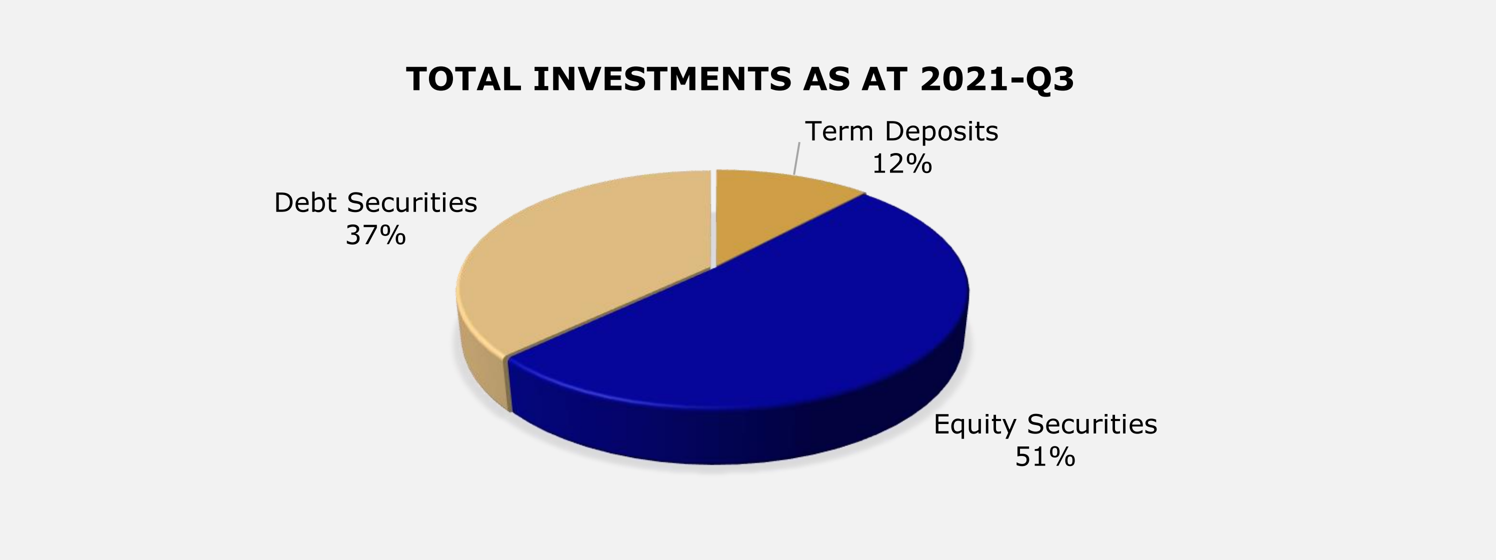
EFU holds the top rank for GWP while it has been replaced by AICL in terms of profit before tax. JGICL and UNIC has retained its rank for both GWP and profit before tax. An important observation can be made for CSIL which has jumped 5 places in terms of Profit before tax.

