BADRI

Pakistan's Listed Life Insurance Industry Performance Analysis For The Year 2021

Date: June 29, 2022

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 our clients as Profit Optimizing Partners.

We are serving as Appointed Actuary for over 20 companies across the GCC. In addition, we are providing other services including:

- IFRS17 Implementations and Managed Services
- Enterprise Risk Management related advice
- Specialized services for Medical Insurance and TPAs
- Data Analytics and Business Intelligence
- End of Service Benefits Valuations
- Strategy Consulting including Digital Transformation
- Merger & Acquisition Consulting
- HR Consulting Services

BADRI

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 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.

BADRI

TABLE OF CONTENT

6	Industry Highlights – 2021
7	IFS Rating
8	Insurance Density and Penetration
9	Premium
18	Claims
20	Persistency
21	Expenses
24	Profitability
29	Investments
33	Insurance Liabilities
34	Insurance Receivables
35	Conclusion
36	Key Takeaway Points
37	Companies Included in the Analysis
38	Disclaimer
39	About our team

INDUSTRY HIGHLIGHTS - 2021

Gross Premium – Private Sector

PKR **128** Bn
2020: PKR 114 bn

Gross Premium- Public Sector

PKR **162** Bn
2020: PKR 119 bn

First Year Persistency

74%
2020: 72%

Subsequent Year Persistency

90%
2020: 87%

Investment Income

PKR **126** Bn
2020: PKR 117 Bn

Profit After Tax

PKR **9.5** Bn
2020: PKR 8.6 Bn

Investment Return

9%
2020: 9%

Return On Equity

22%
2020: 24%

Insurance Density

PKR **1,281** /Capita
2020: PKR 1,100 /Capita

Insurance Penetration

0.56%
2020: 0.51%

IFS RATING

Companies	2019		2020		2021	
	JCR-VIS	PACRA	JCR-VIS	PACRA	JCR-VIS	PACRA
ALIFE		A+		A+		A+
ALAC				A-		A-
DFTL		A		A		A
EFUL	AA+		AA+		AA+	
IGIL		A+		A+		A+
JLICL	AA+		AA+		AA+	
PQFT	A+	A+	A+	A+	A+	A+
SLIC		AAA		AAA		AAA
TPLI		A-		A-		A-

PACRA Key

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

JCR-VIS Key

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

The participants of life insurance industry have been able to retain their IFS ratings in 2021.

INSURANCE DENSITY AND PENETRATION

Year	Insurance Density (PKR)	Insurance Penetration
2019	1,070	0.54%
2020	1,100	0.51%
2021	1,281	0.56%

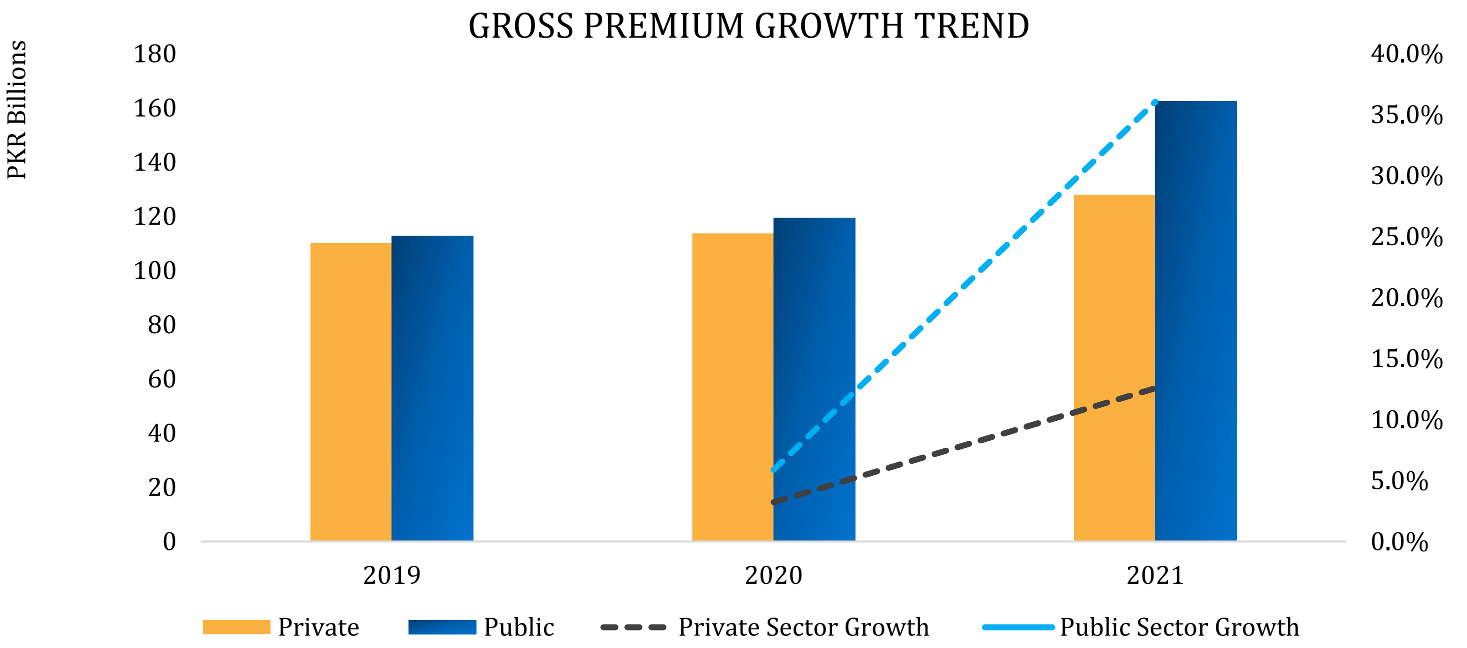
The Insurance Density measures the Gross Written Premium per capita. The ratio for Pakistan lies in the range between PKR 1,050 to PKR 1,281. Density has increased by 16% in 2021 due to a sharp increase in Gross Premium for 2021. However, the insurance density is low compared to other emerging markets such as India with a density of USD 59 (2019) whereas Sri Lanka has a density of USD 22 (2018).

The Insurance Penetration ratio measures the proportion of GDP contributed by the life insurance premiums. The life insurance premium contributes less than 0.7% to Pakistan's GDP which continues to rate amongst the lowest as compared to an average of 3.3% for emerging markets (Source: MetLife).

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, 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



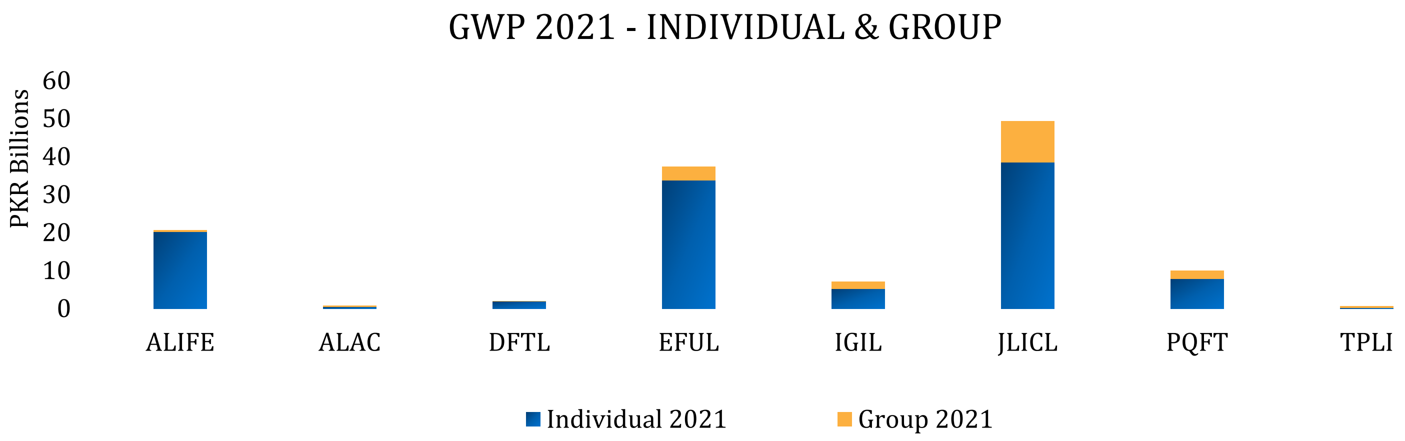
The highest premium for the overall market has been achieved in 2021 amounting to PKR 290 billion over the 3-year period with a growth of 25% compared to the level in 2020. This growth can be attributed to a broad-based economic growth of 5.37% experienced in 2021 which was reflected in macro-economic indicators of improved consumption and an accommodative monetary policy throughout the major part of 2021.

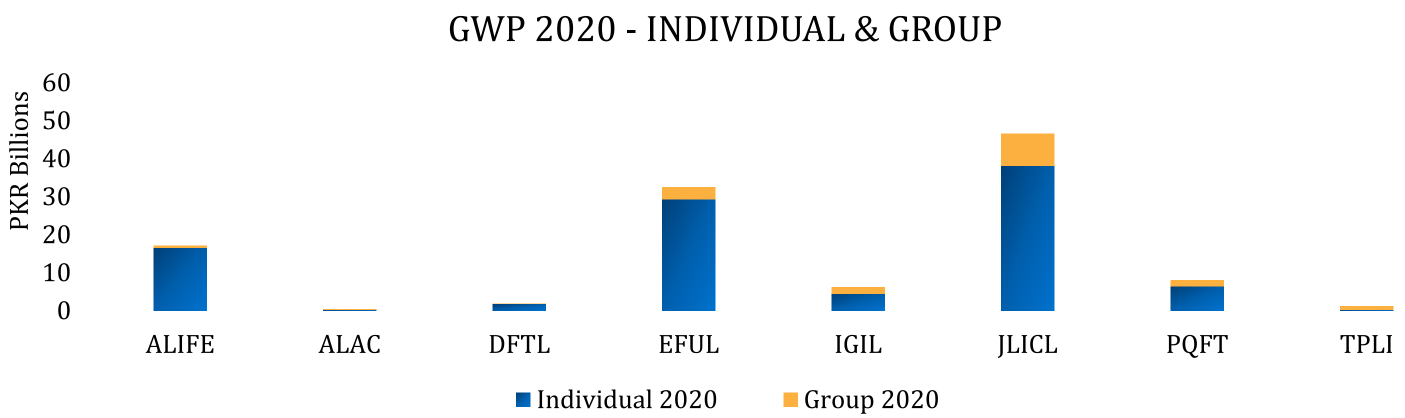
2019 saw the implementation of stricter AML/CFT Regulation across the Insurance Industry. With the enhanced Know Your Customer (KYC) & Customer Due Diligence (CDD) requirements of the latter, policy issuance ceases to be straight forward. The impact of such regulation is more pronounced for the life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

The bar graph shows that the public sector has consistently dominated the life insurance industry with a market share of 56% in terms of Gross Premium. The private sector experienced a growth rate of 13% in 2021 while the public sector experienced a sharper growth of 36%. A notable observation can be made that the public sector has consistently experienced twice as much growth as the private sector in 2020 and 2021.

**As part of this analysis public sector only includes SLIC*

GROSS WRITTEN PREMIUM - COMPANY





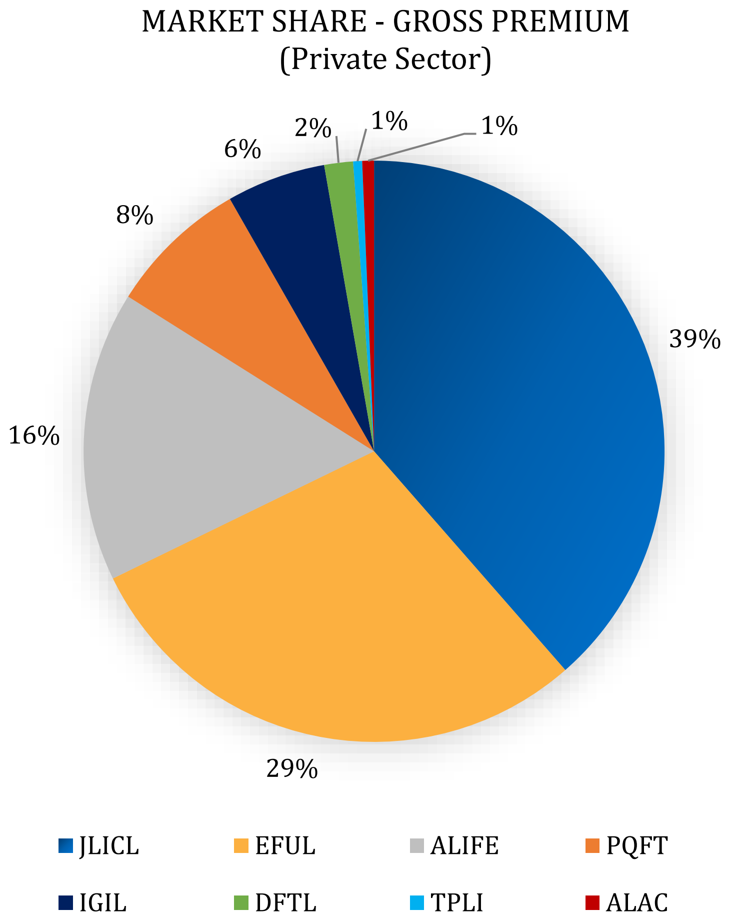
The split of the GP shows that the majority of the life insurance companies write business in individual policies which are primarily comprised of unit linked policies. Of these, 4% are single premium, 14% are new business and the remaining are subsequent year premiums, which constitute a large proportion of listed life insurance premiums. A lack of term life policies sold in this region reinforces consumer aversion towards protection policies.

