

# **“Insurance Industry of Pakistan: A Paradigm Shift”**



Submitted By:

**Anees ul Haq Shakir**

2005-NUST-MBA-56

Thesis Advisor:

**Dr. Tahir Khan Durrani**

**National University of Sciences & Technology**

**NUST Institute of Management Sciences**

# Acknowledgements

First of all I thank God Almighty and then all those people who helped me make this report. I am very thankful to my Project Advisor, *Dr. Tabir Khan Durrani*, who has been an inspiration for me for selecting this very topic for my research. His guidance and moral support helped me to come up with this report. Without his encouragement, it was almost impossible.

Furthermore, I am really thankful to *Mr. Salman Shehzad* who gave me confidence and helped me to make up my deficiencies.

Without the guidance of both of my teachers, it was un-imaginable to complete this task.

I salute my parents who have always been there to support me.

May God bless them all!

# Dedication

I would like to dedicate my work to all the Muslims of the World

May God bless us all!

Aameen!!!

## LIMITATIONS

Following are the limitations faced during the research of the thesis:

- We have conducted this report mainly on the basis of “*Secondary data*”
- Sources that have been used includes, Economic Journals, Internet, Newspapers, websites of different insurance companies as well as Government sources
- Only the authentic data has been considered like State Bank of Pakistan’s website, Security & Exchange Commission of Pakistan’s website, Board of Investment website, Pakistan & Gulf Economist Magazine, The News Int’l newspaper etc.
- As this is a wide area of research, many areas remains unexplored up to their depth and each of those areas could be taken as separate research topic.
- Tax treatment for insurance companies is another important area not discussed in this report
- There might be some deviation from the *Research Proposal* due to inclusion or exclusion of certain topics, the author found appropriate or inappropriate.
- Insurance industries of developed countries, in terms of their rules and regulations, has not been discussed in detail, only some important points have been highlighted

## ASSUMPTIONS

We assume that:

- The data collected from secondary sources, if not 100% right, it would be close to reality
- The data from Government sources is the true depiction of actual scenario
- Government is serious in boosting up Finance & Investment sector of Pakistan
- Economic Projections for the next year are going to be achieved somewhat, if not all completely
- Government policies would remain same, whether the current government remains in power or new one comes in.
- The confidence of foreign investor is building again and he is most likely to invest in Pakistan, should the current economic factor continue to improve
- There has been positive correlation between the education level and purchase of insurance products by the general public
- Different peer and pressure groups affect the buying behavior of a customer

## EXECUTIVE SUMMARY

This research study has been conducted to highlight the potential in the insurance industry of Pakistan. The author has tried to highlight the issues that hampered the growth of insurance sector of Pakistan. Nationalization, back in 1972, unfair competition, presence of few players where big one getting bigger and smaller one were facing extinction & government's negligence, are some of the major factors that hampered the growth of insurance sector. Furthermore, we have tried to find out potential in this very industry. We compared the local insurance industry with the industries of developed countries and highlighted the gaps between the product offerings and structure of the industry. We have come to know that Government is serious this time boosting this sector and reforming it in order to lure the international players to enter in to this sector.

In addition to that we have tried to find out answer of our research question and tested three propositions. As it is a vast area to research on, there must be many important areas which remain untouched because it was beyond the scope of our research study. We have tried to justify our Propositions and Research question on the basis of data we gathered from different public and private sources.

In the end we concluded that Government is serious in reforming this sector and wants the international big players to enter the market. Government knows that there is a huge untapped market still present for insurance business in Pakistan. Liberalization of insurance sector is the step towards luring the foreign players. The inception of Islamic Insurance (*Takaful*) in the country would promote the insurance business further. Furthermore, the government's very recent rule that Banks with 70% or more equity could start their own insurance company under the name of same bank would attract the banking giants into this business and monopoly of few main players would be weakened. We have come to the point that future of insurance sector of Pakistan is very bright if current policies continue in future. The need of the hour is that Government and Insurance companies join hands to promote this sector and come up with Win-Win solution that benefit both the parties.

## Table of Contents

<b>Chapter # 1</b> .....	<b>4</b>
<b>Insurance</b> .....	<b>5</b>
History of Insurance.....	5
History of Insurance Industry in Pakistan.....	7
Insurer’s Business Model.....	8
Importance of Insurance Sector .....	9
<b>Chapter # 2</b> .....	<b>11</b>
<b>Structure of Insurance Industry</b> .....	<b>12</b>
<b>Market Overview</b> .....	<b>12</b>
Market Trends .....	13
Pricing .....	13
Industry Challenges .....	13
End-User .....	14
Products’ Analysis Marine insurance .....	14
Market Access.....	4
<b>Chapter # 3</b> .....	<b>6</b>
<b>Islamic Insurance</b> .....	<b>7</b>
Insurance in Islamic History .....	7
<b>Reinsurance &amp; its types</b> .....	<b>9</b>
<b>Re-Takaful</b> .....	<b>10</b>
<b>Chapter # 4</b> .....	<b>11</b>
<b>Bancassurance</b> .....	<b>12</b>
Why Bancassurance .....	13
Benefit to Banks.....	13
Benefit to Insurance Companies .....	14
Benefit to Customers.....	14
Forms of Bancassurance Arrangements.....	15
Bancassurance in Pakistan .....	15
Future Direction .....	16

<b>Chapter # 5</b> .....	<b>17</b>
<b>Insurance Companies in Pakistan</b> .....	<b>18</b>
Life Insurance Corporations .....	18
Non-life Insurance Corporations.....	18
<b>Insurance Sector Growth</b> .....	<b>20</b>
i. Non-life Insurance .....	20
ii. Life Insurance .....	21
<b>Major Players</b> .....	<b>23</b>
State Life Insurance Corporation .....	23
IGI Insurance .....	24
New Jubilee Insurance Company Pakistan.....	26
Adamjee Insurance Company Ltd. ....	26
National Insurance Company Limited (NICL).....	27
Pakistan Re-insurance Company .....	27
<b>Chapter # 6</b> .....	<b>29</b>
<b>Insurance in Developed Countries</b> .....	<b>30</b>
Where the difference lies .....	30
Insurance in UK .....	31
Insurance Products in US.....	33
<b>Chapter # 7</b> .....	<b>35</b>
<b>Alternative Risk Transfer (ART)</b> .....	<b>36</b>
ART Products.....	36
ART mechanisms in Pakistan .....	40
<b>Captive Company</b> .....	<b>41</b>
Types of Captive .....	41
Why Captives.....	41
<b>Captives in Pakistan</b> .....	<b>42</b>
<b>Chapter # 8</b> .....	<b>44</b>
<b>Future of Pakistani Insurance Industry</b> .....	<b>45</b>
<b>Liberalization of Insurance Sector &amp; FDI</b> .....	<b>46</b>
Reasons for Investing in Pakistan .....	48



<b>Chapter # 9</b> .....	<b>50</b>
Hampering Factors.....	51
What needs to be done? .....	52
<i>On Government's part</i> .....	52
<b>Chapter # 10</b> .....	<b>54</b>
<b>Proposed Insurance products</b> .....	<b>55</b>
Mobile Phone Insurance .....	55
Crop Insurance .....	55
Pet Insurance .....	56
Terrorism Insurance .....	56
Travel Insurance (Train) .....	57
Cattle Insurance .....	57
<b>Chapter # 11</b> .....	<b>58</b>
<b>Proposition 1</b> .....	<b>59</b>
<b>Proposition 2 &amp; 3</b> .....	<b>61</b>
<b>Research Question</b> .....	<b>62</b>
Human Resource .....	63
Government's Interest.....	63
<b>REFERENCES</b> .....	<b>65</b>
<b>Bibliography</b> .....	<b>67</b>
<b>AnnexureAnnexure I</b> .....	<b>71</b>
Annexure II .....	78
Annexure III.....	80
Annexure IV.....	82

# Chapter # 1

## Insurance: An Introduction

### Topics Covered:

- History of Insurance
- History of Insurance in Pakistan
- Insurer's Business Model
- Importance of Insurance Sector

## **Insurance**

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a premium. *Insurer*, in economics, is the company that sells the insurance. *Insurance rate* is a factor used to determine the amount, called the *Premium*, to be charged for a certain amount of insurance coverage.<sup>1</sup>

## **History of Insurance**

"Insurance" is derived from the Latin word for Security.<sup>2</sup> "Insurance appeared simultaneously with the appearance of human society. We know of two types of economies in human societies: money economies (with markets, money, financial instruments and so on) and non-money or natural economies (without money). The second type is a more ancient form than the first. In such an economy and community, we can see insurance in the form of people helping each other. For example, if a house is damaged due to natural causes, the members of the community help build a new one. Should the same thing happen to one's neighbour, the other neighbours must help. Otherwise, neighbours will not receive help in the future. This type of insurance has survived to the present day in some countries where modern money economy with its financial instruments is not widespread."<sup>3</sup>

A type of Property Insurance first became popular about 3000 BC in China. Chinese merchants, as well as their investors, wanted to ensure that they would see a profit from their goods that they shipped overseas. In the event that a ship was lost at sea or pirated, an insuring partner would reimburse the owners of the ship and goods. To pay for the loss the merchant would be sold into slavery to the insurer until the debt was repaid. This was a mutually beneficial arrangement since a merchant could not afford to pay for the lost goods or even to buy a ship unless someone invested. The merchant could become very rich and even own a fleet of ships if he was successful. Of course *property insurance* wasn't just available in China. In Babylon merchants and investors devised a system of contracts in which the supplier of money for a trade venture agreed to cancel the loan if the trader was robbed of his goods. The trader who

---

<sup>1</sup> <http://www.pier55.com/Insurance/Insurance-History.shtml>

<sup>2</sup> <http://www.pier55.com/Insurance/Insurance-History.shtml>

<sup>3</sup> <http://en.wikipedia.org/wiki/Insurance> (April 20,2007)

borrowed the money paid an extra amount for this protection in addition to the usual interest. As for the lender, collecting these premiums from many traders made it possible for him to absorb the losses of the few. This arrangement proved to be more appealing and sensible than the earlier one. Later this series of contracts was extended to include provisions for a family's home and even covered murder, the start of life insurance.<sup>4</sup>

The news of a good idea spread fast. Soon the Phoenicians and to the Greeks, Hindus and Romans also had similar concepts in place. Each culture had its own interesting twist on the laws.

Other forms of insurance terminology are also derived from ancient practices of Mediterranean commerce. The origin of the word "*Underwriter*," for example, is Italian, from an old system of signing contracts on marine insurance. Those businessmen who had agreed to share in the profit or loss on a certain venture signed their names underneath the contract, writing at the same time the amount of risk assumed by each. It is possible that "policy" is also of Italian origin - derived from "promise".

The Greeks and Romans introduced the origins of health and life insurance 600 AD when they organized guilds called "*benevolent societies*" which cared for the families and paid funeral expenses of members upon death. Guilds in the middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.<sup>5</sup>

Insurance can be traced to the Great Fire of London, which in 1666 demolished 13,200 houses. In the aftermath of this disaster, Nicholas Barbon opened an office to insure buildings. In 1680, he established England's first fire insurance company, "The Fire Office," to insure brick and frame homes.<sup>6</sup>

---

<sup>4</sup> <http://www.pier55.com/Insurance/Insurance-History.shtml>

<sup>5</sup> <http://en.wikipedia.org/wiki/Insurance> (April 20,2007)

<sup>6</sup> <http://en.wikipedia.org/wiki/Insurance> (April 20,2007)

## **History of Insurance Industry in Pakistan<sup>7</sup>**

“At the time of independence, the country had 5 domestic and 77 foreign insurance companies. These companies were regulated under the Insurance Act of 1938. The government in 1948 established the Department of Insurance within the domain of Ministry of Commerce to supervise the affairs of insurance industry and to safeguard the interests of the insured. The Act was amended in 1958 for the first time keeping in view the requirements of domestic market and to have effective control over the insurance premium rates. Since then, various amendments have been made in the Act. The Department of Insurance further created the Controller of Insurance for the same purpose that was abolished in 2000 when SECP was made responsible for supervising insurance business in the country. Since the business of insurance companies is to spread the risk, therefore, the need for establishment of a domestic reinsurance company was felt that would eventually boost the profitability of national insurance companies and to allow companies to handle growing insurance demand. It was also aimed to reduce the outflow of foreign exchange that was earlier used as reinsurance premiums made to reinsurance companies mainly in the U.K. The Pakistan Reinsurance Corporation (presently called as Pakistan Reinsurance Company Limited) was established in 1953. In 1955, National Coinsurance Scheme (NCS) was initiated to promote insurance culture in Pakistan and to assist small insurance companies in meeting financial requirements. Moreover, it aimed to have checks and balances on government expenditure on insurance and to assist in settlement of claims in which the government was the beneficiary. The formation of NCS yielded favorable results, Moreover, economic growth in 1960s further promoted the insurance business in the country and the number of Pakistani insurance companies increased to 26 and reached to 47 by 1971. However, the number of foreign companies decreased from 77 in 1947 to 25 in 1972 due to political uncertainty and separation of East Pakistan. The life insurance business (that grew very rapidly from a total sum assured of only Rs. 130 million in 1949 to Rs. 51.7 billion in 1972) was nationalized in 1972. Life Insurance Management Board managed the affairs of these newly nationalized life insurance companies. By consolidating the business of 41 nationalized insurance companies in 1973, the government created State Life