PREMIUM AND PROFIT ANALYSIS



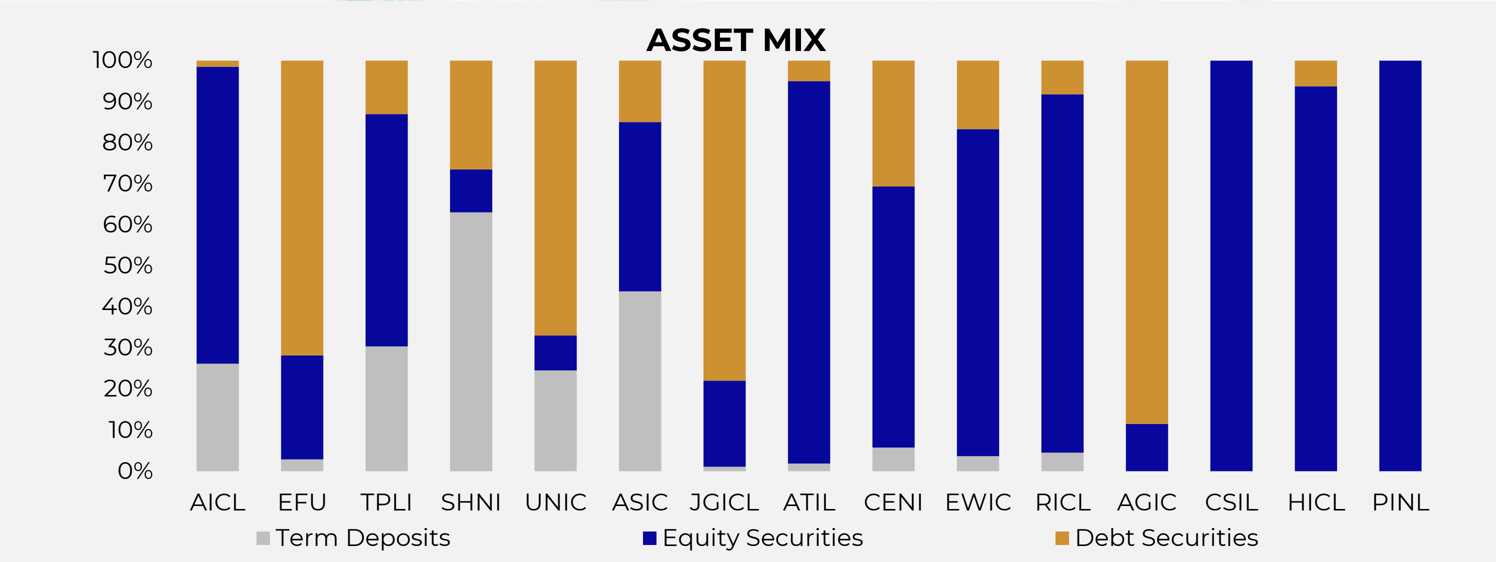
The graph shows gross written premium (GWP) growth on the x- axis and profit before tax growth on the y-axis. The profit before tax growth is capped at ± 100% while the GWP growth is capped at ± 50%. The growth is calculated on a year-on-year basis for the nine months ended 2021 vs the corresponding period in 2020. 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 for the nine months period ended September 2021. More than half of the