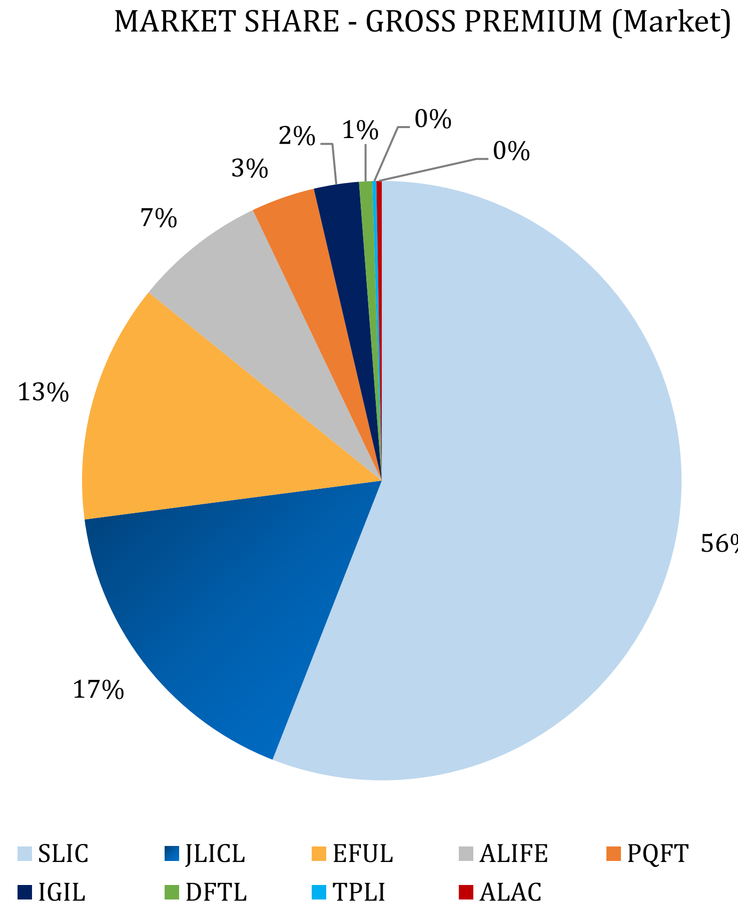
ALIFE writes almost 98% of their business in individual policies which is the highest proportion in the industry. TPLI saw a significant change in the proportions of business segment which saw a 31% share of GWP from Individual business in 2021 compared to just 17% in 2020. ALAC wrote a majority of their business in individual policies which stood at 58% compared to 49% in 2020.

SLIC has not been included in this chart but it dominates the life insurance industry with a GP of PKR 162 billion in 2021. The highest premium in the private sector has been written by JLICL of PKR 49 billion followed by EFUL and Adamjee with written premiums of PKR 37 billion and PKR 21 billion respectively.

**SLIC removed from the graph*
**Experience refund adjusted in group policies*

MARKET SHARE - GWP





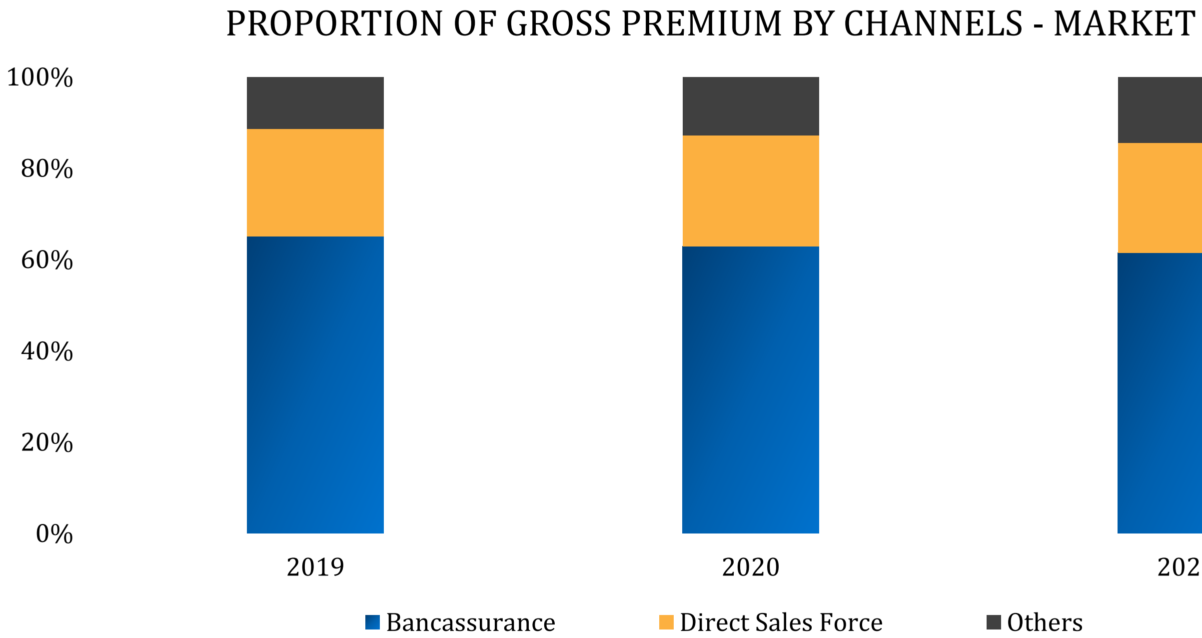
SLIC is the largest life insurance company which was formed by a merger of 32 life insurance companies in 1972. Hence, SLIC holds a staggering 56% of the industry's market share.

JLICL can be seen as the market leader in the private sector life insurance industry based on GWP with a market share of 17% for the year ended December 2021 followed by EFUL at 13% and ALIFE at 7% respectively.

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.

SLIC has seen a marked increase in its written premiums driven largely by increases in the Accident & Health segment arising from the Sehat Sahulat Program.

DISTRIBUTION CHANNEL - MARKET

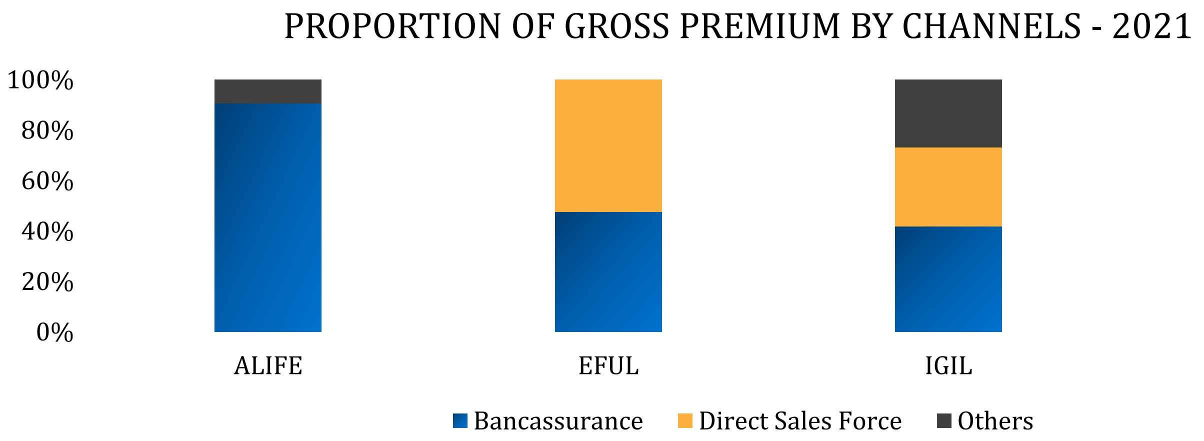


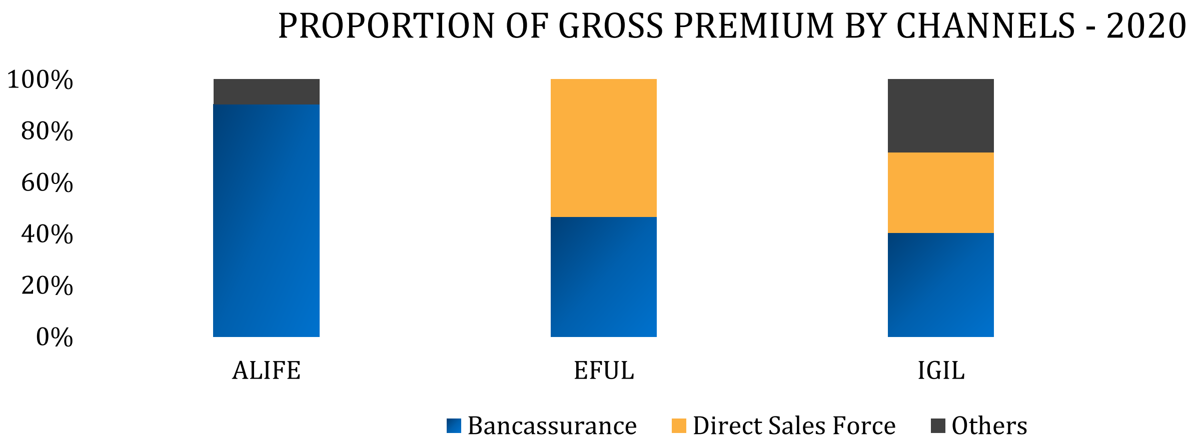
The charts above show the gross premium split based on the two major channels i.e. Banca, Direct Sales Force. All other channels are clubbed with Others. This information is not available for all companies but data from major players is sufficient to draw conclusions regarding shifts in major business 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, data from banks has indicated a substantial reduction in overall premiums from the Banca channel with major players like HBL & UBL reporting declines. In 2021 as well, both DSF & other channels exhibit increasing proportions of written business while Banca shows a consistent decline.

The DSF channel has adapted to the new normal by staying in touch with regular clients through digital means and has not faced the same fate as Banca. The SECP has also been encouraging the industry to adopt more "digitialization" 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 insurance companies face with their increased reliance on Technology. Not long after this, the revised Corporate Insurance Agent Regulations also include clauses for "promoting digitalization". In June 2021, the SECP also issued a draft framework for Digital Only Insurers.

DISTRIBUTION CHANNEL - COMPANY





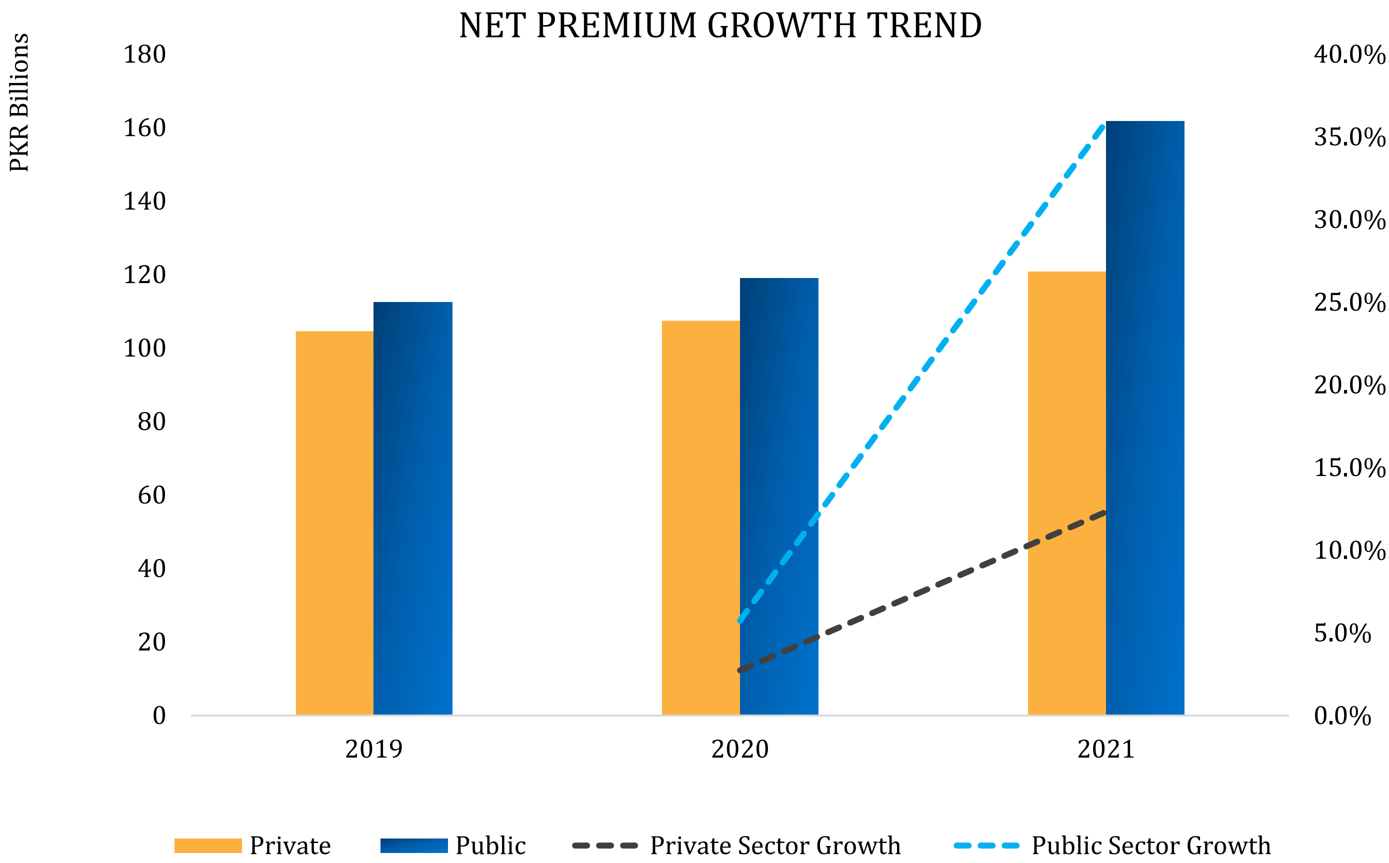
The charts here depict the channel wise split of gross premium for companies that disclose this information in their financials.

JLICL & ALIFE 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. ALIFE has similarly partnered with MCB. Since the implementation of reduced maximum commission allowances in the Corporate Insurance Agent Regulations 2020, JLICL's reliance on Banca appears to have decreased. 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.