---

<sup>7</sup> [http://www.sbp.org.pk/publications/FSA-2003/Chapter\\_5.pdf](http://www.sbp.org.pk/publications/FSA-2003/Chapter_5.pdf) (May 8, 2007)

Insurance Corporation with a purpose of encouraging life insurance business and to safeguard the interests of policyholders. The initial benefits were the reduction in premium rates by 33 percent and resolution of various outstanding disputes between the policyholders and the insurers. Moreover in 1973, the government replaced NCS with National Insurance Fund (NIF) for the purpose to manage insurance of government and semi government property. The NIF reduced the premium rates for insuring government property; moreover it shifted all the profits of insurance companies to the government exchequer. In addition to provide government a more conducive environment for undertaking insurance and to reduce its cost, National Insurance Corporation (presently National Insurance Company Limited) was established in 1976. Since then, it has been the sole insurer to the government and semi-government bodies. In 1980s no significant development took place in the insurance industry until the financial sector reforms were initiated by the government in early 1990s that also encouraged investments in insurance business. The number of domestic insurance companies increased to 62 in 1995 while foreign participation was reduced to 9 insurance companies. One of the significant changes in insurance regulation was the abolition of the office of controller of insurance and after the conversion of corporate law Authority in to SECP, a new department was formed in SECP to look after the affairs of the insurance industry. Since the Insurance Act 1938 had become outdated, it was prudent to replace it with some new regulations. The new Insurance ordinance was promulgated in August 19, 2000 by the SECP that increased the minimum paid-up capital of non-life insurance companies to Rs. 80 million and for life insurance companies to Rs. 150 million.”<sup>8</sup>

## **Insurer’s Business Model**

Insurers make money in two ways:<sup>9</sup>

- (1) Through Underwriting, the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks
  
- (2) By investing the premiums they collect from insured’s.

---

<sup>8</sup> [http://www.sbp.org.pk/publications/FSA-2003/Chapter\\_5.pdf](http://www.sbp.org.pk/publications/FSA-2003/Chapter_5.pdf)

<sup>9</sup> <http://en.wikipedia.org/wiki/Insurance> (April 20,2007)

The most difficult aspect of the insurance business is the underwriting of policies. Using a wide assortment of data, insurers predict the likelihood that a claim will be made against their policies and price products accordingly. To this end, insurers use actuarial science to quantify the risks they are willing to assume and the premium they will charge to assume them. Data is analyzed fairly and accurately to project the rate of future claims based on a given risk. Upon termination of a given policy, the amount of premium collected and the investment gains thereon minus the amount paid out in claims is the insurer's underwriting profit on that policy. From the insurer's perspective, some policies are winners (i.e., the insurer pays out less in claims and expenses than it receives in premiums and investment income) and some are losers (i.e., the insurer pays out more in claims and expenses than it receives in premiums and investment income). Insurance companies also earn investment profits on "float". "Float" or available reserve is the amount of money, at hand at any given moment that an insurer has collected in insurance premiums but has not been paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest on them until claims are paid out.

### **Importance of Insurance Sector**

Insurance companies provide cover against a variety of risks. In this process they mobilize millions of rupees premium part of which goes towards reinsurance, claims payment and management expenses but a substantial percentage is reinvested. Therefore, these companies also play very import role in capital formation as well as providing much needed liquidity to the stock market.

Life insurance companies play a very important role in the economic growth of the country. A few of the positive effects towards the economic growth are:

#### **Savings:**

Life insurance companies develop the good habit of savings in people. The funds in the shape of insurance premium from people are invested in business and industry to operate and expand. Naturally the economy booms bring a number of benefits for society.

#### **Maintaining the Standard of Living:**

The life insurance helps people maintain the standard of living. It provides financial protection along with savings in the event of any tragedy in a family.

**Employment Opportunities:**

Life insurance companies provide numerous job opportunities and plays positive role in society to reduce unemployment. A life insurance company is a huge project where recruitment process never stops. Insurance companies provide employment to large number of people every year and the process continues whole of the year.

**Contribution towards GDP Growth:**

Insurance sector contributes largely towards the GDP growth of the country. The following table shows the statistics up to year 2005-06.

<b>Sectoral Share in GDP (at constant factor cost)</b>						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Finance & Insurance	3.1	3.5	3.3	3.4	4	4.6

*Source: Pakistan & Gulf Economist, Dec 11-17,2006*

The recent data that we have collected from the Economic survey of Pakistan, 2006-07 shows that:

“The services sector account for 53.3 percent stake in the GDP. It consists primarily of wholesale and retail trade; transport, storage and communications; and financial and insurance services. *Finance and insurance sector* spearheaded the growth in the services sector and registered stellar growth of 18.2 percent during the current fiscal year 2006-07. Finance and insurance sector remained major driver of the growth in the services sector for the last three years and the growth has touched 30.8%, 33.0% and 18.2%, respectively in these three years. Growth in the services sector in 2006-07 was primarily attributable to strong growth in the finance and insurance sector, better performance of wholesale and retail trade, as well as social services sector.”<sup>10</sup>

---

<sup>10</sup> Economic Survey of Pakistan 2006-07



# Chapter # 2

## Market Overview

### Topics Covered:

- Structure of Insurance industry
- Market Overview
- Products' Analysis
- Market Access

## **Structure of Insurance Industry**

The insurance sector in Pakistan tends to be highly Oligopolistic, with the top two insurers (Adamjee and EFU) accounting for 61% of the industry's total premiums, and the top five for 78%.<sup>11</sup>

### **Oligopoly**

“A market structure in which a few firms sell either a standardized or differentiated product, into which entry is difficult, in which the firm has limited control over product price because of mutual interdependence, and in which there is typically non-price competition.”<sup>12</sup>

### **Market Overview**

Insurance Industry in Pakistan comprises of 59 insurers, including five foreign operators along with Pakistan Insurance Corporation, National Insurance Corporation (NIC) and State Life. At present four life insurers, two local (EFU & Metropolitan) and two foreign: Commercial Union (CU) and American Life Insurance Company (Alico) are operating within the country. Out of the five foreign operators three are U.S. based firms namely American Life Insurance Company, New Hampshire and American Insurance Corporation.

To promote the development of the national insurance industry, Pakistan Insurance Corporation (PIC) was established in 1952 through a statute. The main objective of this public sector corporation was to provide new insurance companies with financial and technical assistance. Pakistan Insurance Corporation is a state-owned enterprise and is basically a re-insurance company.

A few insurance companies dominate the insurance industry in Pakistan. The major players are Adamjee, Eastern Federal Union (EFU), and New Jubilee. Adamjee is the largest non-life insurance company in Pakistan. In 1996, Adamjee accounted for 41% of the industry's gross premium and 43% of the total profits. It is the largest insurance company in Pakistan's highly profitable non-life insurance sector. Widely recognized as one of the best-managed local companies in Pakistan, Adamjee has never missed a single dividend since 1964, which has grown at a rate of 17.2% since 1970. The insurance sector in Pakistan tends to be highly oligopolistic, with the top two insurers

---

<sup>11</sup> <http://strategis.ic.gc.ca/epic/site/imr-ri3.nsf/en/gr-94452e.html>

<sup>12</sup> Economics: McConnell/ Brue, 16<sup>th</sup> edition

(Adamjee and EFU) accounting for 61% of the industry's total premiums, and the top five for 78%.<sup>13</sup>

### **Market Trends**

Various insurance companies are coming up with investment, education, Security plans, group insurance schemes, loan protection, and Life Care plans. Schemes involving cross promotions like AIG New Hampshire Insurance Company and Mobilink joining hands to introduce a car insurance policy for Mobilink GSM customers, protection plans of AIG with ANZ of writing off credits of ANZ card holders incase of accidental deaths, lucky draws with Emirates Airlines to enable customers to win free return tickets of Dubai are all part of the new and improved schemes on part of these insurance companies. Such schemes are developing a sense of healthy competition in the market.

Efforts are also underway to improve the overall performance of the insurance industry. These efforts include the formation of a task force that has put forward proposals to amend certain provisions of the Insurance Act, 1938 in line with the present economic conditions and realities. On the internal side, insurance companies will have to step up their marketing and market research efforts to reach wider population. Outside the industry, overall improvement directly in the economy is a prerequisite for this industry to truly flourish. This is because improvement in the insurance sector is directly correlated to the increase in per capita income levels, saving rates, and inflation.

### **Pricing**

The insurance packages offered by current firms are competitively priced. There are premium offerings for the higher-income groups, similarly there are customized offerings for the middle-income groups. Price is an extremely important factor because insurance is considered more of a luxury than a necessity by majority of the people due to their low purchasing power.

### **Industry Challenges**

Life insurance sector faces many challenges including lack of awareness of life insurance as a potential source of investment. Low savings rates and poor economic

---

<sup>13</sup> <http://strategis.ic.gc.ca/epic/site/imr-ri3.nsf/en/gr-94452e.html>

conditions are main barriers to improvement in this sector. The life insurance companies have also done a poor job in marketing themselves as an investment opportunity. Furthermore, there is a wide range of competing investment schemes and savings accounts with banks and other financial institutions that offer returns on investments far better than those on the life insurance investments. Tax incentives directly impact insurance volumes and lack of such incentives has a negative impact on insurance volumes.

### **End-User**

End users of the insurance services offered are head of the household, the main wage earners who are technical professionals, industrial workers, laborers or executives, owners and managers and entrepreneurs. The Life market can be divided into two categories: the Group Life market and the Individual Market. The more common and profitable one is the Group Life which involves insuring employees of an organization and hence as many policies. On an individual basis such policies are offered but insurance companies concentrate more on the Group Life market.

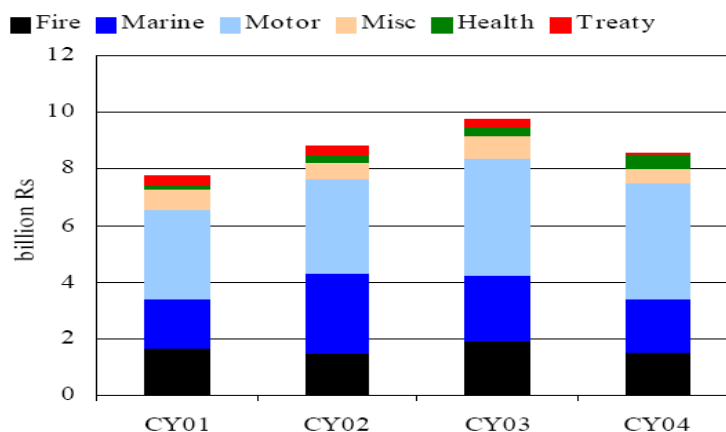
### **Products' Analysis**

#### **Marine insurance**

Marine insurance is a legal requirement and is included in the cost of all imports. Marine insurance is associated with trade of goods and services. Marine insurance usually increases with the increase in imports and exports of goods. Keeping in mind the economic performance of the country in past few years and looking at future economic indicators, it is expected that business activities would continue to grow and there would be more Import/ Export of goods due to trade agreements with different countries. Hence, Marine Insurance business would flourish.

We hope that, Insha Allah, Pakistan would be doing well economically in future. Marine insurance constitutes major portion of Non-Life Insurance business in Pakistan. (See Fig below)

**Fig- Composition of Net Premiums**



*Source: State Bank of Pakistan, Insurance Sector Review 2004*

### **Automobile Insurance**

The huge potential for automobile insurance is yet to be exploited as less than 5 % of the total vehicle population carries a comprehensive insurance.<sup>14</sup> In the past due to increased car thefts the bulk of new car owners now choose to buy comprehensive insurance. This has resulted in a fierce competition between the general insurers to acquire the share of the lucrative business. The automobile or motor insurance in the past years has increased dramatically; this was due to the rapid growth in car loans in the recent past, motor insurance premiums have also increased.

### **Fire Insurance**

Fire insurance is mainly required by the construction and industrial sector. Higher the growth in industrial infrastructure, the more is the fire and allied insurance business for insurance companies. The country has started moving towards Industrialization. This is made possible by the present Government reforms that brought the confidence of foreign and local investor back. They are more ready and willing to invest now as they were in the past. With the growth in industrial infrastructure in past 7 to 8 years, Fire insurance business has grown over the years.