investments are made in equity securities with slightly more than one-third allocated to the fixed income market.

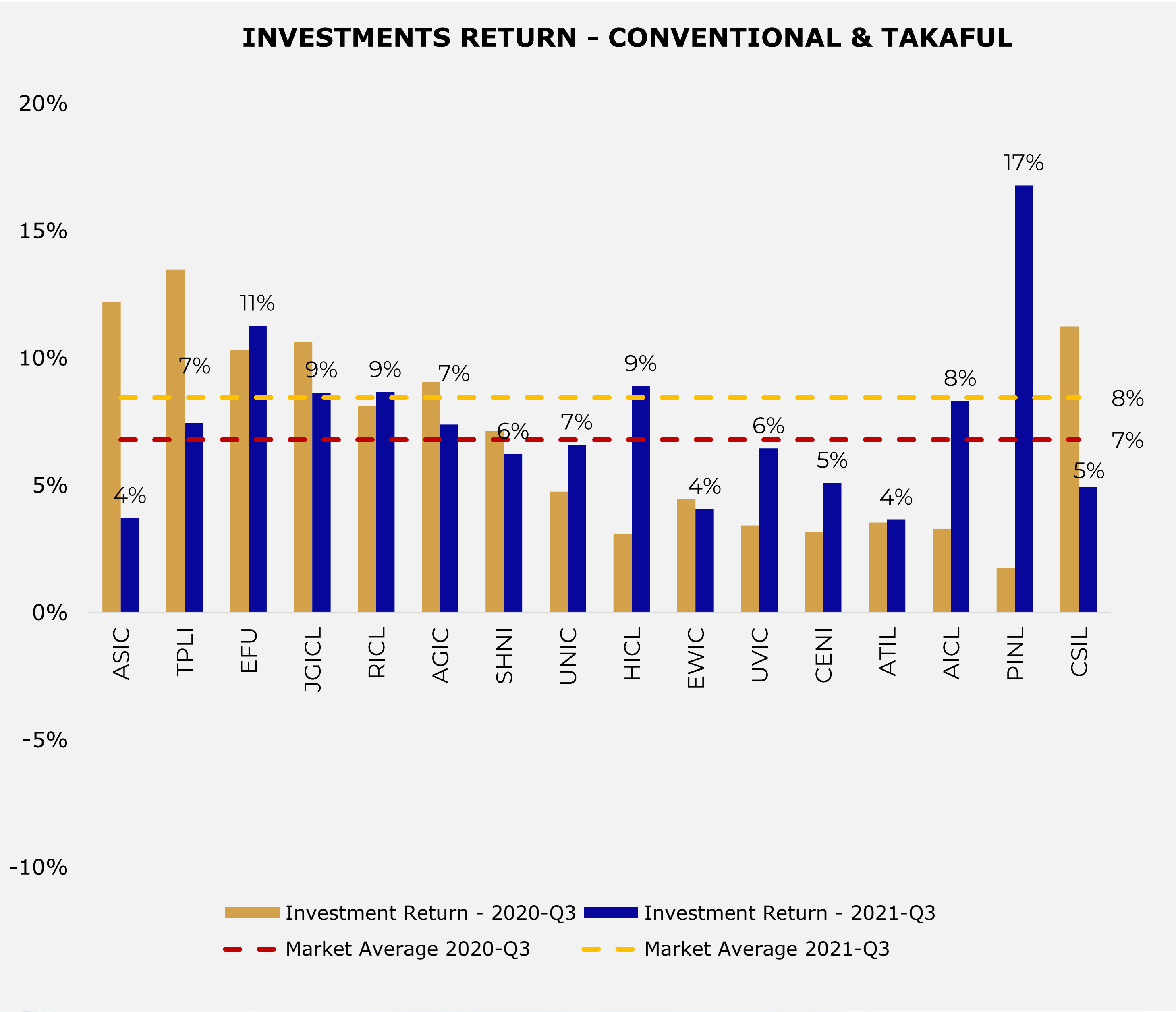
General insurers prefer investment in short-term liquid assets like debt securities and term deposits. Investment in equities can yield higher returns but their market value is more volatile and thus lead to a higher capital charge. Overall, the total investments increased to PKR 74 billion compared to PKR 71 billion in the corresponding period in 2020.