NET WRITTEN PREMIUM - MARKET

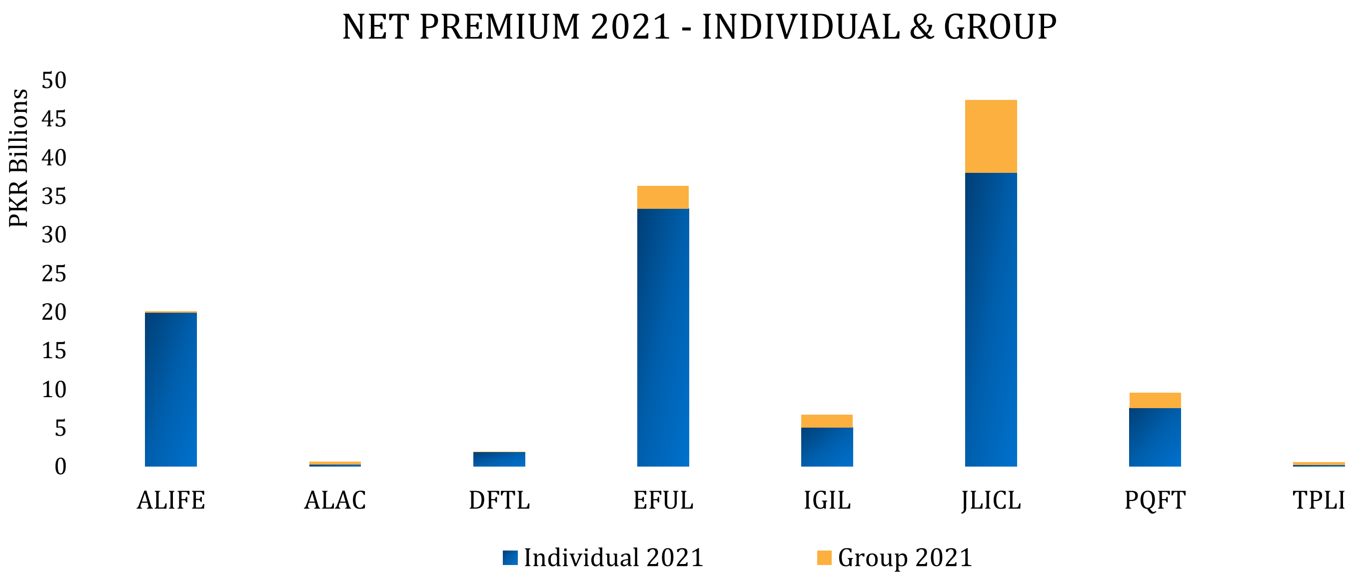


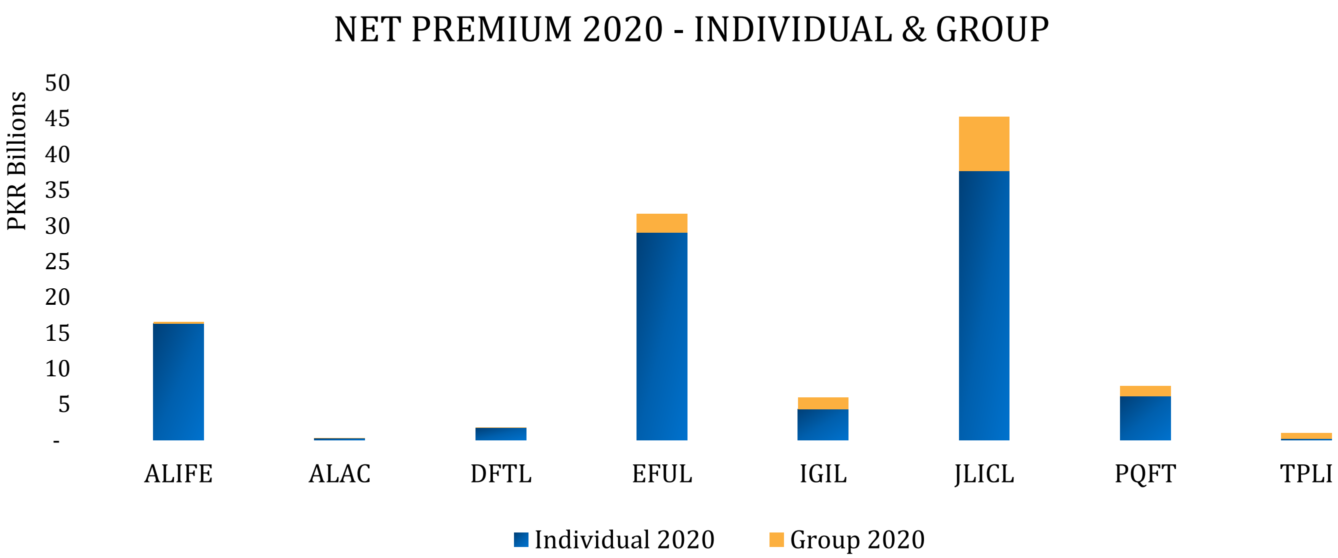
The highest net premium for the overall market has been achieved in 2021 amounting to PKR 283 billion over the 3-year period with a growth of 25% compared to the level in 2020. That is a significant jump as the net premiums only grew by 4% last year. This jump can be explained by the economic growth experienced post-pandemic translating from the Gross premium.

The private sector experienced a growth of 12% while the public sector experienced a growth rate of 36% which is in-line with the growth seen in GP and follows the similar trend of public sector growing at 2x of private sector.

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.

NET WRITTEN PREMIUM - COMPANY

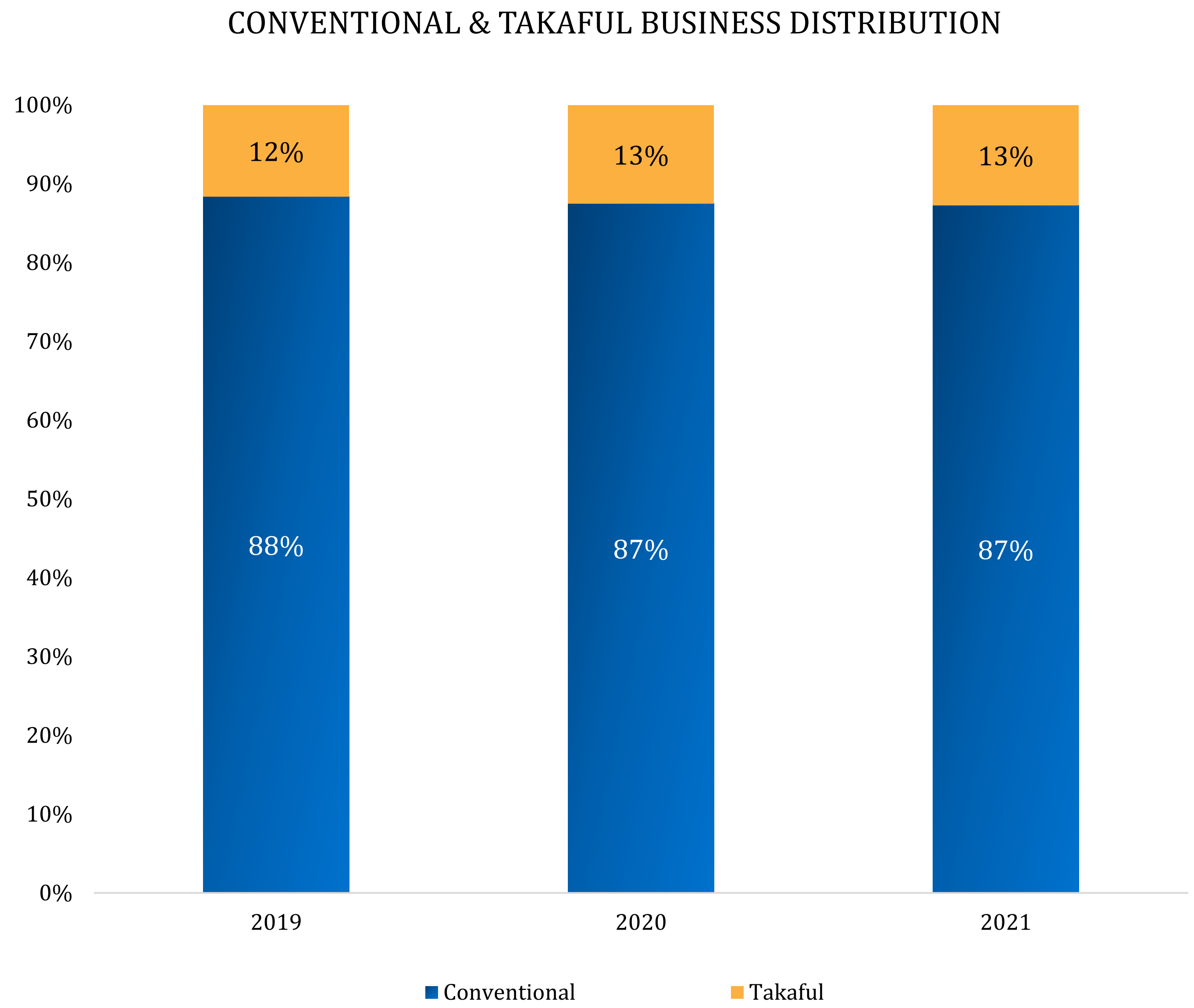




The highest net premium has been written by JLICL of PKR 48 billion followed by EFUL and ALIFE of PKR 36 billion and PKR 20 billion respectively. While the public sector, which comprises of SLIC only, had a net premium of 162 billion. This ranking is similar to the GWP ranks.

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.

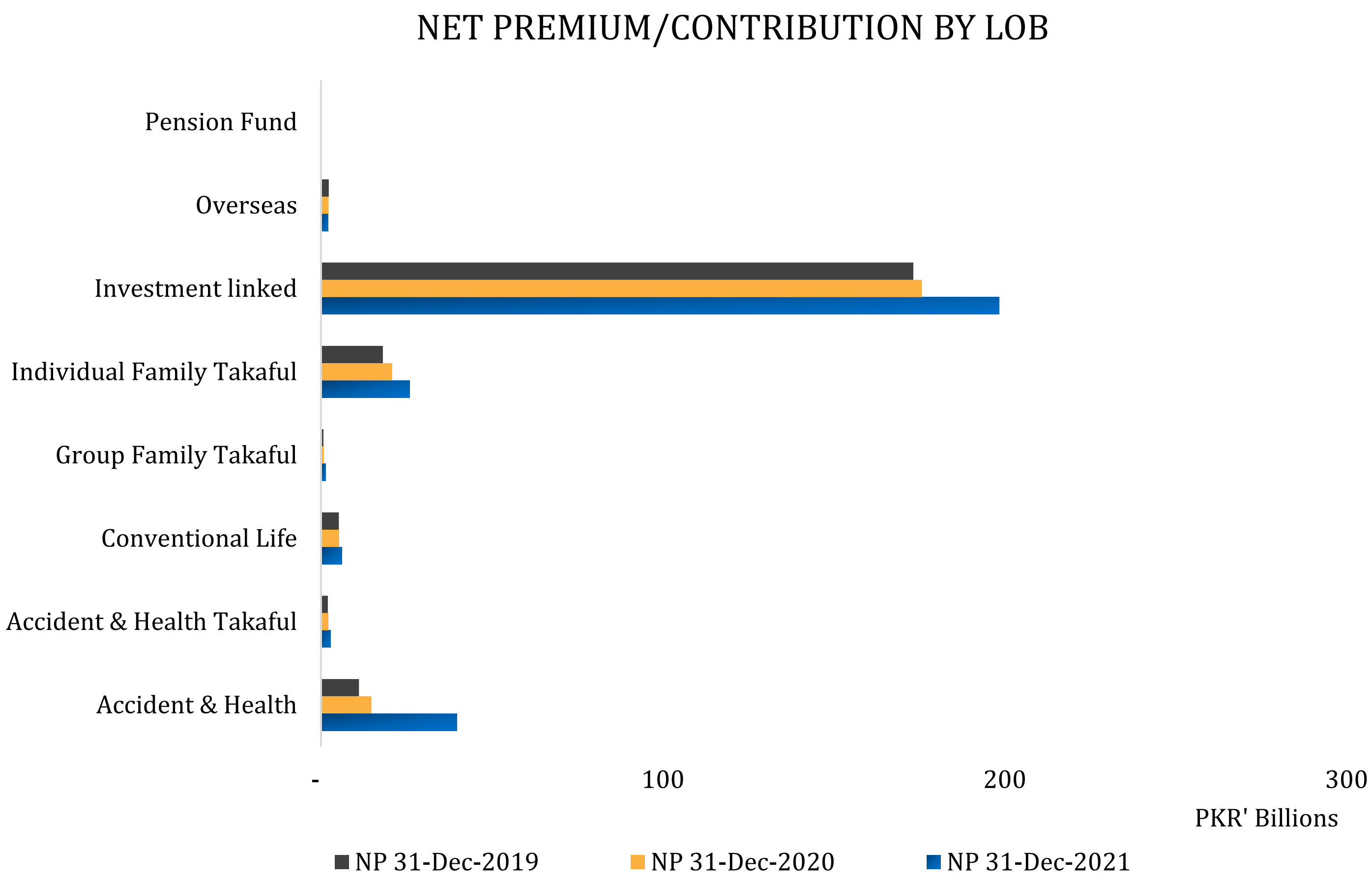
CONVENTIONAL VS TAKAFUL BUSINESS DISTRIBUTION



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 2021 in terms of the net written premium. This share has remained stable over the year.

This graph follows a similar trend to the listed general insurers of Pakistan as it has stabilized in the recent years after experiencing an increase.

SEGMENT WISE NET PREMIUM CONTRIBUTION



The year 2021 experienced economic recovery due to curtailment of the pandemic. The broad-based growth experienced in the country also reflected in higher Net premiums for the life insurance industry. The net premium grew by 25% compared to the same period last year.

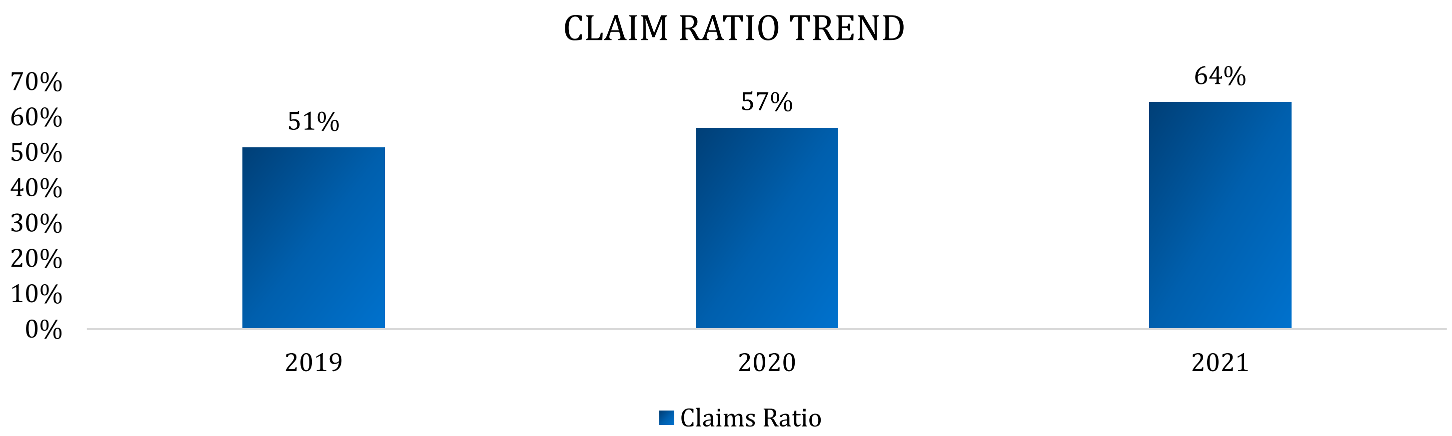
All the lines of businesses have experienced an improvement except for the Life Participating business. The highest net premiums have been written in investment linked policies of PKR 198 billion which is 13% higher compared to the same period last year.