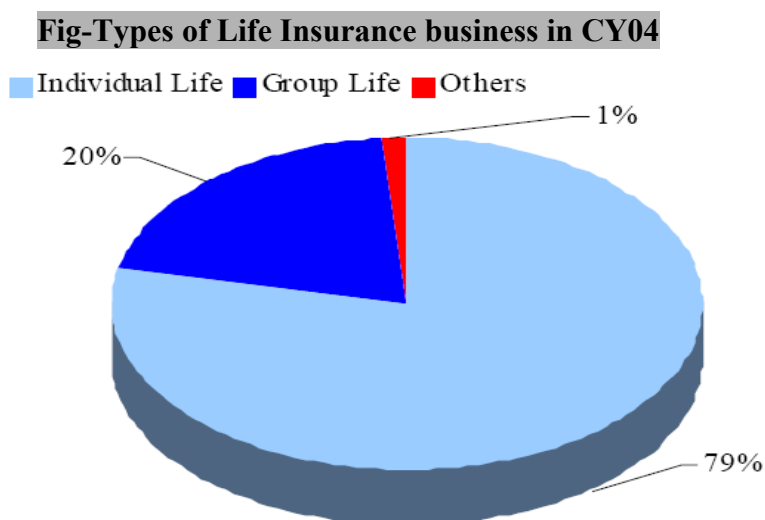
---

<sup>14</sup> State Bank of Pakistan, "Insurance Sector Review 2004"

### **Life Insurance Products**

Life insurance business in Pakistan is concentrated in a few areas (see **Figure below**) according to “Insurance Sector Review 2004<sup>15</sup>”. The combined share of individual life and group life business comprises 99 % of the total gross premiums, whereas the other types of life insurance products such as pension, annuity, and accidental & health insurance are not so popular. Within the individual life and group life insurance businesses, conventional plans such as endowment plan, term plan and whole life plan are the dominant products in the industry.

If we look at the Fig. below and the information gathered from Insurance sector review, we can easily conclude that there exists a huge potential in Health Insurance, accidental and pension, the remaining products of Life Insurance side. Historically, life insurance companies in Pakistan mainly focused on individual life and group life business. The share of other types of businesses remained almost negligible in the total business. So this potential could be explored as there is still a lot of room for business in this area.



*Source: State Bank of Pakistan, Insurance Sector Review, 2004*

---

<sup>15</sup> State Bank of Pakistan, “Insurance Sector Review 2004”

## **Market Access**

In the past factors that have hindered the entrance or smooth functioning of foreign operators have been the political instability and taxation issues.

There are certain taxes that the government had imposed on the profitability of insurance firms including the requirement to invest 5 % of their profits in government securities or stocks and bonds. The new regime plans to introduce changes in the taxation policy that will benefit the insurance industry.

In general, the insurance business is done through the following channels:

- Direct Sales Force
- Advertising
- Tele marketing
- Direct Mail
- Internet marketing
- Banks

Training and education is an integral part of the life insurance business. Besides basic training courses, advanced courses and workshops are also conducted on regular basis for all categories of employees. Successful insurance firms are notable due to their contribution to the marketing culture through very powerful media campaigns, imaginative commercials, and public service messages on environment and narcotics that have won wide acclaim.

If we look at the table shown below, we got a clear idea that where our insurance industry is standing at the moment. Comparing our insurance industry with that of developed countries like UK, Canada and USA, we can easily conclude that our insurance industry is still in infancy. It is negligibly small as compared to others. The percentage figure of collective premium our insurance sector collected consolidates that we have a long way to go.

<b>LIFE &amp; NONLIFE INSURANCE PREMIUMS, 2005</b>				
(Direct premiums written, U.S. \$millions)				
<b>Country</b>	<b>Non Life Premiums</b>	<b>Life Premiums</b>	<b>Total Premiums</b>	
			<b>Amount</b>	<b>%age of Total</b>
Bangladesh	\$115	\$245	359	0.01%
Canada	44,267	34,456	78,723	2.3
Chile	1,711	2,807	4,519	0.13
China	20,539	39,592	60,131	1.76
India	4,848	20,175	25,024	0.73
Indonesia	1,968	2,303	4,271	0.12
Iran	2,291	150	2,441	0.07
Malaysia	2,432	4,795	7,227	0.21
Norway	6,723	9,400	16,124	0.47
Oman	247	45	292	0.01
<b>Pakistan</b>	<b>436</b>	<b>297</b>	<b>733</b>	<b>0.02</b>
Saudi Arabia	1,385	17	1,402	0.04
Sri Lanka	195	144	339	0.01
UAE	1,526	336	1,862	0.05
UK	100,629	199,612	300,241	8.76
USA	625,838	517,074	1,142,912	33.36
<b>Source: Pakistan &amp; Gulf Economist, December 11-17, 2006</b>				



# Chapter # 3

## Islamic Insurance

### Topics Covered:

- Takaful (Islamic Insurance)
- Insurance in Islamic History
- Re-Takaful
- Re-insurance

## **Islamic Insurance (*Takaful*)**

Islamic insurance is founded on the cooperative principle. Policyholders' premiums, which are considered to be donations, form the general fund from which any claims are met. At the end of the year, any remaining cash surplus (after deduction of expenses) is not kept by the company or its shareholders, but returned to the policyholders in the form of cash dividends or distributions.

In this respect, Islamic insurance business is different from the conventional form in which the shareholders, rather than the policyholders, benefit from the profits generated by the sale of insurance products and services and by insurance investment assets.

Insurance investment assets which are represented by insurance funds that accumulate over the retained surpluses reserves, provisions and so on are invested by the company's shareholders on behalf of the policyholders. The shareholders are rewarded with a percentage of the profit on these investments, as distinct from the insurance business.

It follows that Islamic insurance is founded on the principle of a separation between the funds and operations of shareholders and policyholders, thereby passing the ownership of the insurance funds and operations to the policyholders.

An area of major growth now is the Islamic alternative to life insurance, known as *Takaful*. This is fully compatible with Islamic principles. The main purpose of this form of insurance is to protect families from the financial hardships that may occur if the breadwinner goes unexpectedly or is permanently disabled as a result of illness or accident.<sup>16</sup> (*For Issues Takaful companies may face, refer to Annexure III*)

## **Insurance in Islamic History<sup>17</sup>**

In the Islamic history, the idea of insurance was mainly reflected in the various schemes of mutual help and assistance whenever a calamity or misfortune struck a person. In some cases it was an arrangement of compensating for the evil deeds of a member of group or tribe by all the other members, or by an individual rich member

---

<sup>16</sup> [http://www.qiic.net.qa/English\\_Pages/News/2007/Feb/article2.html](http://www.qiic.net.qa/English_Pages/News/2007/Feb/article2.html)

<sup>17</sup> <http://www.financeinislam.com/article/7/1/304>

who volunteered to do so, 'Insurance' was therefore, not a business for profit-making but a means to help the needy on a voluntary gratuitous basis.

'*Aqila* was a well-known pre-Islamic notion, which Islam also approved, where all the members of a family or tribe mutually pooled their resources to ransom a member of the family or tribe who had committed a murder. They helped to pay the *diya* (blood-money) to the next-of-kin of the person killed in order to save the culprit from retaliation.<sup>18</sup> Merchants of *Makkah* used to have a scheme to compensate business-expedition losses and also those who suffered through natural hazards.<sup>19</sup>

"Even before the Ministry of *Muhammad (S.A.W.)* the *Makkan* merchants had formed a fund to help the victims or survivors of natural hazards or disasters during their trading journeys to Syria, Iraq and other countries. It so happened that once, when *Muhammad (S.A.W.)* was engaged in trade in *Makkah*, a whole trading caravan, apart from a few survivors, was lost in the desert. The managing board, composed of the members of the contributory fund, decided to pay the price of the merchandise, including the value of camels and houses destroyed, to the survivors and families of those who perished in the disaster out of the common fund. *Muhammad (S.A.W.)*, who was trading with the capital of *Khadijah*, had also contributed to that fund from his profits."<sup>20</sup>

Daman khatr al-tariq (surety for hazards on highway) is cited by Mustafa al-Zarqa in support of insurance. If one person asks another to take a particular route and says it is safe and he stands surety for any loss, then he would be so liable if some loss is incurred by the second person.<sup>21</sup>

Some other ways in which the idea of mutual help and amity was realized were<sup>22</sup>:

- (i) '*aqd muwalat* (contract of mutual amity);
- (ii) *hilf* (confederate)—where all mutual help was guaranteed through an agreement between persons; and
- (iii) The acceptance of a person by a tribe or family as one its own class or community for every calamity that might come to him.

---

<sup>18</sup> Schacht. Joseph. *An Introduction to Islamic Law*, (Oxford, 1964) p. 186

<sup>19</sup> Nawawi. *Minhaj al-Talibin*. (Eng. tr. by E.C. Howard. (London 1914) 420-28

<sup>20</sup> Afzal-ur- Rahman. *Banking and Insurance (Economic Doctrines of Islam)*. Vol. IV (London, 1979)

<sup>21</sup> Mustafa Zarqa. '*Aqd al Tamin*. pp. 32ff (Damascus. 1962)

<sup>22</sup> Muslehuddin, *Insurance and Islamic Law* (New Delhi 1982)

It is recorded by Ibn Abidin that during the last century there was a marine insurance known as *sowkrah* practiced in the Ottoman Empire:

"It is customary for merchants that when they hire ships from some *harbi* (a non-Muslim of a non-Muslim country), then in addition to freight charges an additional specified amount is paid to enable the *harbi* to arrange with another *harbi* the safe transportation of the cargo. The *harbi* who peacefully resides in the Islamic country acts as agent responsible for shipping of cargo. If the cargo suffers some loss as a result of fire, ship-wreck, or piracy, then the (harbi) agent makes good the loss in lieu of the fees paid (earlier for this purpose)."<sup>23</sup>

## **Reinsurance<sup>24</sup> & its types**

Reinsurance is a transaction whereby a reinsurance company (re-insurer) indemnifies the risks underwritten by other insurance companies (insurers) by covering the entire risk or some part of it under different kinds of policies. The insurance company pays a premium for the services provided by a reinsurance company. Since the function of insurance is to spread risks, the reinsurance company further broadens the risk by extending its coverage to other reinsurance companies. Traditionally, there are two types of reinsurance facilities, Facultative reinsurance and Treaty reinsurance.

**Facultative:** This mainly refers to large-scale risks. Insurance companies which originally underwrite the risks, offer to reinsure it. The reinsurance company after reviewing the associated risk may either accept or reject the proposed offer.

**Treaty:** In contrast to Facultative reinsurance, Treaty insurance covers the overall business of an insurance company. In this case, it is obligatory for the reinsurance company to accept all the risks that are present in the overall business offered by the insurance company. The benefit of Treaty insurance is that it reduces the cost of analyzing individual risks for the reinsurance company, due to which it is less costly than Facultative arrangements.

---

<sup>23</sup> Muhammad Taqi Amini. *Maqalat-i-Amini*. (Aligarh Muslim University, 1970) 209-215

<sup>24</sup> Pakistan: Financial Sector Assessment 2004

## **Re-Takaful**

As Islamic Insurance is named Takaful, Islamic Insurance is named Re-Takaful. There is not a single company that facilitates to the needs of Takaful operators. Takaful operators have to re-insure their business internationally.

# Chapter # 4

## BancAssurance

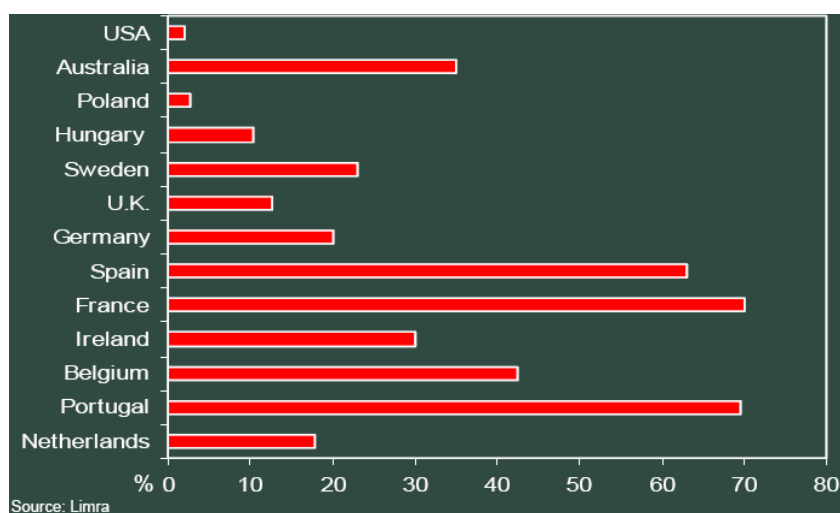
### Topics Covered:

- What is Bancassurance
- Why Bancassurance
- Forms of Bancassurance
- Bancassurance in Pakistan
- Future of Bancassurance

## **Bancassurance**

“Bancassurance” in French means the selling of insurance products by banks through their own distribution channels.<sup>25</sup> It is not very familiar term in Pakistan. Bancassurance was first started in Europe and now this concept is being borrowed by the Asian banks and insurance companies.