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 instruments.
CSIL, RICL, ATIL & HICL have invested primarily only in the equity market while the other companies have diversified their portfolios across the three asset classes.

INVESTMENT RETURN

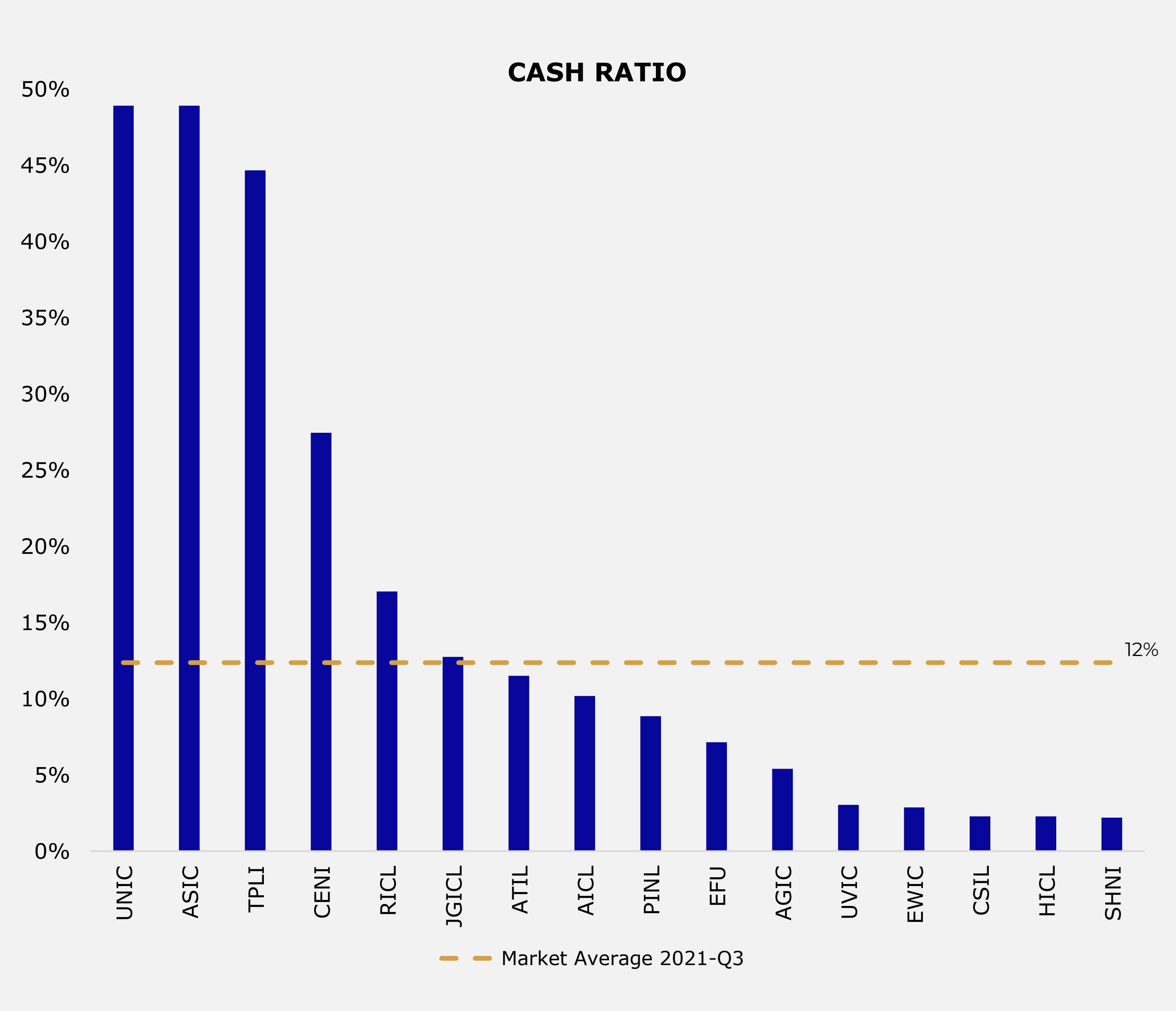


The investment return is computed as total investment income over the total invested assets.

The investment returns of the industry averaged around 8% for the nine months period ended 2021 compared to 7% in the corresponding period in 2020.

PINL earned the highest level of investment return of 17%.While ATIL and ASIC had the lowest returns of 4%. The investment portfolio of the company is reflective of the companies risk profile with the riskier asset classes such as equities giving higher potential returns.