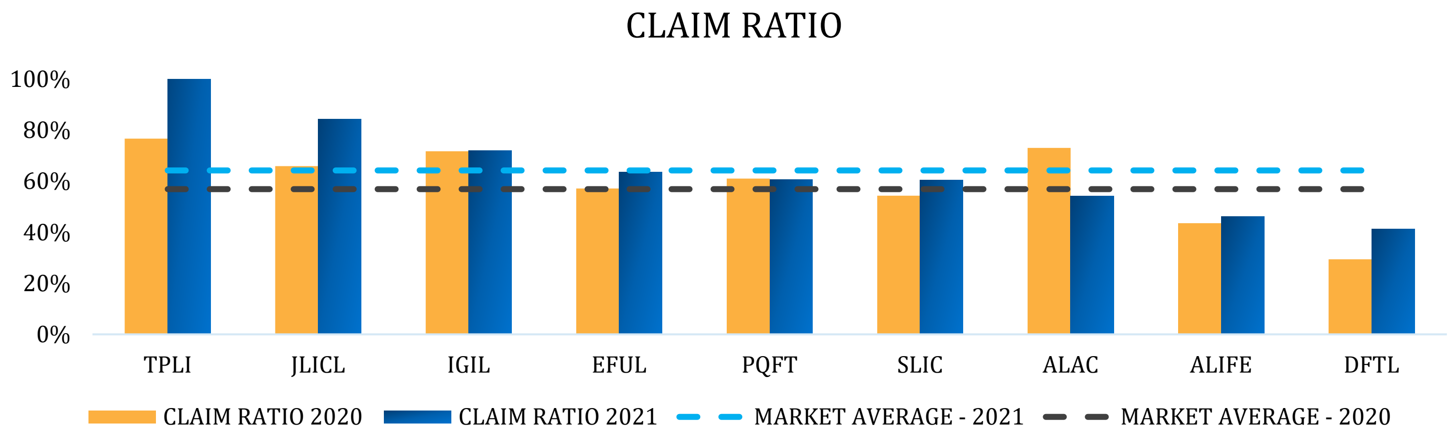
Conventional Life & Group Family Takaful are comprised mainly of corporate life schemes.

The accident and health segment has seen a sharp increase of 170% on the conventional side and 31% on the takaful side. The sharp increase in the latter is due to the national Sehat Sahulat Program policies written by SLIC. Rising demand for Health coverage is also understandable in the wake of rising medical costs. Market medical premiums also increase generally because of medical cost inflation.

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

RATIO OF CLAIMS TO PREMIUMS





The claim ratio for the life insurance industries depict that claims have been on an upward trajectory which may be explained by the increase in insurance benefits due to the pandemic.

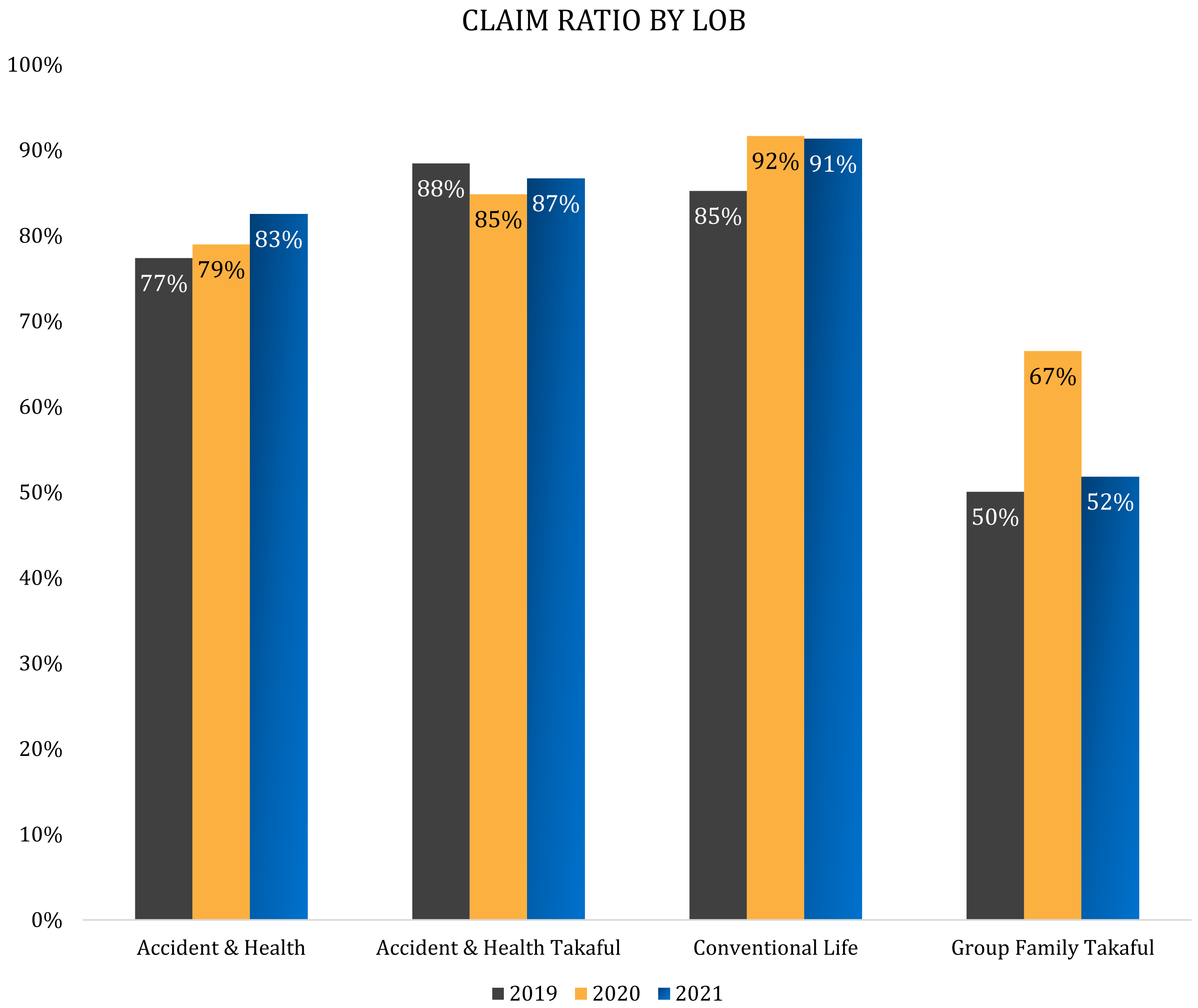
The claims ratio is calculated as gross claims over the gross premium. The market average stands at 64% in 2021 which shows a 7% increase compared to the market numbers in 2020.

The highest claim ratio of 123% was experienced by TPLI followed by JLICL of 84%. TPLI is relatively new in the life industry and writes mostly group business with a receding portion coming from group health which used to be the primary source of premium revenue for this Company. While JLICL experienced higher policy related payments due to the pandemic.

SLIC and ALIFE experienced lower claim ratio as compared to the market average.

Overall, 2021 saw rising claim ratios. This can be attributed to COVID-19, both due to higher death claims and reduced affordability of the consumer for policy renewals. The latter can also be explained due to a higher inflationary environment post pandemic. This results in more policy surrenders which are expected to impact this sector substantially.

SEGMENT WISE CLAIM RATIO

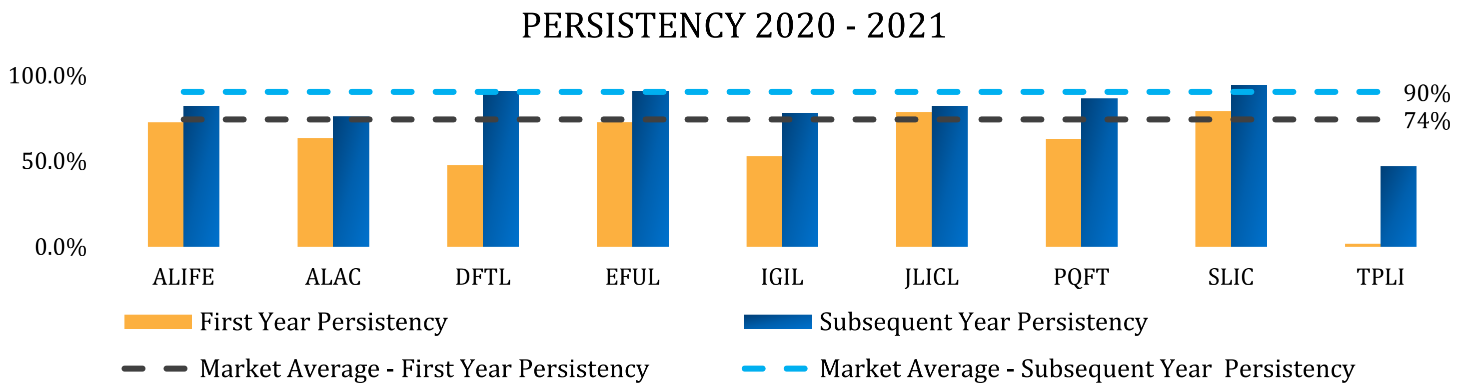


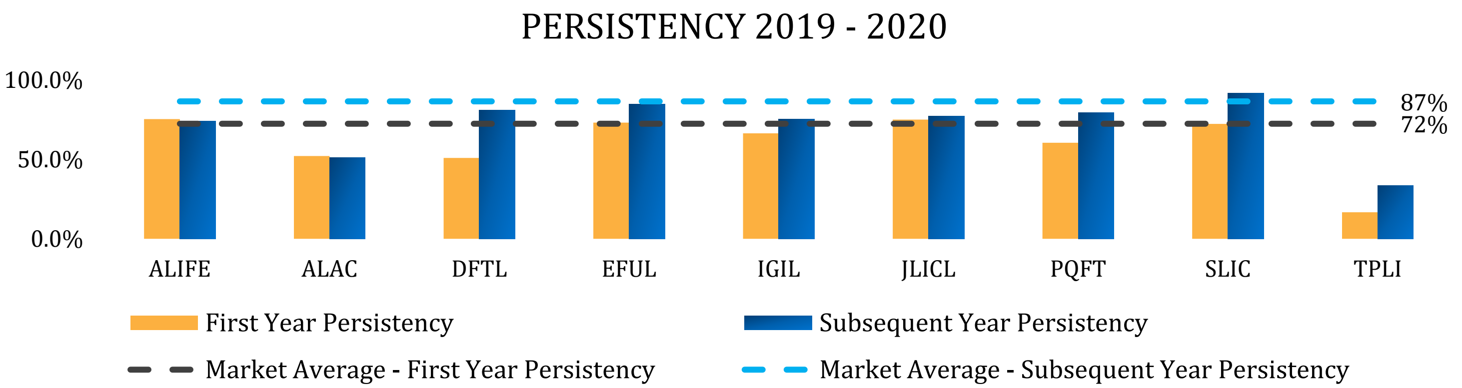
The claim ratio is calculated as the net insurance benefits over the net premium.

The Accident & health conventional business has experienced a year-on-year increase in the claim ratio while the Accident & Health Takaful business has been relatively volatile due to smaller revenues. The conventional life business has experienced an increase in the claim ratio in 2020 and has stabilized in the 91% - 92% range. The Group Family Takaful business experienced a sharp increase in 2020 which was due to uncharacteristically higher claims experienced by IGIL in this segment.

This analysis has been conducted for segments with short term exposure only.

PERSISTENCY



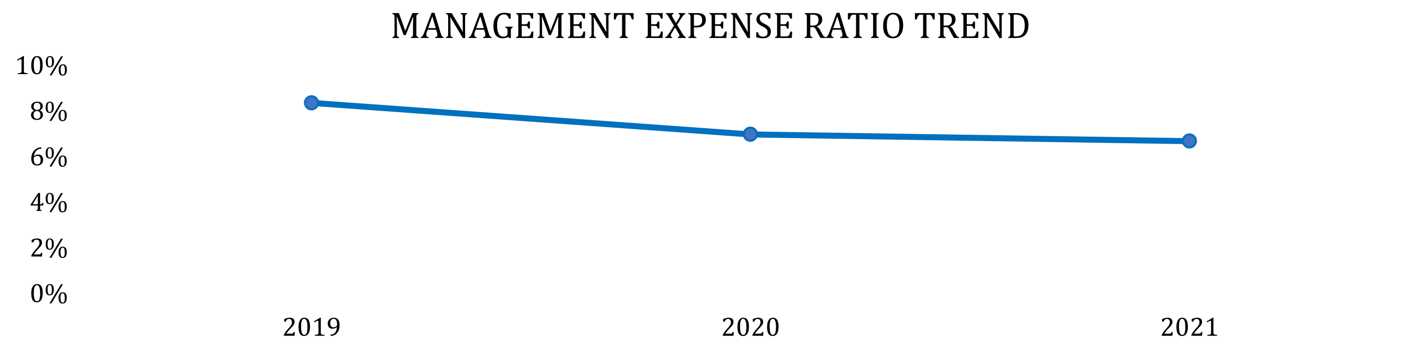


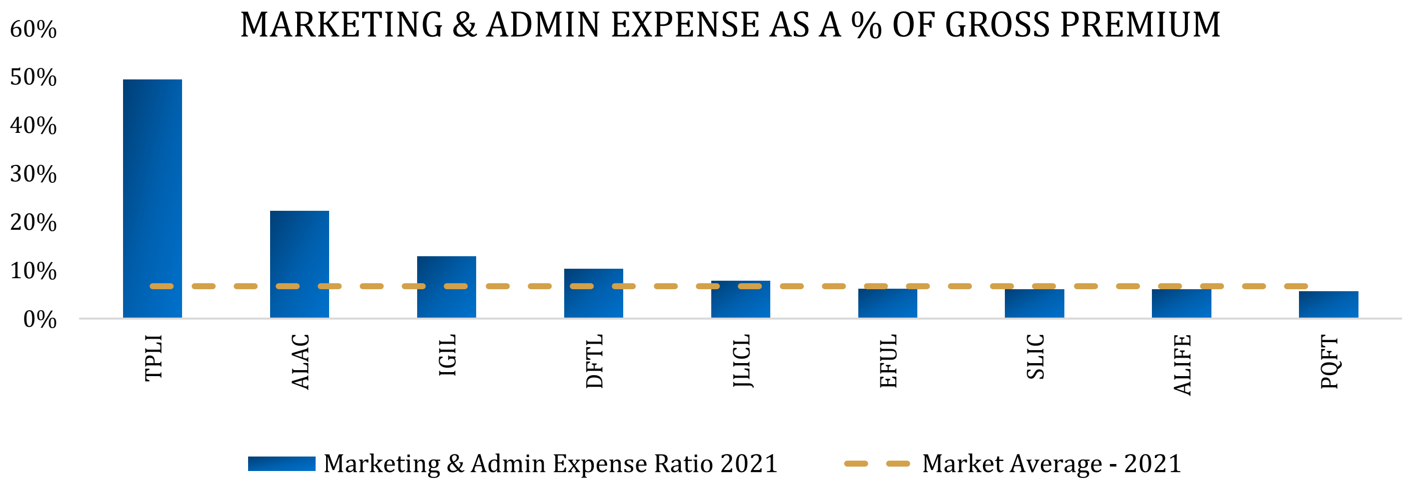
Persistency is a measure of customer retention and a vital performance indicator for life insurance companies. Here, based on the data available, first year renewals have been calculated as a percentage of current second year premiums(2021) divided by first year premiums from previous year(2020). Similarly, subsequent year premiums have been calculated as current year subsequent premiums(2021) divided by sum of previous second year (2020) & subsequent year premiums. In terms of subsequent year persistency, SLIC dominated the market for both years.