The table<sup>26</sup> below shows the Bancassurance life distribution market range in different countries:



In Europe, Bancassurance has got tremendous success that is the reason why Insurance companies are more inclined to avail this link. Government of Pakistan also seems to be supporting this concept and this time looking very serious to increase the insurance penetration in the country. “Government has recently allowed private banks holding 70% or more Equity to set up their own insurance companies with the same name.”<sup>27</sup> The trend now seems to be changing as the operations of both banks and the insurance companies are being merged and both are offering almost similar kind of products to their customers. There has been very thin line separating the bank operation with that of insurance companies.

---

<sup>25</sup> Jamshaid Islam, Deputy General Manager, EFU Life Insurance

<sup>26</sup> Nadeem Malik, Group Manager, ALICO

<sup>27</sup> PAGE Magazine, June 25- July 1,2007 Ed, article by A.M.Talha

The example of Bancassurance could be, ABN AMRO bank offering mobile insurance to their credit card holders. Similarly, the agreement<sup>28</sup> between Khushhali Bank and NJI life could be termed as Bancassurance. Adamjee Insurance company plans to sell its insurance products with the help of MCB bank. These are all examples of Bancassurance in Pakistan.

### **Why Bancassurance**

Here, we will try to find out that why Bancassurance has been a tremendous success in different countries.

### **Benefit to Banks**

There are number of factors that can lead to the development and success of bancassurance. For Banks the driving factors have been:

- Increased profit; Bancassurance offers another area of profitability to banks with little or no capital outlay.
- High return on Equity
- Complete financial services under one roof, a competitive edge
- Opportunities for sophisticated product offerings
- Opportunities for greater customer lifecycle management
- Diversification; by entering insurance business and generating more revenue from existing relationships
- Banks can use their database to entice customers for buying insurance products
- Bank aims to increase percentage of non-interest fee income
- Maximum Asset utilization i.e. office, manpower etc.
- Enhance loyalty. As Life insurance contracts are long term in nature so banks can establish long term relationship with their customers and benefit from that. They can retain and increase their customer base by offering life insurance products.

---

<sup>28</sup> Pakistan & Gulf Economist, June 25- July 1,2007 Ed



- Low distribution cost to the bank would allow them to offer insurance products at low premium attracting more customers
- “Life insurance is basically a saving market. So it is one of the methods to increase deposits of banks”<sup>29</sup>

### **Benefit to Insurance Companies**

For insurance companies, Banks offer an untapped and successful mode of distribution. Take the example of 5 major banks in the country i.e. HBL, NBP, UBL, MCB, ABL. These banks have built their own brand image with the passage of time. Majority of middle income and lower income groups are attached to them for their banking needs. They have wide presence throughout the country. If these banks start offering insurance products to their customers at affordable rates, like ABL and others have started doing, they are more likely to attract more customers. Same is the case with other banks offering services in different continents of world. It is assumed that customers trust banks more than insurance companies.

Bancassurance also offers lower distribution costs and higher productivity. In the past, sales of insurance product were only through the sales agents and it took very long for a sales agent to find out the potential buyer and to persuade it to buy insurance. This involves lot of time and effort due to low insurance literacy in the country and certain apprehensions present in the mind of customer. Banks on the other hand provide a cheaper and highly productive distribution system to insurance companies. “The typical productivity per producer in bank sales is 20-30 per month. The reason is that no amount is spent on persuading and a ready market is available with the cooperation of the bank.”<sup>30</sup>

### **Benefit to Customers**

- Bancassurance offers convenience and a one-stop financial service providing
- The customer is cashing/ benefiting from his long term relation with the bank
- The products sold through bancassurance can give better value with economical premiums due to lower distribution costs.

---

<sup>29</sup> <http://www.ibexi.com/papers/Bancassurance.pdf>

<sup>30</sup> <http://www.sbp.org.pk/report/Annex%20%96%20IXa.pdf>

- Enhanced convenience on the part of the insured
- Easy accesses for claims, as banks are a regular go.
- Innovative and better product ranges

According to an expert<sup>31</sup>, sale of new insurance policies through banks will be the major source of business in the times to come. We also hope that Bancassurance would open new window of business for insurance companies and increase insurance penetration in the country further thus giving Win-Win solution to all the participants of Bancassurance. *(For Issues & Critical Success factors relating to BancAssurance, refer to Annexure II)*

### **Forms of Bancassurance Arrangements**

Different types of Bancassurance arrangements are as follows<sup>32</sup>:

#### **Strategic Alliance**

Under a strategic alliance, there is a tie-up between a bank and an insurance company. In this kind of Alliance, bank only do the marketing part of insurance products. Selling of insurance products is not done by the bank in this kind of arrangement.

#### **Full Integration**

In this kind of arrangement, there is a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider of financial solutions according to customer needs. Bank controls sales as well as insurer service including approach to claims.

#### **Mixed Models**

Under this approach, the marketing is done by the insurer's staff and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company. The approach requires very little technical investment.

### **Bancassurance in Pakistan**

Bancassurance in Pakistan is not completely non-existent. Life insurance companies have worked with banks on various insurance products, but all these arrangements have been short of a true Bancassurance arrangement.

---

<sup>31</sup> Sadaf Aurangzaib, "Credit Life Insurance", PAGE, June25-July1,2007

<sup>32</sup> [www.ficci.com/media-room/speeches-presentations/2005/feb/actuaries/feb15-actuaries-Jamshaid-Islam.PPT](http://www.ficci.com/media-room/speeches-presentations/2005/feb/actuaries/feb15-actuaries-Jamshaid-Islam.PPT)

Currently, there is an emerging trend to get the account holders insured by many banks. Insurance companies now have started working in collaboration with banks in order to offer tailored and customized products keeping in view the trends and needs of customer base. For example, ABN-AMRO bank felt that its credit card holders are in need of insurance, thus they introduce mobile insurance for their credit card holders. This insurance incentive may be used to increase the credit card sales and may act as a promotional tool for bank; on the other hand, insurance companies got their sales increased. The point here is that bank has very rightly identified the need of its customers and offered a value added product to their customers. So, this is the need of hour that banks rightly identify the needs of their customers and provides them with the required insurance product thus increasing sales of insurance products as well as insurance literacy.

### ***Future Direction***

The future of Bancassurance in Pakistan is bright. If we look at the success of Bancassurance in Europe and its increasing demand in South East Asia, we can say that Bancassurance, in near future, can capture a considerable share in the insurance market of Pakistan. The bancassurance market in the country is still in its infancy and the opportunities for both banks and insurance companies are immense. The first to offer innovative and unique products to its customer is more likely to capture major portion of pie and could have a competitive edge over its competitors.

# Chapter # 5

## Current Scenario

### Topics Covered:

- Insurance companies in Pakistan
- Insurance sector growth in recent years
- Major Players in the market

## **Insurance Companies in Pakistan**

Followings are the insurance companies operating in Pakistan.<sup>33</sup> The list includes both Life and Non-life insurance companies.

### ***Life Insurance Corporations***

#### **Public**

1. Postal Life Insurance
2. State Life Insurance Corporation Ltd.

#### **Private**

1. American Life Insurance Company Ltd.
2. Commercial Union Life Assurance Company Ltd.
3. E. F. U. Life Insurance Company Ltd.
4. Metropolitan Life Assurance Company Ltd.

### ***Non-life Insurance Corporations***

#### **Public**

1. National Insurance Corporation
2. Pakistan Reinsurance Company Ltd.

#### **Private**

1. Adamjee Insurance Company Ltd.
2. Agro General Insurance Company Ltd.
3. Allianz EFU Health Insurance Company Ltd.
4. Alpha Insurance Company Ltd.
5. Asia Insurance Company Ltd.
6. Asian Mutual Insurance Company Ltd.
7. Askari General Insurance Company Ltd.
8. Beema Insurance Company Ltd.
9. Business & Industrial Insurance Company Ltd.
10. Capital Insurance Company Ltd.
11. Central Insurance Company Ltd.
12. Century Insurance Company Ltd
13. Co-operative Insurance Society of Pakistan Ltd.

---

<sup>33</sup> [http://www.sbp.org.pk/departments/stats/Insurance\\_Guide/ANNEXURE-II.pdf](http://www.sbp.org.pk/departments/stats/Insurance_Guide/ANNEXURE-II.pdf)

14. Credit Insurance Company Ltd.
15. Crescent Star Insurance Company Ltd.
16. Dadabhoy Insurance Company Ltd.
17. Delta Insurance Company Ltd.
18. E. F. U. General Insurance Company Ltd.
19. East West Insurance Company Ltd.
20. Excel Insurance Company Ltd.
21. Gulf Insurance Company Ltd.
22. Habib Insurance Company Ltd.
23. Indus International Insurance Company Ltd.
24. International General Insurance Co. of Pakistan Ltd.
25. Ittefaq General Insurance Company Ltd.
26. Jupiter Insurance Company Ltd.
27. Muslim Insurance Company Ltd.
28. National General Insurance Company Ltd.
29. New Jubilee Insurance Company Ltd.
30. North Star Insurance Company Ltd.
31. Orient Insurance Company Ltd.
32. Pakistan General Insurance Company Ltd.
33. Pakistan Guarantee Insurance Company Ltd.
34. Pakistan Mutual Insurance Company Ltd.
35. Platinum Insurance Company Ltd.
36. Premier Insurance Company Ltd.
37. Prime Insurance Company Ltd.
38. Raja Insurance Company Ltd.
39. Reliance Insurance Company Ltd.
40. Seafield Insurance Company Ltd.
41. Security General Insurance Company Ltd.
42. Shaheen Insurance Company Ltd.
43. Sliver Star Insurance Company Ltd.
44. Union Insurance Company of Pakistan Ltd.
45. United Insurance Company of Pakistan Ltd.
46. Universal Insurance Company Ltd.

## **Foreign**

1. ACE Insurance Aid Pacific Ltd.
2. CGU Assurance Company Ltd.
3. New Hampshire Insurance Company Ltd.
4. New Zealand Insurance Company Ltd.
5. Royal & Sun Alliance Assurance plc.

## **Takaful Companies**

- 1- Pak- Kuwait Takaful Company

## **Insurance Sector Growth**

“As of 30 June 2005, there were fifty-five private sector insurance companies operating in the country, of which four were foreign while fifty were local enterprises while one company was registered as Takaful operator. Of the fifty local companies, forty-eight were engaged in non-life insurance business and two in life insurance business. In case of foreign insurers, two companies operated in non-life and two in life insurance sectors. As of the close of the year, thirty-four companies were listed on the KSE, having paid-up capital of Rs.5,687 million excluding National Insurance Company Limited (NICL).”<sup>34</sup>

### **i. Non-life Insurance**

“The private sector, non-life insurance business was largely dominated by top ten insurance companies, which accounted for almost 84 percent of the total premium written by the sector. The total gross direct premium written by non-life insurance companies, excluding that by the state owned NICL, increased by 16 percent to Rs.18.05 billion during the year ended 31 December 2004. Of this amount, Rs.15.18 billion was written by the ten largest insurance companies while thirty-two companies underwrote the balance of Rs.2.88 billion. The premium underwritten by NICL during the year amounted to Rs.4.01 billion.

Fire and property damage insurance portfolio of non-life insurance sector increased to Rs.7.26 billion while marine, aviation and transport insurance increased to Rs.5.29

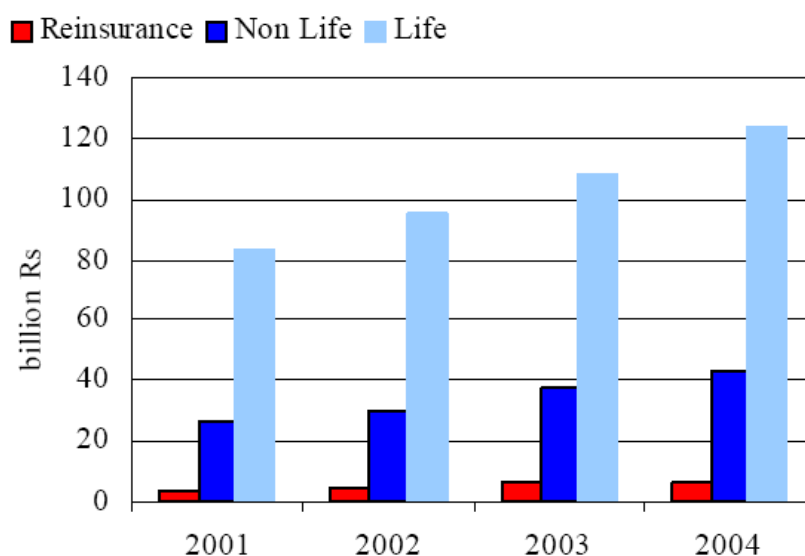
---

<sup>34</sup> SECP,[[www.secp.org.pk](http://www.secp.org.pk)]

billion. The motor business insurance, accident and health and miscellaneous insurance increased to Rs.6.6 billion, Rs.0.85 billion and Rs.1.65 billion respectively, during the year ended 31 December 2004. The underwritten profit/loss of the non-life insurance sector is estimated to Rs. 2.471 billion.