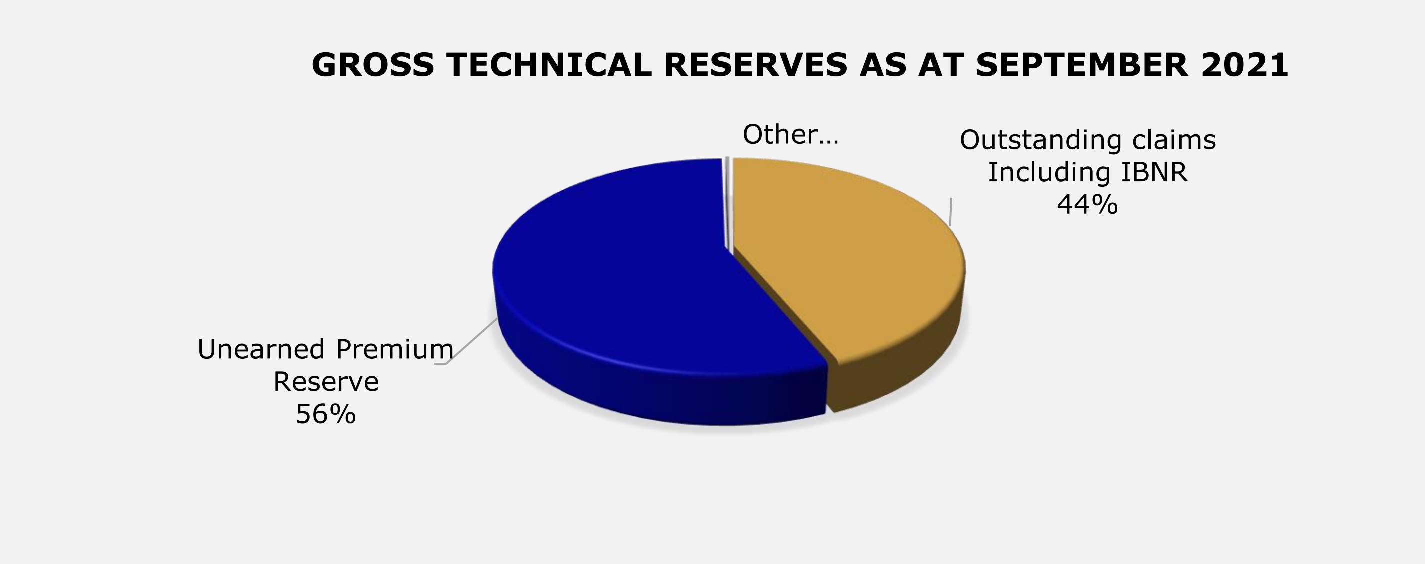
CASH RATIO



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 liquidity requirements which may arise due to large loss or catastrophe. Cash generally earns a lower return compared to other asset classes.

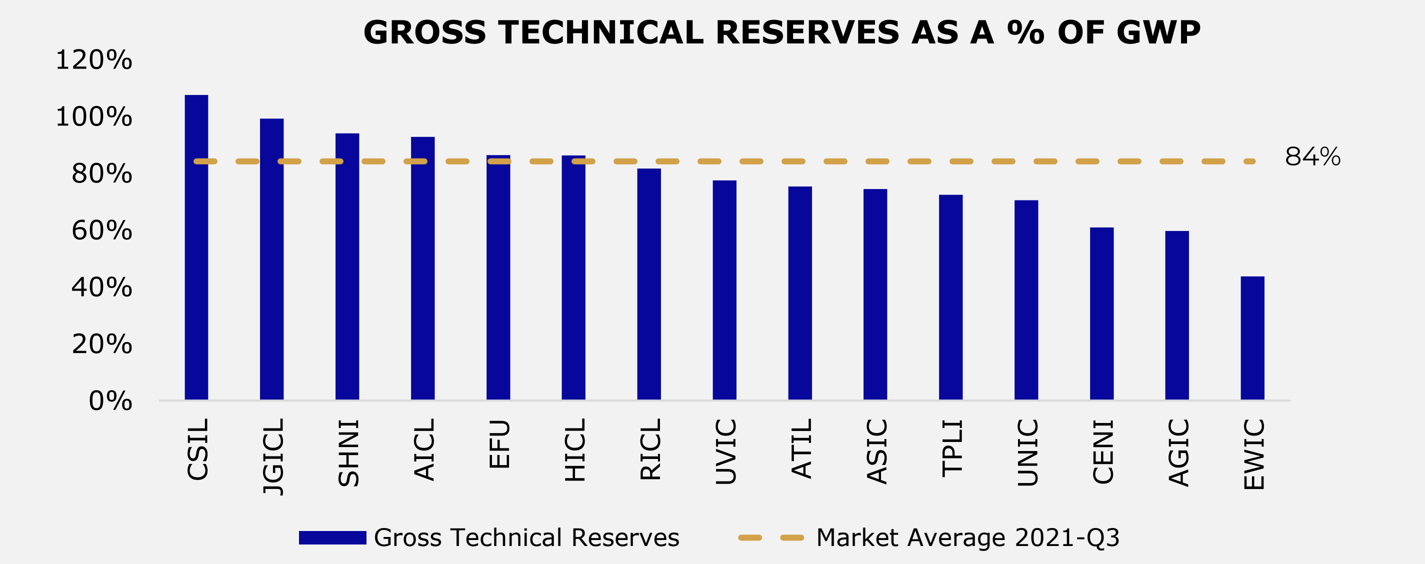
The market cash ratio is calculated to be 12%. UNIC and ASIC has highest level of 49% maintained as cash, while the lowest ratio of about 2% is maintained by SHNI, HICL and CSIL.

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.