The persistency for both years shows that the subsequent year persistency is higher for all companies except for ALAC in 2019-2020. SLIC and JLICL has the highest first year persistency of 79% in 2020-2021 while JLICL and ALIFE had the highest first year persistency of 75% in 2019-2020.

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 guidelines, 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.

MARKETING & ADMIN EXPENSE RATIO





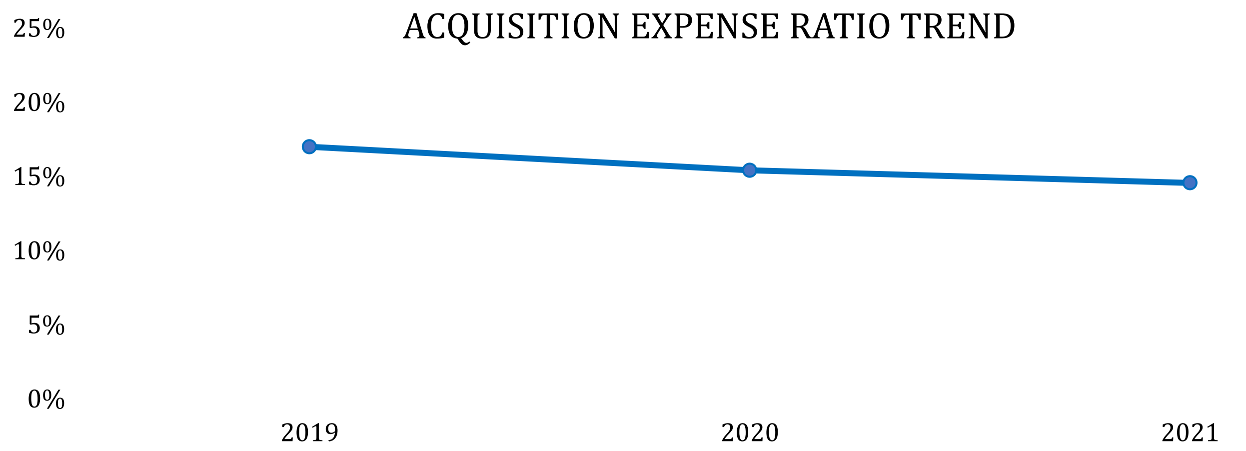
The management expense ratio is calculated as the management expenses over the gross premium. The market figure has declined since 2019. This was due to a decline in marketing & admin expenses in 2020 while the gross premium rose faster in 2021 as compared to these expenses.

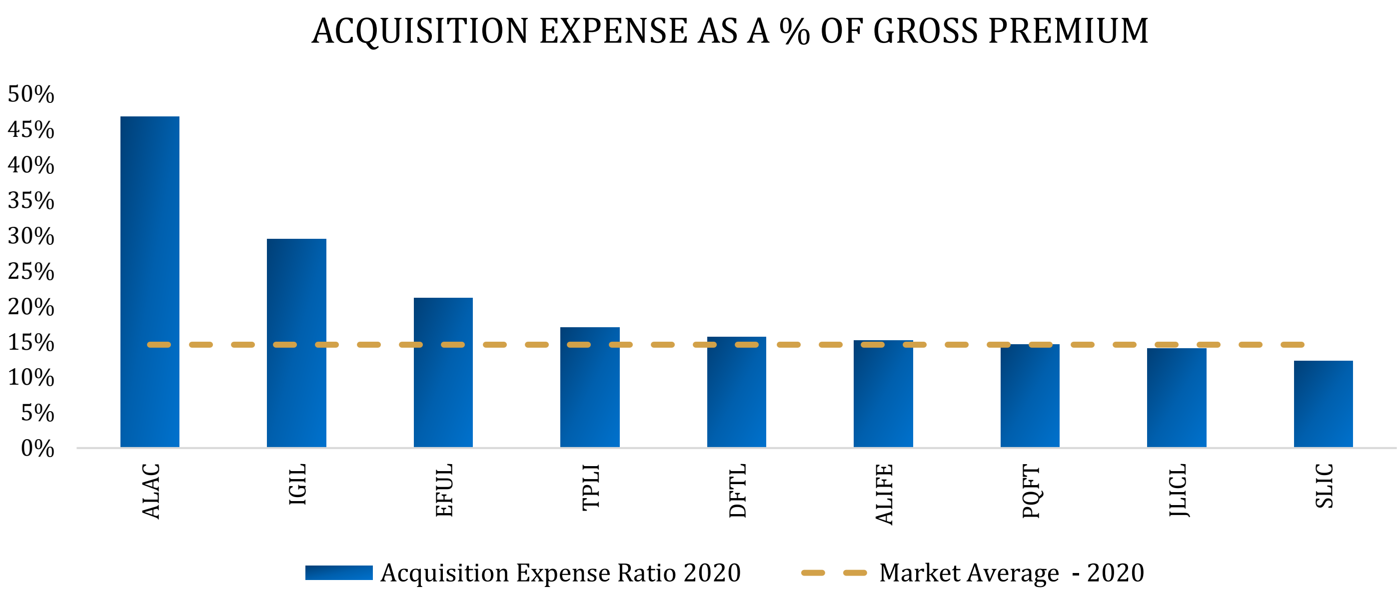
General expenses here include marketing & administration expenses excluding those related to acquisition. For life insurance companies, these are primarily driven by advertisement & sales promotion along with salaries.

The market average figure stands at 7% for 2021. This has been consistent since 2020 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 still in the process of reaching an optimal expense allocation strategy for their operations. 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 as a proportion of premium.

ACQUISITION EXPENSE RATIO





Acquisitions expenses are incurred in the process of generating revenue for the company. The market average figure stands at 15% with the highest ratio reflected in ALAC's accounts of 47% while SLIC has the lowest ratio of 12%.

This ratio is calculated using acquisition expenses over the gross premium. The Acquisition expenses include the commissions paid on the various life insurance products along with the overheads of the branches they operate.

The market ratio displays a steady year-on-year decrease and stands at 15% for 2021. Historically, agents and brokers were a major source of business for insurance companies. However, with companies leveraging the use of technology to reach out to potential customers, the bargaining power and hence the acquisition expenses have reduced.

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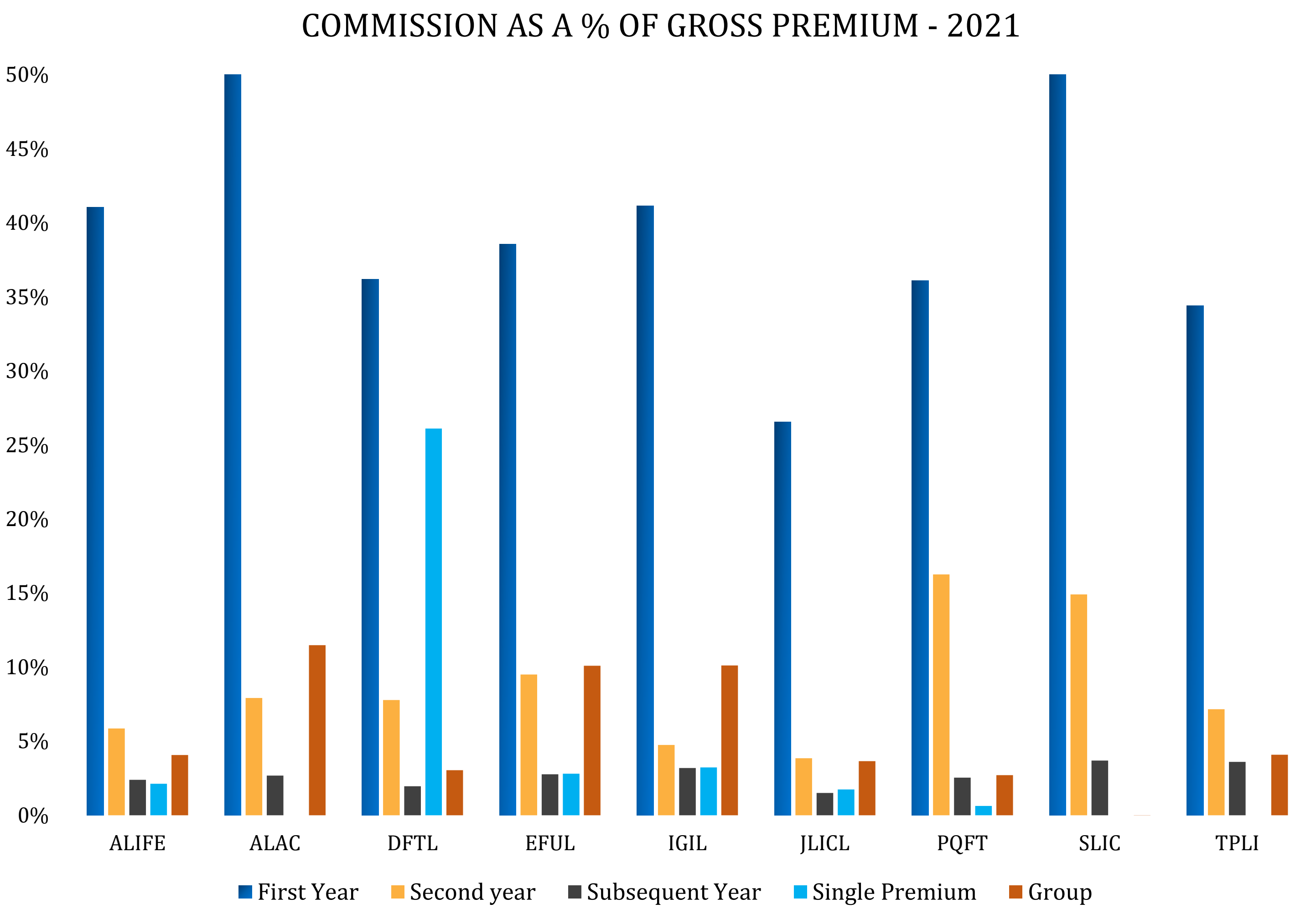
COMMISSION EXPENSE

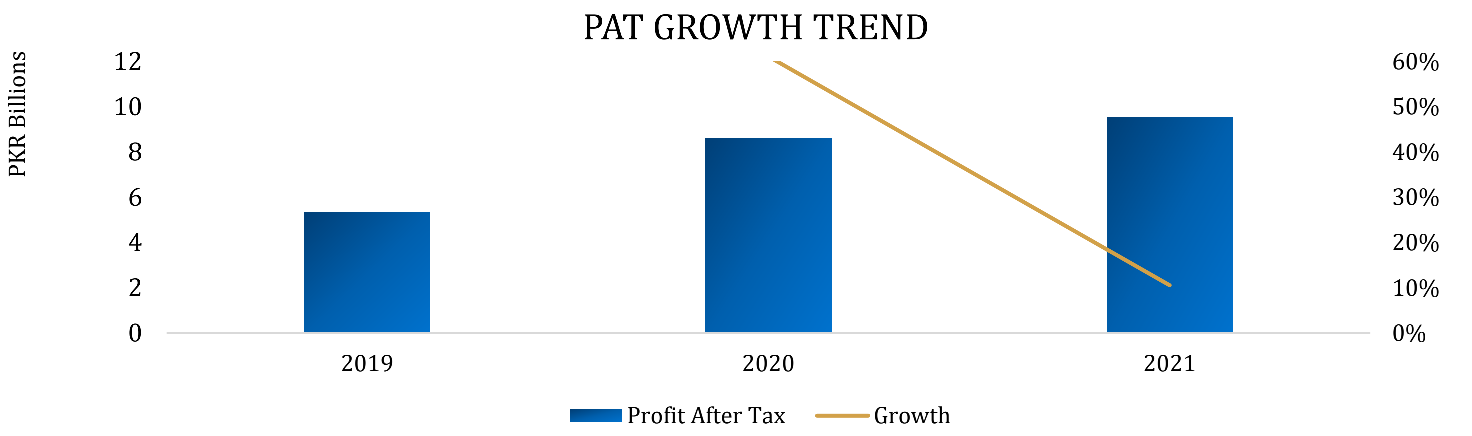


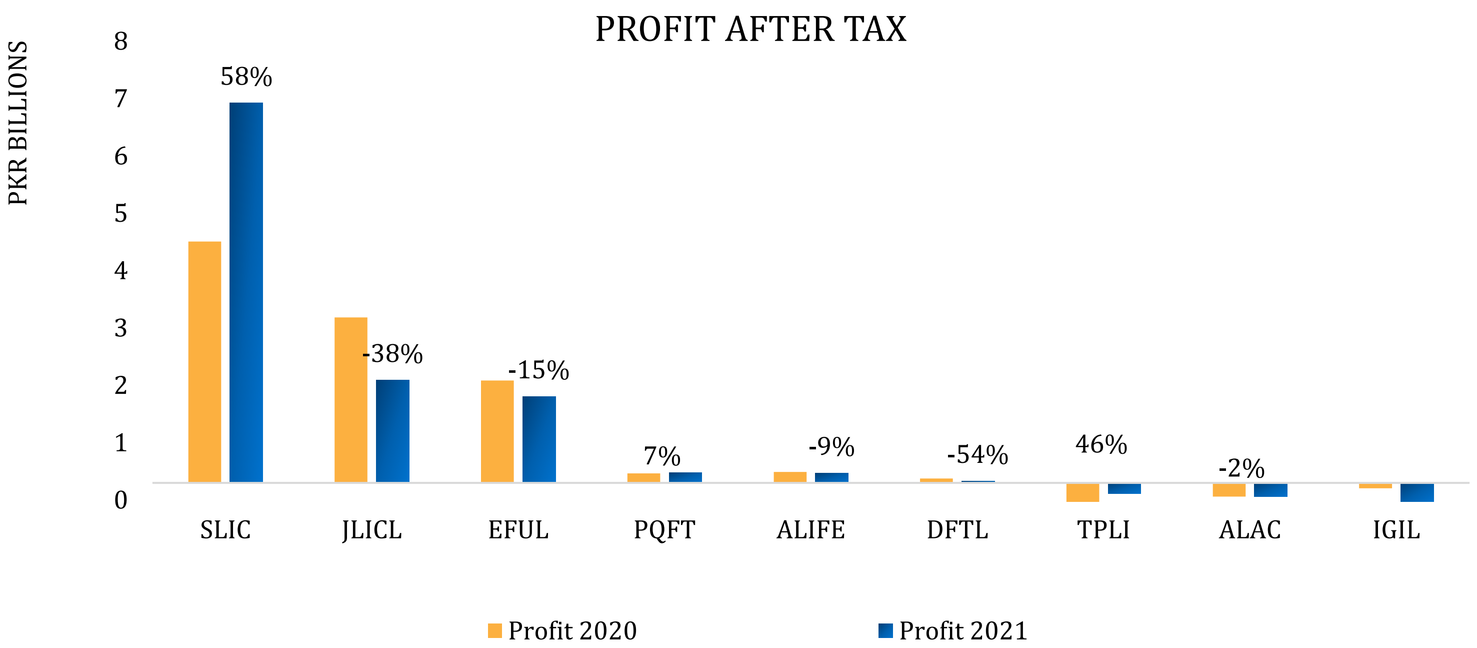
Traditionally, with BANCA & DSF as the primary distribution channels, high commissions have dominated this line of business. Generally, first year commissions are quite high on unit linked products to incentivize agents.