During the year ended 31 December 2004, total assets of non-life insurance sector increased by 16.3 percent to Rs.43.468 billion (*see figure below*). Investments in shares and debentures, including government securities, constituted the largest component. As compared to the previous year, investments showed an increase of 9.2 percent, rising to Rs.16.249 billion during the year.”<sup>35</sup>

### Assets of Insurance & Re-Insurance Industry



*Source: State Bank of Pakistan, Insurance Sector Review 2004*

## ii. Life Insurance

### State owned companies

The public sector in insurance industry comprised of four state owned entities namely, State Life Insurance Corporation of Pakistan (SLIC), NICL, Pakistan Reinsurance Company Limited (PRCL) and Alpha Insurance Company Limited. The latter is the subsidiary of SLIC. While SLIC is engaged in life insurance business, NICL provides

<sup>35</sup> Financial sector Assessment 2004: source SECP

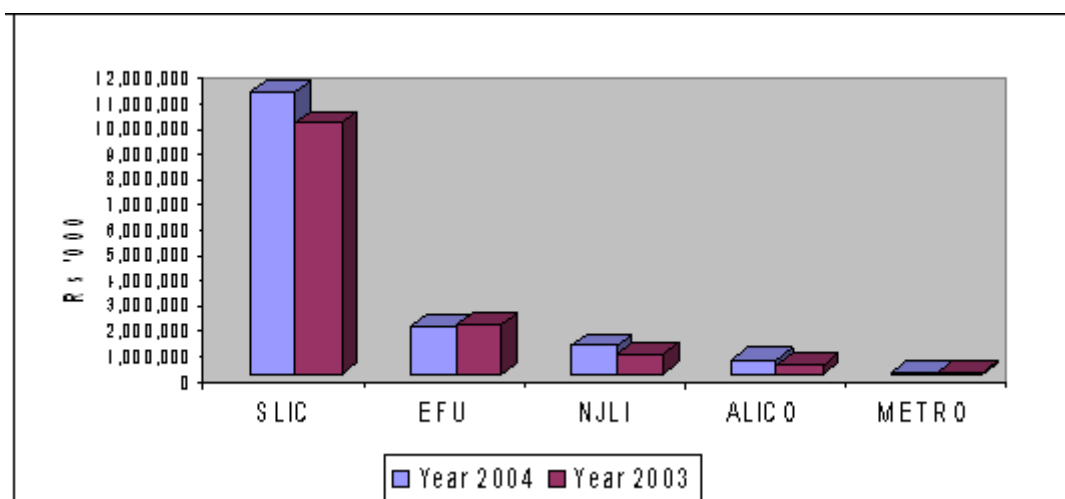


non-life insurance coverage to public sector entities. PRCL remains the only local entity in the business of reinsurance.

## 2004 Statistics

During the year 2004<sup>36</sup>, SLIC remained the major share holder by total gross premium with 76 percent market share followed by EFU Life with 13 percent. The remaining 11 percent market is shared by New Jubilee Life Insurance Company, American Life Insurance Company and Metropolitan Life. The total premium of life insurance sector has shown a growth of around 12 percent from Rs.12,990 million in 2003 to Rs.14,583 million in 2004. Assets of the life insurance companies grew by almost 15 percent to Rs.123.9 billion during the year 2004. Major portion of the assets were invested in government securities and listed equities.

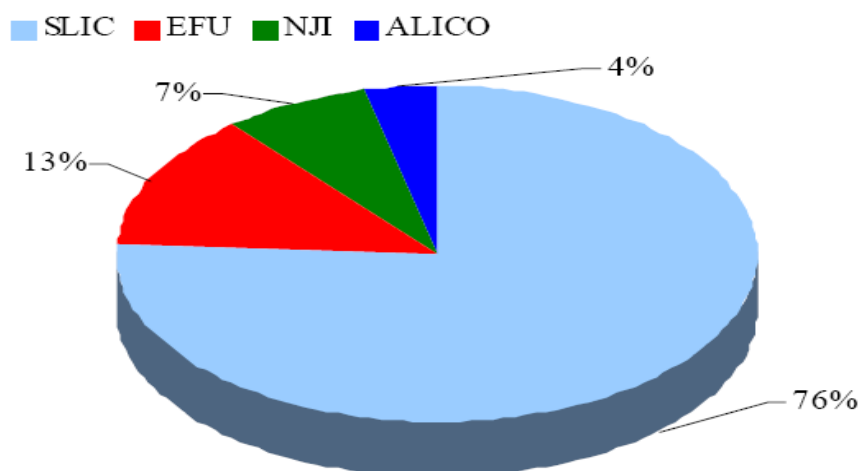
**Fig– Gross Premium Written by Life Insurance Companies**



Source: State Bank of Pakistan: Financial sector assessment 2003-04

<sup>36</sup> State Bank of Pakistan; Financial Sector Assessment 2003-04

**Fig – Share of Life Insurance Companies in Gross Premium during Year 2004**



Source: State Bank of Pakistan: Financial sector assessment 2003-04

## **Major Players**

Although there are American, French and English companies active in the market, Pakistani companies end up doing most of the business. Besides State Life Insurance Corporation, Pakistani companies handle all other aspects of insurance except life insurance. The dominant foreign players in the market are: ALICO, Eastern Federal Union and Commercial Union. New Hampshire and Metropolitan are also significant names.

## **State Life Insurance Corporation<sup>37</sup>**

In order to know about the company and its brief history, refer to Annexure I.

### ***Product offerings***

Followings are the insurance types being offered

#### **Individual Life Plans**

- Whole life assurance
- Endowment assurance
- Sadabahar plan
- Anticipated endowment assurance
- Shad Abad Assurance
- Jeevan Sathi Assurance

---

<sup>37</sup> PAGE Magazine: Dec 11-17,2006

- Child education and marriage Assurance
- Child protection Assurance
- Sunehri policy
- Shehnai policy
- Optional maturity endowment
- Nigehban plan
- Muhafaz plus Assurance
- Supplementary covers

#### **Group Life & Pension Plans**

- Term insurance scheme
- Provident Fund Insurance Scheme
- House Building & Perquisites Insurance Scheme
- Pay continuation scheme
- Group endowment insurance scheme
- Group pension scheme
- Private education

#### **IGI Insurance**

In order to know about the company and its brief history, refer to Annexure I.

#### ***Insurance Products***<sup>38</sup>

##### **Corporate products**

###### Property

- Fire & Allied Perils
- Business Interruption due to fire
- Industrial All Risks
- Money Insurance

###### Marine

- Marine imports
- Marine exports
- Marine inland transits

---

<sup>38</sup> [http://www.aig.com/gateway/home/1-9-Pakistan\\_index.htm](http://www.aig.com/gateway/home/1-9-Pakistan_index.htm)

Energy

Fire & Allied Perils

Business Interruption

Industrial All Risks

Engineering

Machinery breakdown insurance

Contractors All Risks

Erection All Risks

Electronic Equipment Insurance

Automobile

Accident & Health

Personal accident

Travel insurance

Family guard

Liability insurance

Workmen's compensation

Employer's liability

Financial products

Bankers blanket bond

Director & Officer insurance

Professional indemnity

Fidelity guarantee

Small business solution

**Individual products**

Automobile

Home owner's insurance

Travel insurance

Platinum plus

Travel pack

Travel shield

Accident & Health

Personal accident

Family guard

## **New Jubilee Insurance Company Pakistan**

In order to know about the company and its brief history, refer to Annexure I.

### ***Products available***<sup>39</sup>

- Property insurance
- Marine insurance
- Motor insurance
- Engineering insurance
- Bond
- Group health insurance
- Miscellaneous insurance
- PERSONAL line insurance
- Specialized insurance

## **Adamjee Insurance Company Ltd.**

In order to know about the company and its brief history, refer to *Annexure I*.

*(For Interview of C.O.O. Adamjee Insurance Company Ltd, refer to Annexure IV)*

### ***Products***<sup>40</sup>

Retail insurance

Motor

Travel

Bancassurance

Corporate insurance

Marine insurance

Fire insurance

Bankers policy

Exchange Company

Plastic card

Engineering

Miscellaneous

---

<sup>39</sup> <http://www.nji.com.pk>

<sup>40</sup> [http://www.adamjeeinsurance.com/who\\_we\\_are/company\\_profile.aspx](http://www.adamjeeinsurance.com/who_we_are/company_profile.aspx)

Livestock

### **National Insurance Company Limited (NICL)**

In order to know about the company and its brief history, refer to Annexure I.

#### ***Products***<sup>41</sup>

- Fire
- Aviation
- Marine Hull
- Marine Engineering
- Motor
- Travel insurance (including terrorism cover)
- Terrorism Risk Insurance Cover For Property
- Miscellaneous

### **Pakistan Re-insurance Company**

In order to know about the company and its brief history, refer to Appendix.

Followings are the products available:<sup>42</sup>

#### **Fire Reinsurance**

In addition to generally accepting fire risk PRCL also accepts proportional, non proportional and facultative reinsurances' covering following perils: -

- Loss of profits
- Sprinklers leakage
- Explosion
- Thefts and burglary
- Earth-quakes
- Spontaneous combustion
- Riots and civil commotion
- Cyclone
- Storm
- Floods etc. etc.

---

<sup>41</sup> <http://www.nicl.com.pk/services/>

<sup>42</sup> <http://www.pakre.org.pk/Miscellaneous.ASP>

## **Marine Reinsurance**

Sea perils and any extraneous risks usually covered under marine policies (cargo) for inland and trans-ocean shipment and warehouse to warehouse basis including:

- Rail
- Road and air
- Marine full reinsurance

# Chapter # 6

## Insurance Sector: A Comparison

### Topics Covered:

- Insurance in Developed countries
- Differences
- Insurance in U.K
- Insurance in U.S.A.



## **Insurance in Developed Countries**

In this section, we have tried to highlight the major differences that exist in local insurance industry and that of insurance industries in some developed countries in terms of product offerings and number of players there.

### **Where the difference lies**

The world can be segregated in to two sectors i.e. those countries which are educated and advanced and those which are in developing stage. Because of high literacy rate and developed economy, there is a strong overall awareness in the developed countries about insurance needs. On the other hand, the developing countries because of low literacy rate and poor economic conditions are not fully aware of the advantages of insurance or are unable to afford it. It can be judged from the fact that per capita insurance premium is one of the lowest in Pakistan:

<b>Country</b>	<b>Insurance Premium in US \$</b>
Pakistan	2.9
India	16.4
Iran	22.3
Turkey	47.7
U.K	4058.0

Insurance industry in Pakistan is still in its infancy. Due to new entrants in the general insurance sector there is severe competition amongst the insurance companies, rate cutting is very common. Pakistani insurance industry is not more disciplined as compared to industries in developing countries like UK & USA. Furthermore, government stability is one of the major factors that deprived of this sector from growing. In Pakistan, it is a norm to roll back the previous government's decision and policies when the new government takes charge.

In developed countries the situation is altogether different. Per capita income is much above than that of Pakistan's. Their policies are more defined and they are more disciplined in terms of regulations and working conditions over there. Moreover, their insurance industries are not hacked by merely two or three major players, they discourage monopoly. They have proper monopoly control authorities and have set consumer protection rules as well. Taking the example of UK, there are hundreds of

players in the insurance industry who are offering differentiated and customized products to the customers. That is one of the reasons why they have wide variety of product offerings and why those people are well aware of the uses of insurance.

If we look at the figures for India and Iran, we came to know that, being our neighbors and having almost the similar kind of audience, they are ahead of us in terms of insurance sector growth and penetration.