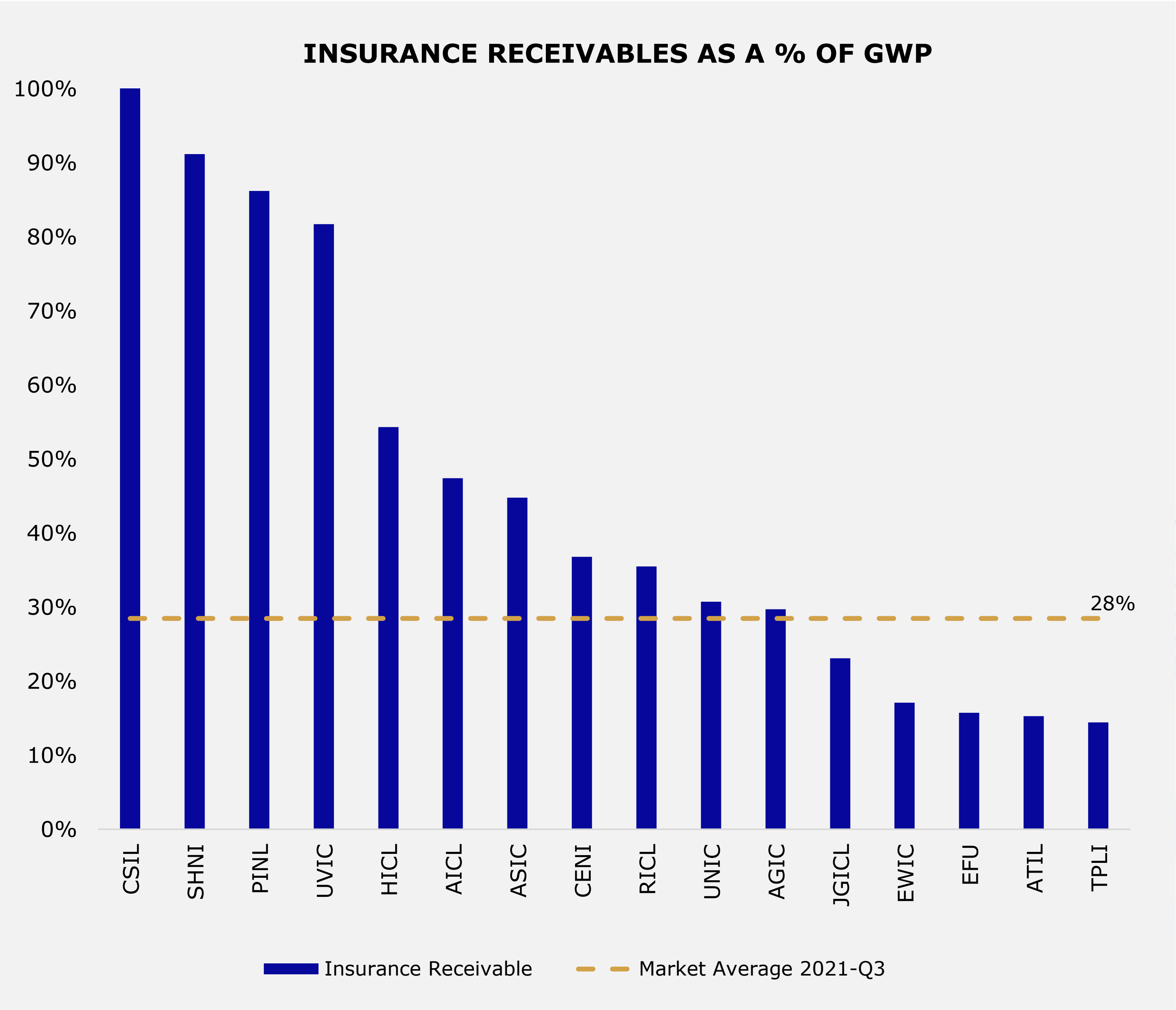


The bar graph represents the gross technical reserves as at September 2021 over the annualized gross premium from September 2020 to September 2021.

PINL (excluded from the graph) has the highest ratio exceeding 100%. A lower ratio is desirable since it enables the company to cover its' reserves through its' premium.

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.