The bar graph shows that SLIC pays the highest commission on acquiring new business while JLICL pays the lowest commission rate of 27%. The commission rate for second year business is significantly lower in the range of 5% to 20%. PQFT pays the highest commission rate of 16% 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 ALAC. Please note that commissions on group policies has no link with the second year commissions.

The commission percentages have gone down since 2020. This can be attributed to the reduced maximum commission limits directed by the revised Corporate Insurance Agent Regulations.

PROFIT AFTER TAX

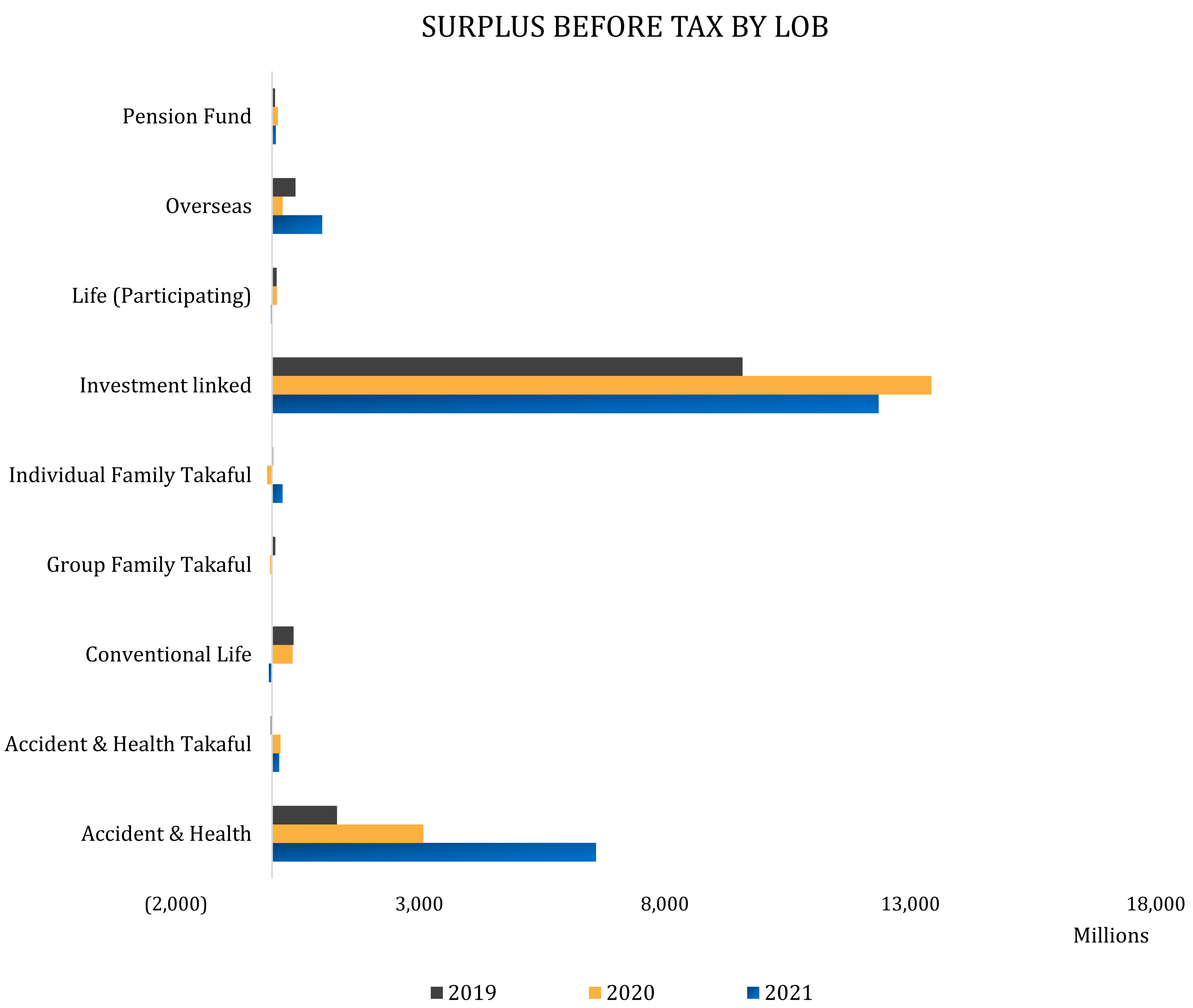




The life insurance industry of Pakistan has witnessed improvement in their accounting profits and stand at PKR 9.5 billion, an 11% increase to the level in 2020. The growth in profitability was the highest in 2020 of 61%.

Despite the dampening effects of COVID on the overall economy, SLIC reported the highest PAT of PKR 6.6 billion while JLICL had the highest PAT of PKR 1.8 billion amongst the private sector companies. SLIC reported the highest increase in profitability of 58%. SLIC experienced a healthy increase in their GWP and investment income. JLICL on the other hand experienced a sharp reduction in profitability of 38%. Yet it remains to be the top private sector company in terms of earnings. The reduction in earnings can be explained by higher insurance benefits on account of COVID-19 and lower investment income.

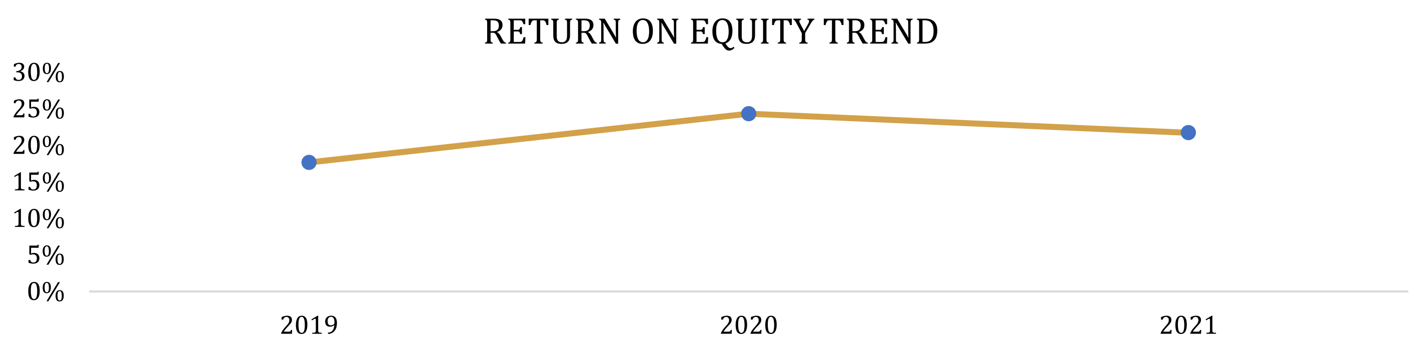
SEGMENT WISE SURPLUS/ DEFICIT

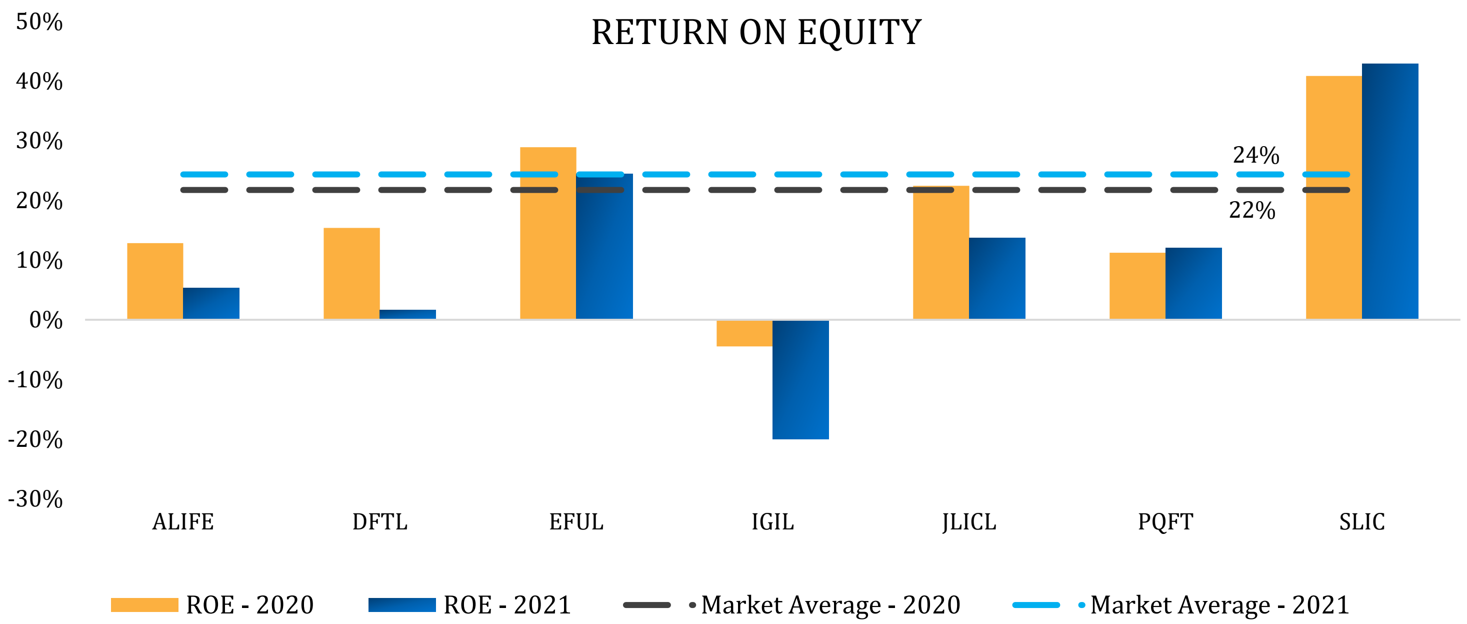


This graph shows the surplus/deficit at the statutory fund level. The surplus for investment linked policies saw a sharp increase in 2020 which is in line with the net premium trend observed earlier in this report, while this indicator fell in 2021, it surpasses the level achieved in 2019. The accident & health segment has been increasing year-on-year which is also in line with the premium trend especially in 2021 arising from the substantial premium written for the Sehat Sahulat program by SLIC.

Overall, the surplus before tax experienced a year-on-year increase.

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 reflecting the increase till 2020. However, the carrying value of year end equity for 2021 experienced a sharper increase than the increase in PAT which decreased the ROE.

It can be noted that the ROE for the life insurance industry is approximately 2x of the general insurance industry for the same period.

The ROE is negative for the three companies namely IGIL, ALAC and TPLI that experienced an accounting loss in 2021. The highest ROE numbers were attained by SLIC which corresponds with their strong performance figures. EFUL 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.*

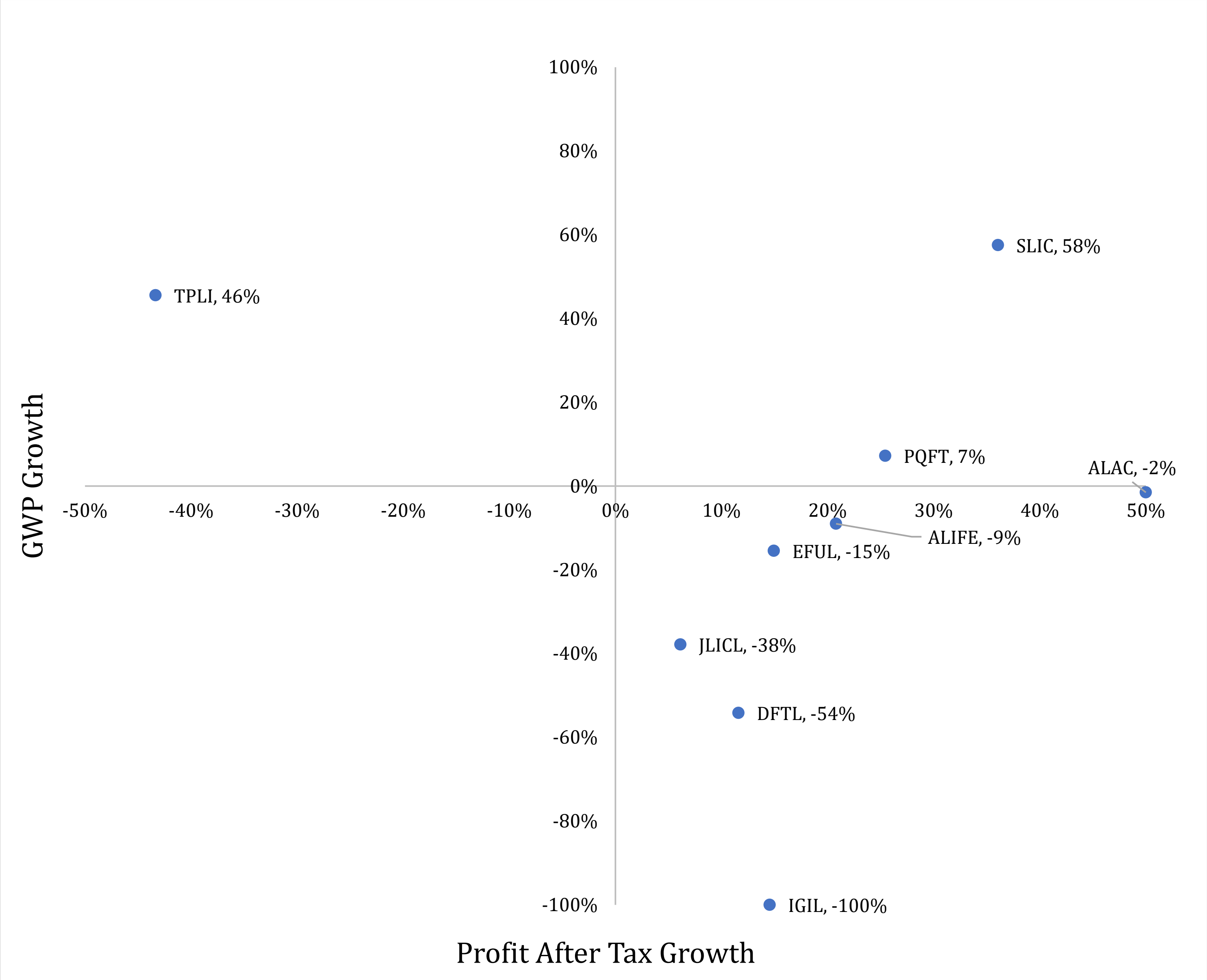
PREMIUM BENCHMARKING ON THE BASIS OF PROFITABILITY

Company	Ranking		Indic
	GWP	PAT	
SLIC	1	1	→
JLICL	2	2	→
EFUL	3	3	→
ALIFE	4	5	↓
PQFT	5	4	↑
IGIL	6	9	↓
DFTL	7	6	↑
ALAC	8	8	→
TPLI	9	7	↑

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.