Now we will look at the insurance industry of developed countries very briefly:

### **Insurance in UK**

There are approx.104 main players<sup>43</sup> in the insurance industry of United Kingdom. The products being offered by those major players fall in to following main categories:

#### **Insurance Products in UK**

According to our research, these are the insurance products available in United Kingdom<sup>44</sup>

#### **Motor insurance**

- Car
- Motorcycle
- Breakdown cover
- Young drivers
- Student drivers
- Performance cars
- Specialist car insurance
- Caravan insurance
- Classic car insurance
- Van/ Lorry Insurance
- Int'l car insurance

#### **Property insurance**

- Home
- High value home
- Landlords insurance

---

<sup>43</sup> [www.insuranceworld.com](http://www.insuranceworld.com)

<sup>44</sup> [http://www.insuranceworld.com/business\\_insurance\\_index.html](http://www.insuranceworld.com/business_insurance_index.html)) date: April 18, 2007

Renters/ Home sharing  
Student possessions  
Domestic alliances  
Computer Insurance

### **Travel Insurance**

Travel insurance  
Over 65s travel  
Long trips  
Group travel  
Business trips  
Backpacker travel  
Hazardous activities  
Travel when pregnant  
Golfing trips  
Skiing trips  
Same sex couples

### **Life and financial insurance**

Life insurance  
Mortgage payment protection  
Income payment protection  
Card protections plan

### **Health & lifestyle Insurance**

Health insurance  
Pet insurance  
Wedding insurance  
Boat insurance  
Horse insurance  
Golfing insurance  
Mobile phones  
Bicycle insurance  
Musical instruments  
Camera insurance

## **Business Insurance**

Business liability  
Small office insurance  
Tradesman liability  
Shop insurance  
Home workers  
Professional indemnity  
Landlords insurance  
Computer insurance  
Business travel  
Motor trade road risks

## **Insurance Products in US**

Followings are the basic insurance products available in United States:<sup>45</sup>

### **Individual consumers**

Accident & Health Insurance  
Auto Insurance  
Life Insurance  
Retirement Services  
Travel Insurance

### **Financial Professional**

Annuity  
Life Insurance  
Investment and Financial Services  
Mutual Funds  
Retirement Services

### **Business**

Environmental Coverages  
Life Insurance  
Management Liability  
Primary Casualty  
Professional Liability

---

<sup>45</sup> <http://www.brook.edu/comm/conferencereport/cr17.htm>

Workers' Compensation

**Insurance Professional**

Auto Insurance

Employee Benefits

Life Insurance

Environmental Coverages

Management Liability

Primary Casualty

**Note:**

In the coming section, we will discuss the Alternative Risk Transfer Mechanisms and ART products. These products are available in developed countries like UK, USA and in European countries. At the end, we would try to find out what types of ART are being practiced in our country and what are the remaining ones' that could be included, keeping in view the suitability of each product.

# Chapter # 7

## Alternative Risk Transfer (ART)

### Topics Covered:

- What is ART
- ART products in general
- ART mechanisms in Pakistan
- What is a Captive Company
- Types of Captive
- Why Captives
- Captives in Pakistan

## **Alternative Risk Transfer (ART)**

Initially, “Alternative Risk Transfer” primarily referred to mechanisms for corporations to insure their own risks. This term includes customized risk transfer and risk-financing solutions that may offer some integrated form of multiline and multi-year cover.

There are basically four types of alternative carriers: self-insurance and captives; pools; risk retention groups; and the capital markets.

### **ART Products**

Alternative products are as follows:

#### **1- Finite Risk Insurance**

Finite covers are multi-year contracts’ reducing the client’s cost of capital by means of earnings smoothing. The year-to-year earnings volatility is reduced while limiting the total amount of risk transfer over the contract period.

Finite deals can be structured as pre-funded or post-funded. In pre-funded deals, the client pays either annual or single premiums into an experience account. These funds earn a contractually agreed investment return and are used for eventual loss payments or “flow-back” to the customer. In post-funded deals, clients must pay back the claims payments of the re-insurer over a defined period of time. One basic difference between the two types of deals concerns the allocation of credit risk. The re-insurer bears the risk of the client’s default in a post-funded deal, whereas the client bears the risk of the re-insurer’s default in a pre-funded deal. The main standard types of finite (re)insurance contract are:

- Time and distance
- Loss portfolio transfer
- Adverse development cover
- Spread loss cover
- Financial quota share

#### **2- Weather Derivatives**

Weather derivatives were first introduced in U.S. in August 1997. These derivatives are used to protect the earnings of a utility company whose revenues varied with weather changes.

Although weather derivatives can be based on several weather-related events such as precipitation, wind speed or humidity, most contracts are related to temperature. In temperature contracts, payment is normally based on heating degree days (HDD) or cooling degree days (CDD). In the US, an HDD is the number of degrees by which the day's average temperature is below 65° F. A day with an average temperature of 40° F would count as 25 HDD (65° minus 40°). Similarly a day with an average temperature of 80° F would count as 15 CDD.

Payments of weather derivatives are based on the accumulated value of HDD or CDD over a period of time, usually from a month to a year.

While the US accounts for most of the weather derivative transactions, usage in Europe and Asia is increasing.

The weather derivatives have primarily been used in the energy sector; the potential market for these instruments is enormous. Revenues in industries such as agriculture, construction, tourism, apparel, food and soft drinks are highly weather dependent. According to one estimate, 33% or 3.3 trillion of the US economy is weather sensitive. As this market matures, more industries are likely to use weather derivatives to hedge against the adverse impact of weather variations.

### **3- Committed Capital**

Committed capital, often referred to as contingent capital, is a relatively new type of convergence product, connecting insurance and capital markets. It is based on a contractual commitment to provide capital - in the form of senior debt, surplus notes, and preferred shares, sub prime debt, etc. - to a company after a specific adverse event occurs that causes financial distress. The corporation that purchases the committed capital option has the right to sell its own securities at a pre-set price for a fixed period of time, after the specified event has occurred. The insurance component of committed capital is a trigger, which represents a different risk than the asset underlying the option.

However, it is important to note that committed capital is not an insurance product, but a product that is structured and priced using a combination of insurance and capital market techniques. The economic motivation of the insured corporation is to have access to less expensive capital than it could obtain through capital markets or bank loans after the occurrence of a financially stressful event. The client purchases an option to issue his securities at a predetermined price in the case that the defined



situation occurs. The price for regular funding in the capital markets would be much higher after such an event. Committed capital bridges the gap between full insurance and full self-insurance, since it provides capital for a price, not full coverage for a loss.

#### **4- Credit Securitization**

Credit securitization includes collateralized debt obligations (CDOs), synthetic CDOs, repackaging and portfolio credit default swaps.

The building block of credit securitization is the single-name credit default swap (CDS). A CDS is an agreement between two parties, one a seller of credit protection, the other the buyer of protection. The seller agrees to compensate the buyer if a particular company experiences a credit event - a default on a loan, bankruptcy, etc. The buyer pays an annual premium, expressed in basis points of the value of the underlying reference credit asset, to the seller for this protection. Unlike in insurance, neither counterparty needs to have a direct interest in the reference asset, which is typically a bond or a loan. The actual exposure could be the value of trade receivables or other assets.

Credit securitization involves a portfolio of loans, bonds or other credit assets. The loans, for example, are bundled together and structured as a single portfolio into many layers, each with a credit rating. The credit ratings range from the lowest layer, equity, to the highest, “super-senior” layer, which is rated above AAA. The equity layer is the first loss layer and is usually held by the buyer of credit protection. This minimizes moral hazard. The super-senior layer is the most remote from the default risk, above the AAA layer. The value of losses on the portfolio would have to be more than the cumulative value of all the AAA layers, and those below AAA, before the super-senior layer incurs a loss.

The advantage of these securitized portfolios is that they diversify the credit risk across many single-names, industries, and geographic locations. As a consequence, a well-structured portfolio can be easily sold on the capital markets. Hence, the structurer of the portfolio has the option of retaining or offloading the credit risk. If the risk is retained, there is no need for a special purpose vehicle (SPV), the credit risk can be transferred directly to the protection seller, or insurer via a portfolio credit default swap. If the risk is to be sold to the capital markets, for a typical collateralized debt obligation (CDO), an SPV is created to hold the bonds or loans. Alternatively,

the SPV retains the credit risk through credit default swaps, in a so-called “synthetic” transaction, which does not involve the transfer of the bond or loan portfolio to the SPV.

### **5- Insurance-linked securities**

Insurance-linked securities (ILS) are an innovative way of increasing insurance capacity. These are mostly either catastrophe bonds (CAT bonds) or life bonds.

**CAT bonds** are a mechanism for insurers to transfer catastrophic risk to the capital markets via a bond issue. If the specified catastrophic risk is triggered, the bondholders typically forfeit the interest and the principal on the bond to the insurer.

**Life bonds**, on the other hand, have tended to securitize the premium payments of traditional life insurance policies. As such, the life bonds, though some risk is transferred, they have more of a financing component than CAT bonds. The market for catastrophe bonds originated in the hard market of the early 1990s, post hurricane Andrew.

In a typical CAT bond structure, an insurer issues an interest bearing bond to the capital markets. The payments received are turned over to a special purpose vehicle (SPV), which then issues a conventional reinsurance policy to the insurer. Typically, the funds held by the SPV are given to the insurer if the bond’s specified event is triggered, the interest payments usually cease at this point. Life bonds are typically based on the income flow of premiums from life and savings products. They tend to provide capital to the life insurer, rather than the capital being held by an SPV. In this sense, they have much in common with the securitization of income flows and asset backed securities, such as mortgage- backed securities.

### **6- Structured Finance**

Structured finance is often used to refer to asset-backed securitization of future cash flows from credit card receivables, mortgages, automobile loans, etc. Whereas the markets for some asset-backed securities, such as mortgage backed securities, are highly developed and very liquid in developed countries.

Insurers are interested in assets which have little correlation with their book of business and thus provide risk diversification. They are also interested in assets of industries in which they have underwriting experience, such as:

- Power and energy industries;
- Weather affected industries;

- Telecommunication;
- Intellectual property, movies, patents and royalties;
- Residual value securitization;
- Project finance

Banks have little experience in underwriting and hence participate in well established assets classes such as collateralized mortgage obligations (CMOs), credit cards and student loans. Insurers, however, have more underwriting experience and can analyze new asset classes and price them accordingly. In this market, issuers prefer to buy protection from highly rated institutions, since they have low credit risk. In addition, only the insurers with the skills to analyze the value of the collateral will make a sensible bid for the deal.

### ***ART mechanisms in Pakistan***

Some of the ART mechanisms are being practiced in Pakistan as well. Captive companies are one example of that. Other than the Captives, “Self Insurance” is also common here. The reason is that small and medium sized businesses in Pakistan prefer self insuring themselves by setting money aside in order to cope up some adverse event or situation. Instead of going for buying insurance cover, they prefer it doing so by estimating the potential risks they might have in the future.

The remaining types of ART mechanisms are not very common in the country. CAT bonds and weather derivatives are not available in the country. In the previous few years, Pakistan was hit by many natural calamities, be it a deadly October Earthquake, floods or the havoc by the heavy rains in different parts of country, there is no cover available against such natural calamities and catastrophic events. Insurance companies and Government should come forward to devise such kind of special instruments so that financial burden on the Government could be minimized and people got more awareness about such products.

## **Captive Company**

“A Captive is Insurance or Reinsurance Company owned by a corporation or group of companies which are not active in the insurance business themselves.”

### ***Types of Captive***

There may be different types of Captives as follows:

- 1- Single-parent Captives** only underwrite the risks of related group companies.
- 2- Diversified Captives** underwrite unrelated risks in addition to group business.
- 3- Association Captives** underwrite the risks of members of an industry or trade association. Liability risks, such as medical malpractice, are frequently insured by association captives.
- 4- Rent-a-Captives** are insurance companies that provide access to captive facilities without a corporation needing to create its own captive. The corporation pays a fee for the use of the captive facilities and must provide some form of collateral so that the rent-a-captive is not at risk from any underwriting losses suffered by the corporation.
- 5- Special purpose vehicles** (‘SPV’s) are used in risk securitization. They are reinsurance companies that issue reinsurance contracts to their parent and cede the risk to the capital markets by way of a bond issue.

### ***Why Captives***

Captives are usually formed for some economic reasons with the main drivers being risk management and risk financing. Some of these reasons are summarized below.

- **Lower insurance costs.** A captive may also help reduce insurance costs by charging a premium that more accurately reflects the parent’s loss experience.
- **Cash flow.** The captive may be able to offer a more flexible premium payment plan thereby offering a direct cash flow advantage to the parent.
- **Risk retention.** A company’s willingness to retain more of its own risk, particularly by increasing deductible levels, may be frustrated by the inadequate discount offered by insurers to take account of the increased deductible and by the fact that the company is unable to establish reserves to pay future claims. Establishment of a captive can help address both these problems.

- **Unavailability of coverage.** Where the commercial market is unable or unwilling to provide coverage for certain risks or where the price quoted is seen to be unreasonable, a captive may provide the cover required.
- **Risk management.** A captive can act as a focus for the risk management and risk financing activities of its parent organization. An effective risk management program will result in recognizable profits for the captive. Risk management can be viewed by a captive owner not as a cost centre but as a potentially profitable part of the company's activities. A captive can also be used by a multinational to set global deductible levels by enabling a local manager to insure with the captive at a level suitable to the size of his own business unit while the captive only buys reinsurance in excess of the level appropriate to the group as a whole.
- **Access to the reinsurance market** By using a captive to access the reinsurance market the buyer can more easily determine his own retention levels and structure his program with greater flexibility.
- **Writing unrelated risks for profit.** Apart from writing its parent's risks, a captive may operate as a separate profit centre by writing the risks of third parties.
- **Tax minimization.** Captive is considered to be Tax minimization device as well.