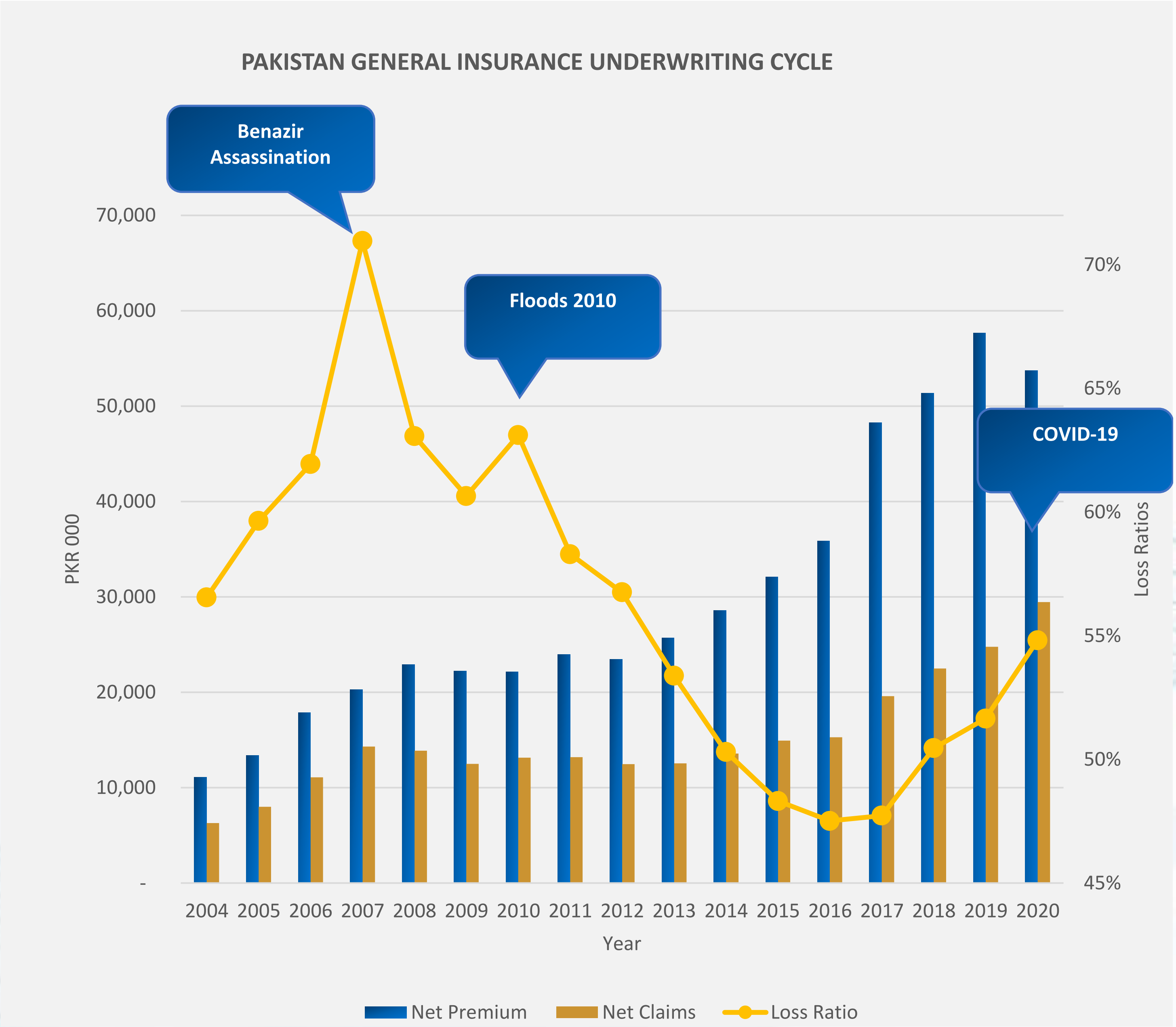
INSURANCE RECEIVABLES



The ratio is computed using insurance receivables as at September 2021 and the annualized gross written premium for 2021.The market ratio is computed to be 28%. CSIL has the highest ratio of 208% (graph capped at 100%) while TPLI has the lowest ratio at 14%.

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 income.

PAKISTAN GENERAL INSURANCE UNDERWRITING CYCLE



The underwriting cycle is one of the major challenges facing the Insurance sector. It refers to the ebb & flow of business between hard and soft markets.