The top 3 companies namely SLIC, JLICL and EFUL have similar ranks in terms of Gross Premium and PAT. SLIC holds the first rank followed by JLICL and EFUL. in both the GWP and

PREMIUM & PROFIT ANALYSIS



The graph shows Gross Premium 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 2021 vs 2020. 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(also 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 other expenses).

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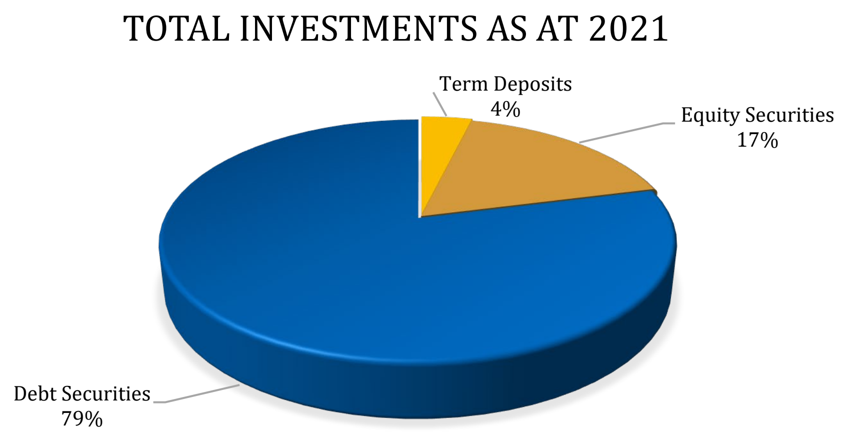
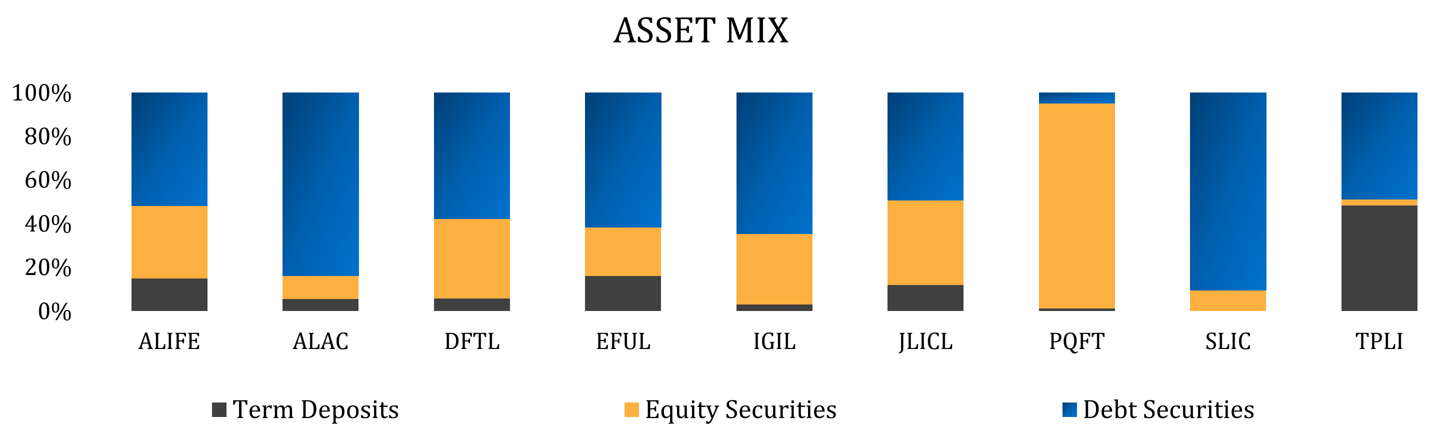
ASSETS MIX



The chart shows the industry's invested assets breakdown as at December 2021. More than three quarters of the investments are made in debt securities with less than one-third allocated to the equity market. It is important to note that about 78% of the assets on the balance sheets of life insurers are investments.

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 1,443 billion compared to PKR 1,333 billion in 2020 which is a growth of 8%.

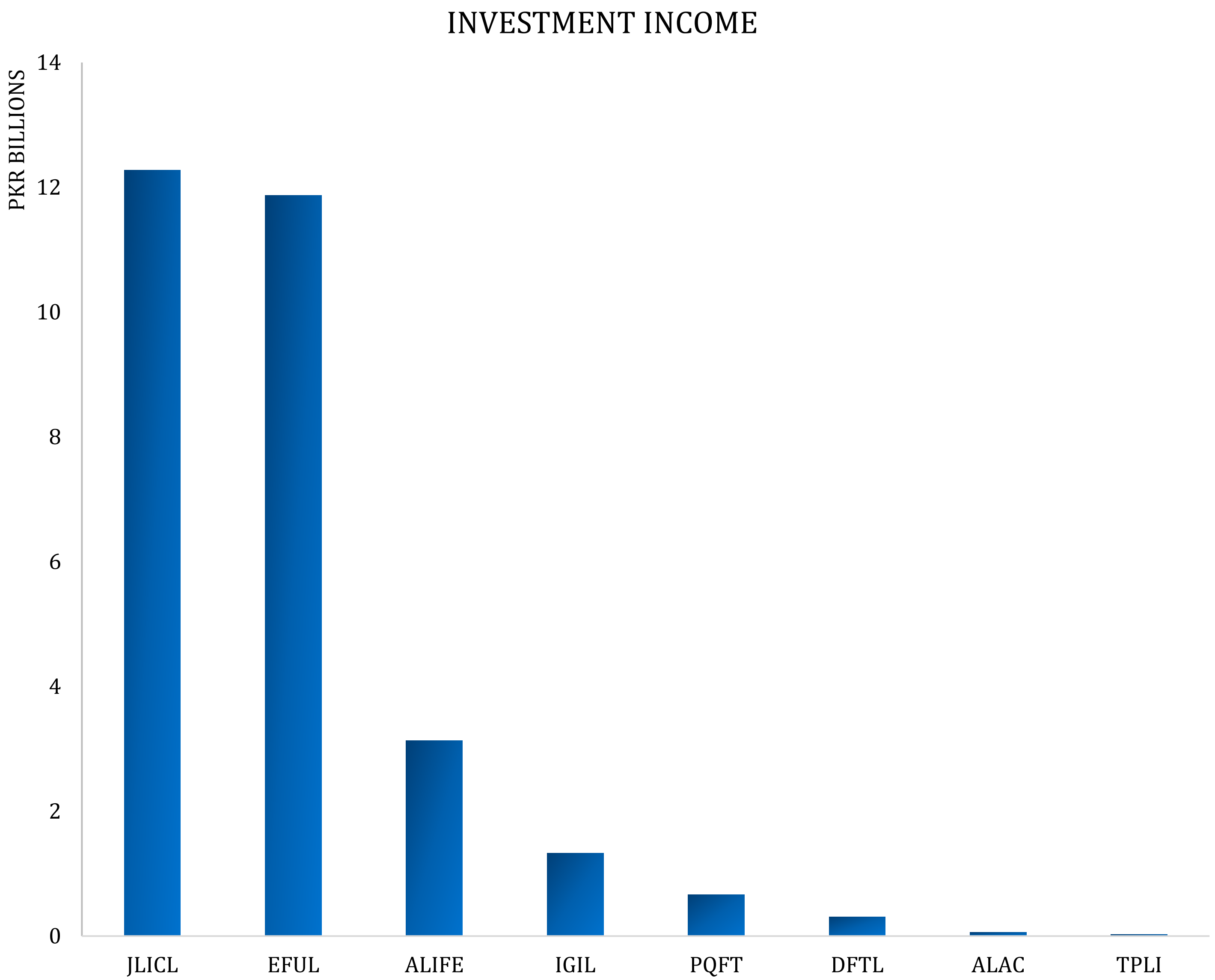


The bar graph shows the investments of companies by asset class.

PQFT has a major proportion invested in the equity market whereas ALAC, IGIL & SLIC have focused more on debt. Since Life insurance policies are longer-tailed, insurers prefer investment in government securities like the 3 - 30 year maturity Pakistan Investment Bonds and treasury bills which are safe instruments yielding returns between 7% - 12%. TPLI has the highest proportion of investments in short term 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 signalling a higher risk aversion.

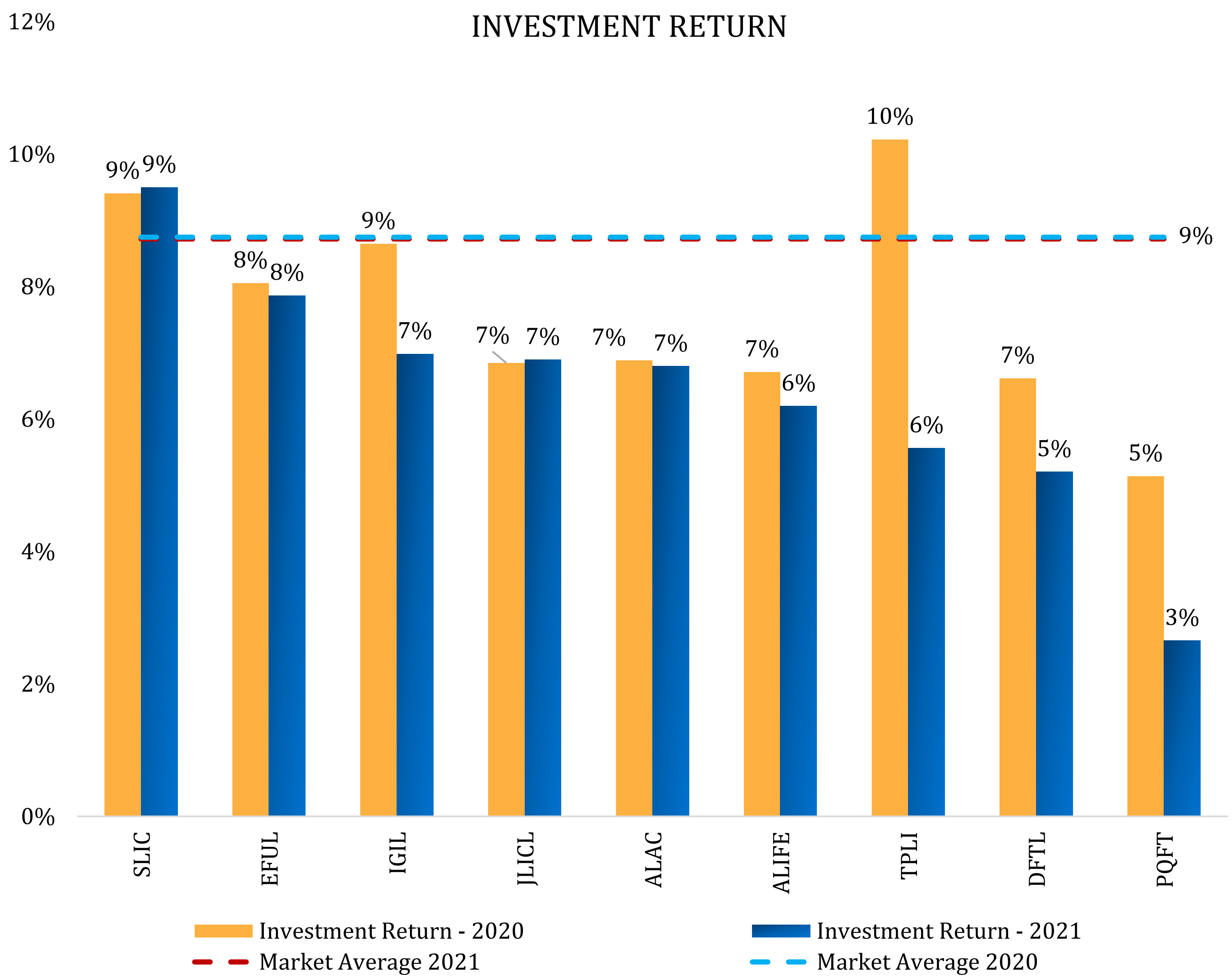
INVESTMENT INCOME



Life insurance policies are long-term policies which gives them a longer investment horizon. Hence, this enhances their ability to generate investment incomes. The highest investment income is generated by JLICL at PKR 12 Billion. The lowest investment income was generated by TPLI of about PKR 27 million since they write group policies which are short-term policies. This graphs shows the disparity in investment incomes between SLIC, major private insurers and the rest of the industry.