## **Captives in Pakistan**

In Pakistan, trend of forming captive insurance companies is common. Majority of business conglomerates in the country have formed their own insurance companies as well in order to insure their businesses against particular risks. For example, Packages group has its own insurance company with the name of IGI insurance, similarly MCB bank owns the Adamjee insurance company, Aga Khan Foundation for economic development (AKFED) has New Jubilee Insurance Company, etc.

In Pakistan, it is seen that either a group makes its own insurance company to be used as a Captive or buys one to meet its needs. If we try to classify these companies into different types mentioned earlier in the introduction of Captive companies, we can place majority of captive companies into "Diversified Captives" type, because these companies not only underwrites the risk of their parent company but also writes

unrelated business risk to their parent for some third party. There could be some companies that are solely serving the needs of their parent companies as well.

Despite being above Fifty Insurance companies, Insurance business' major share is held by only two to three companies. As we all know that in Life Insurance type, State owned company, State Life Insurance is the market leader with no competitor of it while in Non-life insurance business, EFU and Adamjee insurance companies are leading the market. With the entry of international players in the market, it is expected that, the monopoly of these few companies is going to be weekend provided that new players offer innovative products with affordable insurance premium.

# Chapter # 8

## Future of Insurance Industry

### Topics Covered:

- Future of Pakistani insurance industry
- Liberalization of sector & Foreign Direct Investment
- Reasons for investing in Pakistan

## **Future of Pakistani Insurance Industry**

The conscious need of securing the future of individual and the family unit and to promote savings through life insurance is one of the prime economic areas the present government is focusing on. The emerging trends of various income classes can help fuel the engine of savings in the country. People in Pakistan are now perceptive that a life insurance policy is a best mode of investment as it ensures risk cover and savings for their own self, children and families.

The insurance industry has performed well due to economic turnaround the country has seen in recent years. In addition to that, healthy competition and innovative products also contributed to the steady growth of this sector.

We have found data<sup>46</sup> in favor of this argument as the figures speak louder than the words:

“The data of financial year 2005-2006 shows that there has been tremendous increase in the profits of Insurance industry. The profits grew 26.2% in life insurance sector and 27% in case of non-life segment of this industry.<sup>47</sup> “

After 9/11 where economies of most of the countries were moving downward, Pakistan’s economy prospered. The government had more in reserves than in past in the shape of remittances and as a result money was in excess and there was more economic activity then. Banks lent more to the general public and auto sector was in real boom. The textile and automobile sectors have shown handsome growth figures in recent years and this trend is expected to continue in coming years. Keeping in view the growth of these and other sectors, it is expected that insurance sector has still lot to come in terms of growth and profits.

According to one of the expert<sup>48</sup>:

“*Mohammad Nasim Khan*, Chief Executive and Managing Director Sigma Leasing, was of the view that there is an ample scope for increasing insurance business, especially for non-life insurance which is bound to increase with the growth of large scale manufacturing sector, particularly the automobile sector.”

Pakistan is an Islamic state where majority of population is living in rural areas; due to their particular beliefs they are not inclined towards the concept of insurance. Only

---

<sup>46</sup> Pakistan and Gulf Economist edition: March 12-18,2007

<sup>47</sup> Economic survey of Pakistan 2005-06

<sup>48</sup> Excerpt from the interview conducted by PAGE magazine



a small portion of the whole population is insured, so in our opinion there lays a huge potential of growth in years to come if the rural population is rightly focused. In our opinion, there is still a huge untapped segment of market.

Rise in auto-sales with the credit availability from banks is resulting in higher motor insurance; on the other hand, the boom in real estate market in the past has led to higher fire insurance and greater involvement of multinational and private firms in this business.

According to figures released by the State Bank of Pakistan<sup>49</sup>, among others, insurance was one of the major sectors, which received Foreign Direct Investment (FDI) a little over \$300 million each during financial year 2005-06.

Actually, private real investment has led to accelerated growth in finance and insurance sub-sector during financial year 2005-06. As a result, real investment in this sub-sector registered an overall 16.0 percent growth during 2006 against a negligible 0.4 percent last year. This rise is principally driven by both higher FDI, including investment due to incorporation of a new Islamic bank, higher domestic investment as a result of improved profitability of the sector during the last two years as well as privatization proceeds.

According to State Life Insurance<sup>50</sup>, about 25% of Pakistani families are protected by State Life's Group under individual life insurance, but endeavors are to be undertaken to cover the remaining 75%. There is a great market potential for selling life insurance plans so that the benefits of life insurance could be made available to every household and family unit in Pakistan.

In the end, we would like to say that future of insurance industry of Pakistan is very bright if the current economic conditions prevail in future as well.

## **Liberalization of Insurance Sector & FDI**

Looking at various developments, one could say that the future of the insurance sector in Pakistan is promising and the prospects of foreign direct investment are quite prominent. It could be assumed, based on the performance of the insurance companies in our neighboring countries, that various insurance companies intending to carry out investment in the insurance sector of Pakistan had some reservations for conducting

---

<sup>49</sup> [www.sbp.com.pk](http://www.sbp.com.pk)\FDI

<sup>50</sup> [www.statelife.com.pk](http://www.statelife.com.pk)

business. Though the insurance sector has performed relatively better with every passing year, yet the liberalization of the sector could be termed crucial in bringing about a kind of revolution as it has been witnessed in the banking sector of Pakistan, particularly over the period of last six years. Undoubtedly, the insurance sector of Pakistan has enormous potential. This potential could have been materialized in terms of gaining FDI flows into Pakistan, had the sector been liberalized earlier. The recent developments regarding the opening of the insurance sector would surely attract foreign companies to invest in the insurance sector of our country. According to a source, the governments has recently enhanced the ownership rights to 100 per cent from 51 per cent for both domestic and foreign companies in life, non-life and general insurance business in order to attract foreign direct investment in the sector. It is said that the insurance sector has been opened due to the demand from the foreign insurance companies which intend to operate with 100 per cent equity in Pakistan.

According to the official sources, it was proposed to the government to allow foreign insurance companies to hold 100 per cent equity in life, non-life and general insurance business with the conditions for bringing in a minimum of \$2 million in foreign exchange and raising an equivalent amount from the local market. Well, this step should be termed positive as it would help the sector grow and provide financial protection to millions of Pakistanis. The banking reforms brought about the flows of FDI and the robust growth in the sector and now one could see substantial growth in the insurance sector of Pakistan as well. When compared with our neighboring countries one comes to know that Pakistan's non-life insurance density is \$2.8 against China's \$15.8 and Iran's \$33 insurance density.<sup>51</sup> One should also note that there is remarkable performance in the sector as compared to the past. Both life and general insurance have gathered momentum in the country and their results are quite satisfactory. According to the official source of the State Life Insurance Corporation, about 25% of Pakistani families are protected by State Life's Group and Individual life insurance. One leading newspaper reads that "the insurance sector posted a growth of 31.2pc in their net profits amounting to Rs6 billion for three-quarters ended September 30, 2006, compared to Rs 4.6 billion earned in the same period last year. Looking at these developments, one could say that the future of the insurance sector in Pakistan is promising and the prospects of the foreign direct investment are quite

---

<sup>51</sup> Pakistan & Gulf Economist, Ed: Dec 11-17,2006

prominent.

## **Reasons for Investing in Pakistan**

Foreign investors should find the Pakistani market as an attractive market because of varied reasons. We have the reasons to support our argument that foreign investor would most likely invest in Pakistan due to:

- Strong economic growth of the country leading to \$925 per capita income
- Better performance of the capital markets in the country
- Exceedingly well performance of the financial and the corporate sectors
- South Asia Free Trade Agreement
- Pakistan could be a member of TRACECA<sup>52</sup> alliance (TRANsport Corridor Europe Caucasus Asia)
- Rising trend in foreign remittances
- Robust growth in the construction industry
- Increasing international trade
- Handsome growth in the domestic wholesale and retail trade
- Increase in imports and exports

The targets set by the government are as follows as a part of vision 2030<sup>53</sup>:

- Enhancing Pakistan's share of world trade from the current 0.2% to 1.0%
- Increase Pakistan's exports from USD 17 billion in 2006 to around USD 250 billion by 2030

One must know that the international trade during 2005 -06 was around \$44 billion and Pakistan plans to increase its share in the world trade. At present, Pakistan's share in the world trade is around 0.2 per cent. The country expects to increase it to one percent by 2030 and at the same time the expectations are that the Pakistani exports which touched \$17 billion in the last fiscal year may reach around \$250 billion by 2030. After 9/11 Pakistan has witnessed the rising trend in remittances which went up from a billion dollars in 2000 to \$4.6 billion in the last fiscal year and there are expectations that in the next couple of years the country might receive up to \$5 billion remittances from the overseas Pakistanis.

---

<sup>52</sup> Presentation by: Dr. Asad Ali Shah Planning Commission (Dec 26, 2006)

<sup>53</sup> "National Trade Corridor Vision" by Dr. Asad Ali Shah Planning commission (Dec 26, 2006)

A few points<sup>54</sup> need to be noticed.

i) A source quotes that the National Bank of Pakistan, one of the public sector banks in Pakistan, in collaboration with the American Life Insurance Company; a foreign private life insurance entity, offers insurance cover to its more than half a million PLS account holders against terrorism, accidents and natural calamities. This move has been followed by Bank Alfalah and UBL as well.

ii) Government of Pakistan should make it mandatory to buy Travel Insurance by the commuters when they visit neighboring countries keeping in view the last year Train accident in India. Furthermore, people traveling from one province to another should have bought some kind of Travel Insurance in order to hedge themselves against riots and luggage losses.

iii). Pakistan needs to advertise its tourist locations like other countries. Tourism could fetch the country substantial revenue as Pakistan is blessed with lots of historical sights which can be instrumental in case proper strategies are applied to promote tourism in the country. This year has been declared by Year of Tourism with the name of “*Destination Pakistan*”. Although the idea is very good but the current political and judicial situation prevailing in the country undermined the efforts of tourism ministry and they had been unable to reap their efforts. The insurance companies could attract those Pakistanis also who travel abroad. It is a norm across the western world.

With the opening of Gwadar port and declaration of Sonmiani Port, it is expected that more and more foreign investors would be inclined to that port and FDI would be attracted. It is the duty of government to provide them with favorable conditions to invest here and bring back their lost confidence. Government should provide them security and sense of being at home. This would in turn boost the economic condition of that region as well as Pakistan. With the economic activity going, there would be growth in the insurance industry as well. As soon as foreign players enter the Pakistani business arena, international insurance companies would be following them here. As a result competition would be more among the insurance companies and more awareness would be created by the players in order to grab the market share and all this economic developments in Pakistan would offer business opportunities to both the life and the general insurance companies.

---

<sup>54</sup> some ideas borrowed from PAGE: Pakistan and Gulf Economist

# Chapter # 9

## Bottlenecks in Insurance Sector

### Topics Covered:

- Hampering Factors
- What needs to be done
  - By insurance companies
  - By Government

## **Hampering Factors**

These are some of the hampering factors in the growth of insurance sector, that we have identified by viewing literature and interviewing the industry analysts:

- The low savings propensity of individuals and non-conducive business environment over the years
- Lack of awareness among masses
- Muslims believe that conventional insurance is “*Haram*” due to certain factors involved in it.
- Lack of understanding about the benefits of insurance among the masses
- Government’s negligence: Insurance sector has never been given due importance by the government
- Lack of expertise at the Commission (SECP, the regulators of insurance industry)

One may agree that the SECP is making effort to strengthen the insurance sector but often the measures taken are not the right ones. For example insurance companies have been asked to enhance their paid up capital to improve their claim payment ability. However, many sector experts<sup>55</sup> are of the opinion that paid-up capital and claim payment ability have no relevance. Claim payment ability is directly dependent on re-insurance arrangements. Some analysts are also of the opinion that Insurance Ordinance suffers from certain inherent weaknesses. These weaknesses can only be removed if regulators improve their understanding of this important business.

- Nationalization of life insurance business in 1972 by Bhutto done the irreparable damage to this industry. After that, foreign investors remain reluctant to invest in the country till to date.
- Unfair competition and big ones are getting bigger and smaller companies are facing extinction as more than 70% business is controlled by only five companies
- In the past insurance tariff was fixed by the government but now players are allowed to fix their own tariffs. This gives bigger companies an undue advantage of size. They charge a tariff which smaller companies just cannot

---

<sup>55</sup> Pakistan and Gulf Economist”, magazine Ed: May 11- 17, 2007

afford mainly because of the volume.