For the period under review in the chart above, 3 major events can be observed to have impacted the insurance industry between 2004 & 2020. Benazir's Assassination in 2007 & the floods of 2010 were both followed by spikes in the loss ratios and then downward movements in loss ratio over the next few years. In addition to COVID-19, large losses in the Fire segment also impacted profits in 2020. it is uncertain what course the current cycle will take after 2020 considering the strides made in digitalization since the pandemic.

**Data has been taken from IAP statistics*

CONCLUSION

Pakistan's economy recovered sharply in 2021 as full-scale lockdowns were replaced with smart lockdowns to deal with the new COVID variants. Moreover, the accommodative monetary policy, liquidity support by the State Bank of Pakistan and targeted fiscal support minimized the impact of the pandemic. These economic measures were reflected in demand based indicators as well including sale of FMCGs, automobiles, cement and POL products. The insurance industry also stayed resilient during this tough time by adopting digitization and technology for its operations.

The GWP for the listed general insurers of Pakistan grew by about 18% resulting in a GWP of PKR 66.3 billion. All the lines of business experienced an increase in GWP with the highest increase in the Marine, Aviation and Transport line. The takaful business has experienced a sharp increase in its' GWC of about 18% which amounts to PKR 7.7 billion in 2021. The listed market's proportion of takaful business has also experienced a year-on-year increase to amount to 13% in terms of the written premium/contribution.

The market gross loss ratio decreased to 44% in 2021-Q3 from the 48% level in 2020-Q3 due to claims normalizing post pandemic. Most lines of business experienced a decrease in gross loss ratios except for Motor and Health. The market net loss ratio stood at 49% with the combined ratio at 87%. The expense ratios for the market have remained relatively stable in the recent years at the 39% mark.

The investment income for the conventional market has increased by 33% to the 2020-Q3 level and values at PKR 6.0 billion. The profit before tax for the market increased by 46% and values at PKR 8.3 billion while the net underwriting profit for the market increased by 29% to value at PKR 4.2 billion.

KEY TAKEAWAY POINTS

INDUSTRY GWP GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2017	2018	2019	2020	2021
PKR 49.1bn	PKR 51.9bn	PKR 56.3bn	PKR 56.3bn	PKR 66.3bn

INDUSTRY NEP GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2017	2018	2019	2020	2021
PKR 26.0bn	PKR 27.3bn	PKR 28.5bn	PKR 29.4bn	PKR 32.6bn

Highest GWP recorded by **EFU** at PKR 18.7bn

Highest Growth in GWP Recorded by **ASIC** at 47%

Highest NEP by **EFU** at PKR 8.5bn

Highest Retention Recorded by **CSIL** at 99%

Lowest Combined Ratio **ATIL** at 60%

Highest Investment Income Recorded (Conventional) by **AICL** at PKR 2.1bn

Highest PBT Recorded by **AICL** at PKR 2.9bn

Highest Growth in PBT by **HICL** at 170%

Highest ROE by **UNIC** at 20%

Highest Investment Return Recorded by **PINL** at 17%

INDUSTRY PBT GROWTH TIMELINE - CONVENTIONAL & TAKAFUL

2017	2018	2019	2020	2021
PKR 6.0bn	PKR 5.2bn	PKR 4.1bn	PKR 5.7bn	PKR 8.3bn

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	**PINL**	Premier Insurance Limited	PSX
12	**RICL**	Reliance Insurance Co. Ltd	PSX
13	**SHNI**	Shaheen Ins. Co. Ltd	PSX
14	**TPLI**	TPL Insurance Limited	PSX
15	**UNIC**	United Ins. Co. of Pak. Ltd	PSX
16	**UVIC**	Universal Insurance Company Ltd	PSX

DISCLAIMER

- We have undertaken an analysis of the Key Performance Indicators (KPIs) of the listed general insurance companies in Pakistan for the first nine months of 2021. 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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- Based on GWP for 2021, the report covers 75% of the listed general insurance market

- For the scope of our analysis, we have only taken business underwritten inside Pakistan for AICL.

- We have taken the data from the financial statements for the respective year. Any reinstatement in later years has not been adjusted.

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Business Intelligence 11 staff	End of Service 6 staff	HR Consulting 3 staff	Support Functions 14 staff

Total Strength
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Hatim Maskawala

Ali Bhuriwala

Omar Khan

Maira Qadar

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