**SLIC removed from the graph since it was an outlier. It has an investment income of PKR 96 Billion with the major proportion of investment income being generated on government and debt securities.*

INVESTMENT RETURN

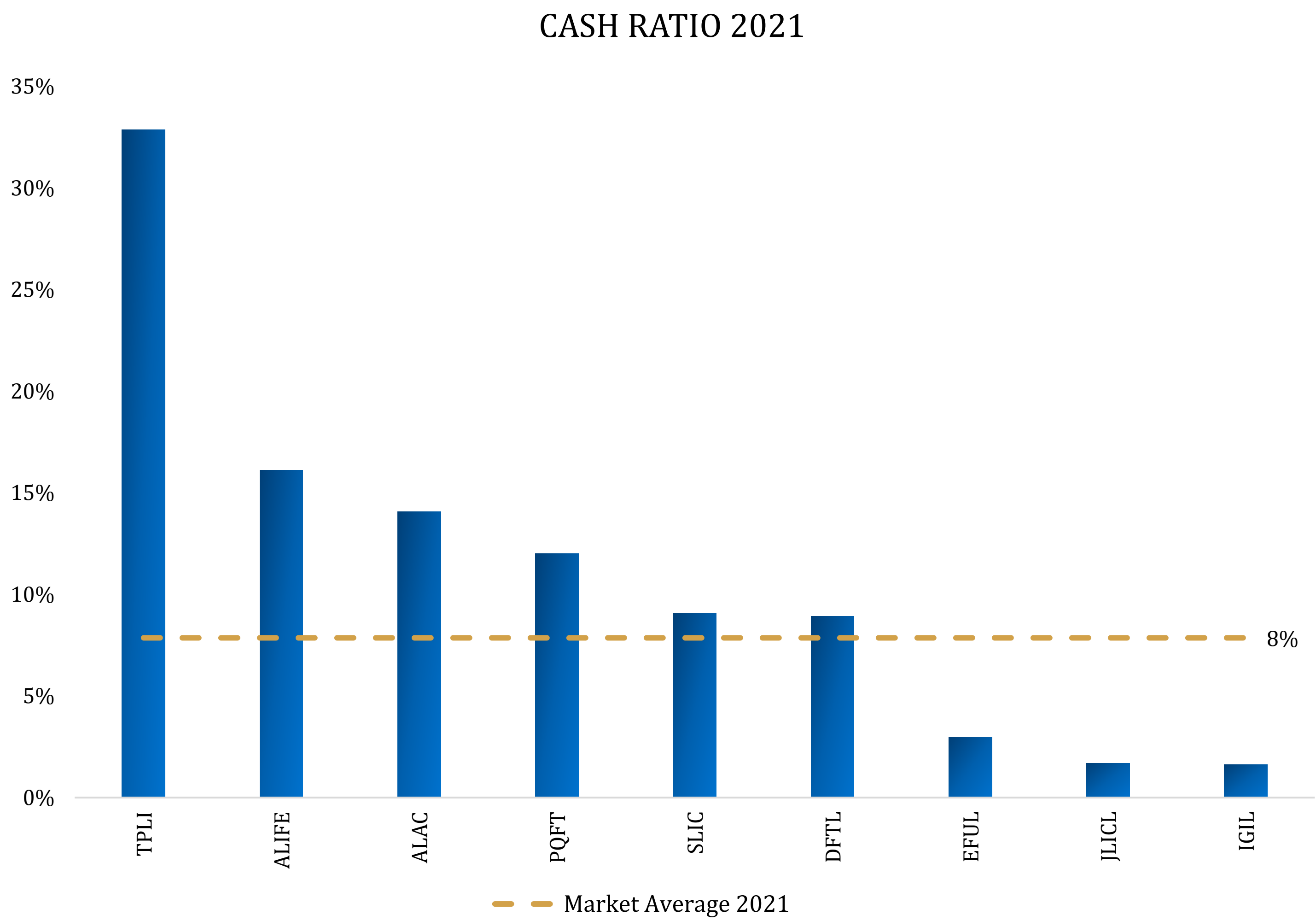


The investment return is computed as total investment income over the total invested assets.

The ratio for the industry averages around 9% in 2021 which is similar to the 2020 number.

SLIC has earned the highest investment return which is 9% with the majority of their investments lying in debt securities and term deposits. PQFT had the lowest returns of 3% and their investments are majorly in equity securities. These results are reflective of the market changes brought about by COVID-19 related supply chain disruptions resulting in state bank hiking interest rates by a cumulative 275 basis points resulting downward pressure on riskier assets.

CASH RATIO

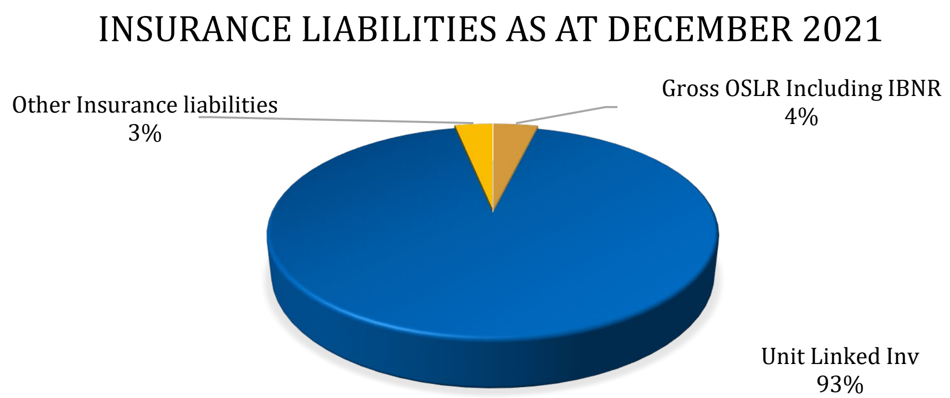


The cash to invested assets ratio has been taken as the ratio of cash & bank to total invested assets including cash. Life insurers aims to keep minimum of assets as cash to meet unexpected liquidity requirements. The liquidity requirements are different for life insurers as opposed to general insurers 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.

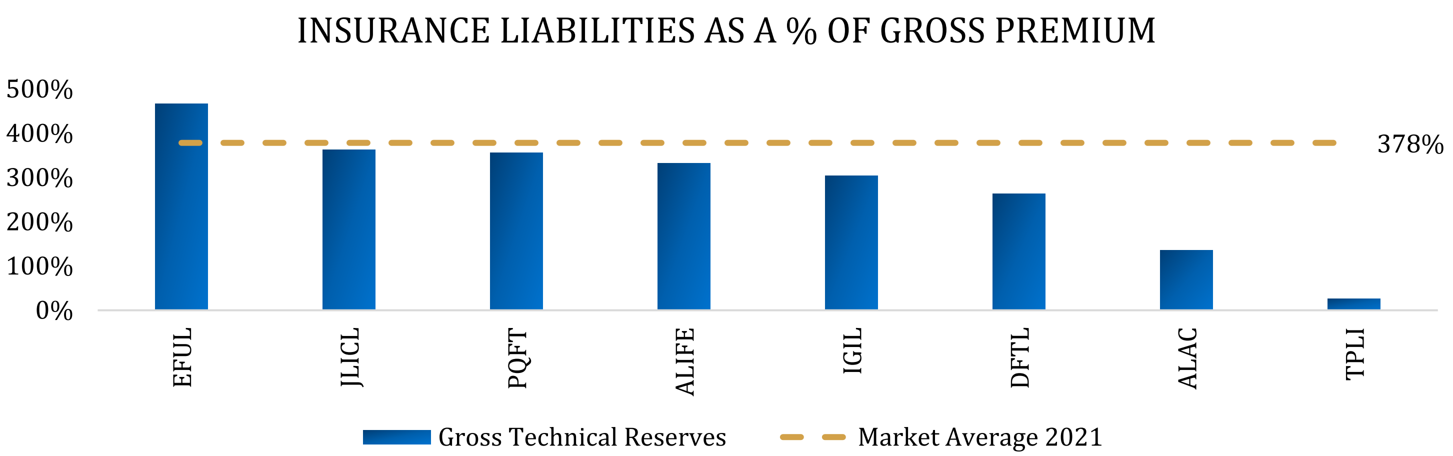
The market cash ratio is calculated to be 8%. TPLI has the highest level of 33% maintained as cash, while the lowest ratio of about 2% is maintained by IGIL and JLICL. TPLI's higher cash ratio can be explained by the concentration of its portfolio in short term group business which may have relatively 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%.

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



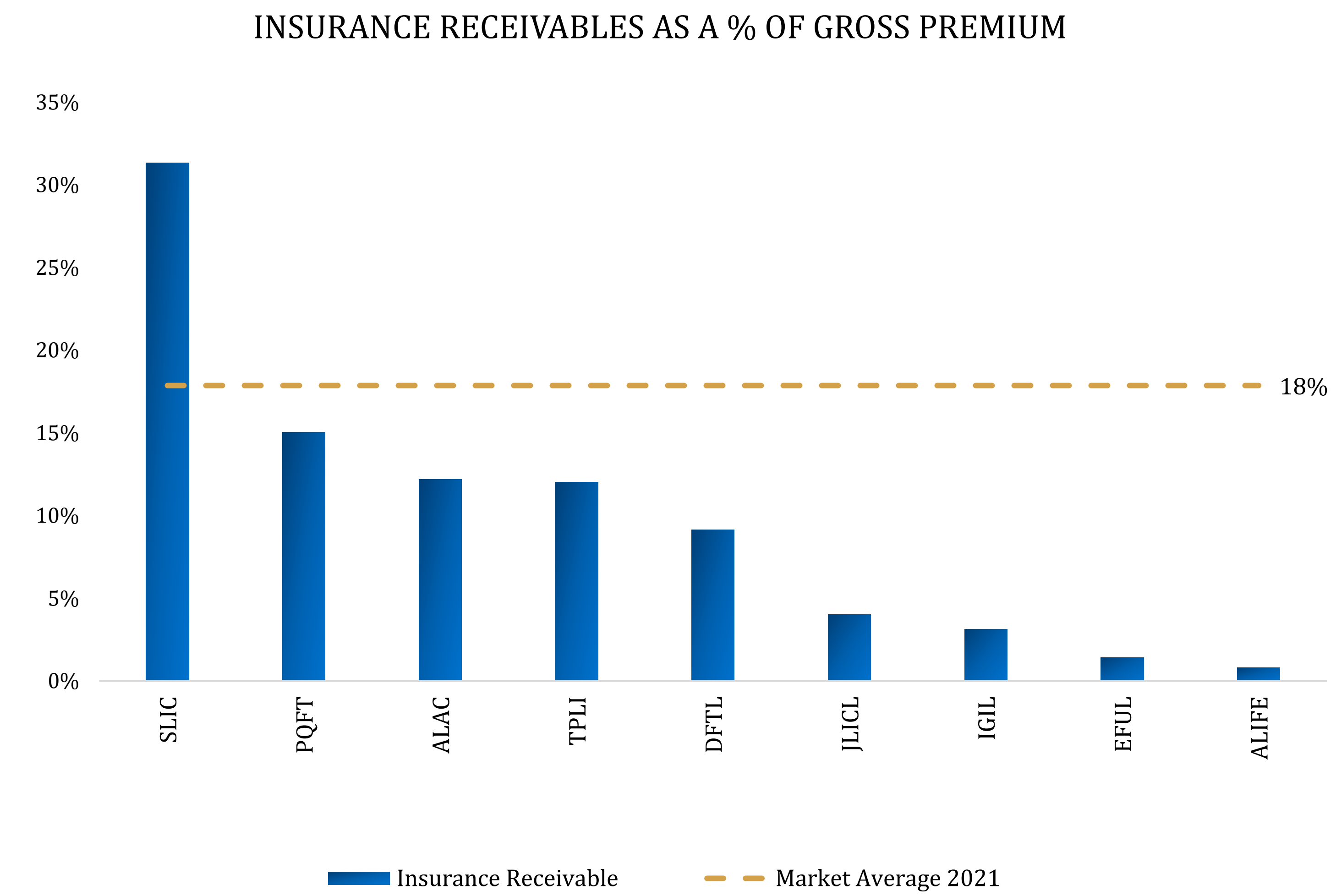
The bar graph represents the insurance liabilities as at December 2021 over the gross premium written in calendar year 2021.

EFUL has the highest ratio of 466% while TPLI has the lowest ratio of 27%.

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 has been removed from the calculation since it is an outlier with a ratio of 1098%*

INSURANCE RECEIVABLES



The ratio is computed using insurance receivables as at year end 2021 and the gross written premium for calendar year 2021.The market ratio is computed to be 18%. SLIC has the highest ratio of 31% followed by 15% of PQFT. While ALIFE 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

The year was characterized by economic conditions which remained challenging across the globe. The curtailment of the pandemic resulted in a broad-based consumption led growth which could be seen in the current account deficit and the devaluation of the PKR against the dollar. The theme of economic growth post pandemic turned into a theme of economic stability with the State Bank hiking policy rates by a cumulative 275 basis points by the end of the year.

The private sector experienced a 13% increase in its GWP while the public sector experienced a 36% increase in 2021. Life insurance policies are mainly sold through the bancassurance channel which has experienced a decline of 2% in 2021. The first and subsequent year persistency for the industry calculates to 74% (2020: 72%) and 90% (2020: 87%) respectively. The takaful business stands at approximately 13% of the net premiums.

The investment income stands at PKR 126 billion which is an 8% increase compared to the 2020 level.

The claim to premium ratio trend has also increased year on year and stands at 64% for 2021 as compared to 57% in 2020. However, the rise in claims has not been able to compromise the profitability of the industry. The profit after tax for the industry stands at PKR 9.5 billion which is a 11% increase to the level in 2020.

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

2019	2020	2021
PKR 110 bn	PKR 114 bn	PKR 128 bn

PUBLIC SECTOR GWP TIMELINE

2019	2020	2021
PKR 113 bn	PKR 119 bn	PKR 162 bn

Highest GWP recorded by SLIC at PKR 162 bn

Highest Growth in GWP Recorded by ALAC at 86%

Highest First Year Persistency by SLIC at 79%

Highest Subsequent Year Persistency by SLIC at 94%

Lowest Claim ratio by DFTL at 41%

Highest Acquisition Expense Ratio by ALAC at 47%

Highest investment income recorded by SLIC at PKR 96 bn

Highest invested assets to total assets by JLICL at 93%

Highest ROE by SLIC at 43%

Highest PAT recorded by SLIC at PKR 6.6 bn

Highest Growth in PAT by SLIC at 58%

COMPANIES INCLUDED IN THE ANALYSIS

Life Insurance Companies			
Sr. No.	**Symbol**	**Name**	**Market**
1	ALIFE	Adamjee Life Assurance	Listed
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 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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- As part of this analysis public sector only includes SLIC.

ABOUT OUR
TEAM

UAE/Oman Actuarial	KSA Actuarial
30 staff	16 staff
Business Intelligence	**End of Service**
9 staff	7 staff
Medical	**IFRS-17**
9 staff	11 staff
HR Consulting	**Support Functions**
3 staff	18 staff

Total Strength 103

Hatim Maskawala

Ali Bhuriwala

Omar Khan

Mahnoor Mir

Afnan Shaukat

Hassan Athar

Feedback

Badri Management Consultancy is proud to present Pakistan's Insurance Industry Performance analysis Q4 2021. 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.

UAE Office

2107 SIT Towers, PO Box 341486, Dubai Silicon Oasis, Dubai, UAE

KSA Office

No 2 Alhadlaq Commercial Complex, Anas Bin Malik Street, AlMalqa District Riyadh
PO Box 13524

Karachi Office

5B-2/3, 5th Floor, Fakhri Trade Center, Shahrah-e-Liaquat, Karachi 74200, Pakistan

Lahore Office

POPCORN STUDIO Co-working Space Johar Town 59-B Khayaban e Firdousi, Block B, Phase 1, Johar Town, Lahore

Contact Us!

+971-4-3207-250/ +971-4-3207-260

Info@badriconsultancy.com

www.badriconsultancy.com

+92-213-2602-212