### **What needs to be done?**

In our viewpoint, the insurance companies should do some of the followings, if not all, in order to create awareness and expand their insurance business.

- Use Website, as an effective marketing tool, to promote the company's image and its full range of products and offerings.
- Public service advertising campaigns in the print media
- Redesign public service advertising campaigns with new concepts and themes from time to time
- Advertisements like State Life's, "*Ae Khuda meray abbu salamat rahein!!!!*" arouse the emotional feelings of its potential customers, could be very useful in creating awareness among masses.
- Relief fund for calamities like earth quakes, floods, droughts, epidemics etc. create a positive image and people develop some kind of bond with the company with the passage of time.
- Less hassle in settling claims of insured parties/ individuals can help earn a good name as it is one of the major factors when deciding about the purchase of some insurance product.
- Customer friendliness should be there. Product should not be pushed to the customer, but sales force must convince him instead.
- After sales services to the policyholders at their door steps should be given.

### **On Government's part**

The government should take the following steps, if it is serious to boost the Insurance industry and its financial sector:

- Allow and entice the foreign players to enter the market
- Create awareness among the masses and educate them
- Insurance business can be extended/ expanded to rural areas. Government can play its role in expansion of business to rural areas.
- The government and the insurance companies should work in collaboration and create a win-win kind of solution

- Insurance subject can be introduced at school and colleges level, degree programs could be commenced in Government universities in order to popularize this area and provide the skilled labor force to this industry
- A lot can be achieved by joint campaigns of seminars, radio and TV talk shows to create awareness as well
- Weather derivatives could be introduced in the country for agriculture sector, as Pakistan is an agricultural country and main share in GDP comes from the agriculture sector. In order to guard against the natural calamities and weather adversities, these kinds of derivatives could prove helpful to minimize losses up to a certain level.
- Health insurance is not very popular in Pakistan; Government could play its role by making the health insurance mandatory for employees of public and private sector organizations.



# Chapter # 10

## Proposed Insurance Products

### Topics Covered:

- Mobile phone Insurance
- Crop Insurance
- Pet Insurance
- Terrorism Insurance
- Travel Insurance (Train)
- Cattle Insurance

## **Proposed Insurance products**

- Mobile phones
- Pet insurance
- Shop insurance
- Motor/ road risks
- Cattle insurance
- Crop insurance
- Terrorism insurance
- Theft insurance

### **Mobile Phone Insurance:**

Insurance companies should provide the customers with Mobile Phone insurance. According to PTA records, there are 53million mobile users in Pakistan according to 2007 statistics and this figure is increasing day by day due to the competitive tariff plans being offered by mobile phone operators. With the reduced call rates, even the lower income groups can afford the mobile phone easily. Mobile phones that used to be a luxury in the past, have now become a necessity. This growing trend towards the mobile phone usage has bad impacts as well because those who are unable to buy one are enticed to snatch it from others or to get it by other means. This is the growing concern of masses. Mobile phone is a liquid asset now a days. Insurance companies should provide coverage against this loss and devise some mechanism to deal it. This type of insurance product could be very successful if designed carefully. Mobile phone insurance is common in developed countries like UK and US. It should be introduced here as well. So, in our opinion there lies a potential for this kind of product in Pakistan.

### **Crop Insurance:**

Pakistan is the agricultural country and its economy is mainly dependent on agricultural products. So there lies a need for a comprehensive product catering to the loss of farmers and agricultural products. In Pakistan, it is common practice that poor farmers take loans from whatever sources they have in order to invest on their crops e.g. on pesticides, ploughing, fertilizers etc. and wait till that crop is harvested to pay back their loans. Mostly, family gatherings and ceremonies are scheduled keeping in

view the harvest time when the farmer is financially strong by trading his crop. If, unfortunately, there is a crop failure due to natural calamity like flood, storm, draught or heavy rains, he is almost bankrupt and all his dreams remain *Dreams*. A serious crop failure means not only the loss of farmer's income but it also impacts the country's economy as a whole.

So in our opinion, Crop Insurance is the need of hour for the farmers and there lies a potential for insurance companies. The initiative has been taken by the Punjab's Chief Minister Pervaiz Elahi by directing the Bank of Punjab to offer Crop Insurance to the potential customers. This is very bold step as the innovative products are the need of hour in order to facilitate the customers and earn handsome profits.

### **Pet Insurance:**

Pet insurance is another product that could be welcomed by affluent people who are mostly the pet lovers. Those people spend lavishly on the welfare and well being of their pets. This product is available in developed countries. Insurance companies can earn more premiums by offering this kind of product. Pets are considered to be a status symbol in our country. We all know about *Zardari's horses & our President's love for dogs* and many other examples. In our opinion, insurance companies should think on this kind of product as well.

### **Terrorism Insurance:**

Pakistan has seen very ups and downs after the aftermath of 9/11. Pakistan's moral support for Taliban and the change in policy after 9/11 caused unrest in the country due to difference of opinion among the masses. Terrorism activities boomed in Pakistan as a protest by some "*Wanted elements*" after Pakistan became front ally to US war against terrorism. In some cases, foreigners were murdered including the Chinese Engineers and press reporters. So there has been need for cover for the foreigners as well as for locals against those terrorism acts.

Federal Minister for commerce, Humayun Akhtar Khan disclosed<sup>56</sup> that government is introducing terrorism insurance for the foreigners. He was addressing a press conference on Thursday, April 19, 2007.

---

<sup>56</sup> Daily, The NEWS int'l edition: Friday April 20, 2007

In our opinion, this kind of coverage should be given to local people as well with affordable premiums. This act would increase the insurance penetration in the country and allow the entry of international players in this very industry.

### **Travel Insurance (Train):**

Insurance companies should provide the Travel Insurance for Train travel especially on long routes e.g. from Lahore to Quetta, Faisalabad to Karachi etc. People are very apprehensive when traveling via the Railways, in order to bring their confidence back and entice more travel, government should play its role by securing contracts with insurance companies along with improving operation of railways in terms of security, safety and timeliness. It would be a Win-Win situation for both the parties i.e. for government as well as for insurance companies as well. This specific product offering would be useful for insurance companies in terms of increased gross premium. Keeping in mind, the unfortunate train accident that was moving from India to Pakistan, in which many families were burned to death, we see Travel Insurance (Train) as a mandatory insurance product for train travelers.

### **Cattle Insurance:**

As already discussed that Pakistan is an agricultural country where majority of population lives in rural areas and Cattle are their one of the biggest assets along with modern machinery used in agricultural activities. These cattle are sometimes source of their direct income e.g. milk giving animals like buffalos, cows and goats.

According to statistics, Pakistan is the 5<sup>th</sup> largest milk production country in the world. It is evident from this figure that lots of people earn their livelihood directly from those milk giving animals. In order to hedge the loss due to those cattle's health and security, there lies a potential for Cattle insurance.

According to our research, Adamjee Insurance Company is the first to offer Cattle Insurance product to its esteem customers. Other insurance companies should also come up with such kind of unique and innovative products in order to differentiate them from other players in the market and attract more customers.

# Chapter # 11

## Propositions & Research Question

Topics Covered:

- Propositions
- Research Question

## **Proposition 1:**

- *Pakistani insurance industry is capable of absorbing the international insurers*

This is one of the propositions that our research study has tried to test for the local insurance industry. We have found that this proposition is somewhat true as the Government is trying to provide conducive environment for international players by focusing on the rules and regulations set for the insurance industry. The government has, from time to time, increased the paid up capital requirement for the insurance industry intentionally, so that only companies with strong financial backing would survive there by acquiring small and less competitive firms.

Secondly, the government has somewhat realized the importance of this very sector. This is further evident from the curricula being offered by the Hailey College of commerce. Punjab University has taken a bold step by offering degrees in Insurance and Risk Management field. This step would be helpful in providing the skilled and qualified personnel to the insurance industry who has always been in shortage of educated and experienced people. The recent past year economic data reveals that in overall GDP, there has been a healthy contribution by this sector. That is the reason Government has started taking this sector seriously.

### **9/11 Event:**

Undoubtedly, the insurance sector of Pakistan has enormous potential. This potential could have been materialized in terms of gaining FDI flows into Pakistan, if the sector had been liberalized earlier. When Pakistan opened its boundaries for international players in the insurance industry, the disastrous event of 9/11 occurred unfortunately. This was the event that affected the whole world economically. Foreigners, especially from developed countries were the target of the terrorists. Furthermore, Pakistan's strategic position, where helped its economy to prosper by joining the War against terror, caused negative impact as well. Foreigners equated "Pakistan" with the word "Terrorism" and "land of hardliners". This image of the country barred the entry of foreigners in the country and they were reluctant to invest here. This was one of the main reasons that why after liberalization of the insurance sector, international companies still absent from the scene, although there exists a lot of potential in this industry.

Well, the recent developments regarding the opening of the insurance sector would surely attract foreign companies to invest in the insurance sector of our country. According to a source<sup>57</sup>, the governments has recently enhanced the ownership rights to 100 per cent from 51 per cent for both domestic and foreign companies in life, non-life and general insurance business in order to attract foreign direct investment in the sector. It is said that the insurance sector has been opened due to the demand from the foreign insurance companies which intend to operate with 100 per cent equity in Pakistan.

“Out of over 150 million population, less than 10 million lives have been insured by the major insurance companies in Pakistan both on account of individual life insurance and group life insurance by 31st Dec 2005. The percentage of Pakistani population with 18 years and above is 51.25%. This means that we have a huge market of around 70 million people whom insurance companies can tap for individual life or group life covers<sup>58</sup>.”

“Another to an official source, less than 2% of the population in our country is insured by any form of insurance.<sup>59</sup>” The remaining population is still un-insured.

So, all these figures are favoring our proposition that Pakistani insurance industry is waiting for international players to break the monopoly of few big players. The business environment is conducive here and there are still many areas in this industry that remain untapped till now. In the light of earlier mentioned arguments, we came to conclude that our Proposition is true.

---

<sup>57</sup> Pakistan & Gulf Economist, December 11-17, 2006

<sup>58</sup> Excerpt from interview: Syed Ameer Ali Rizvi, Head of Sales & Marketing (NJLI),PAGE

<sup>59</sup> Pakistan and Gulf Economist, Edition: March 12-18,2007

### **Proposition 2 & 3:**

- *Islamic insurance would erode the market share of conventional insurance*
- *Islamic insurance would be a success in Pakistan*

#### **Explanation:**

The difference between the conventional insurance and Islamic insurance has been highlighted in previous discussion. Keeping in view those major differences and philosophies, it is expected that Takaful activity would grow considerably in Pakistan. The average insurance buyer would be attracted more towards this type of insurance as it is more Shariah Compliant as compared to conventional insurance. It is according to the ideology of Islam as it is Riba Free; avoid gambling and other prohibited attributes. Pakistan has a population of about 160 million where 98% of its population is Muslims. People don't buy the insurance as they consider it un-Islamic and Haram, but with the introduction of Islamic insurance, Islamic banking and other Islamic modes of financing, that bunch of people would be attracted towards Takaful. These would be the people who had never bought insurance due to their religious beliefs. They either had prevented the groups whom they influence, not to buy the conventional insurance, but with the introduction of Islamic insurance, those people would be attracted first.

Our proposition that Islamic insurance would erode the market share of conventional insurance doesn't seem to be true. In fact, this would further strengthen the insurance sector by increasing their customer base and tapping the untapped market areas. Not only the specialized Insurance companies are moving towards Pakistan for conducting business but also, the conventional insurance companies planning to open separate window operation for their Takaful customers in order to compete with the new comers. Government is also welcoming the Takaful players.

According to one analyst<sup>60</sup>, Government of Pakistan is not promoting Islamization by starting Islamic banking and now the Islamic Insurance business here, but it is the need of hour. Foreign investors are eager to invest in Islamic banking and Islamic Insurance sub-sectors of Pakistan, while, on the other hand, Government of Pakistan

---

<sup>60</sup> Point picked from the lecture of Dr. Mehmood Awan, an honorable personality in the field of Islamic banking



is in need of FDI in order to sustain their previous growth levels and achieve their future targets. So it is the force that is driving the government for such moves.

The Takaful window in conventional insurance companies will go a long way in generating additional business by catering to the needs of those who remain untapped up till now. Although, this has yet to be proved as first Takaful Company has recently started its operations.

“If we talk about the Takaful business on global level, we came to know that it has proved its viability very well. This business has been growing at the rate of 10 to 20% annually as compared to the global average growth of insurance that remain to be 5% annually.<sup>61</sup>”

From the above discussion, we can conclude that Proposition 2 doesn't seem to be true as Islamic insurance would strengthen the position of conventional insurers with separate window for Islamic insurance.

Our 3<sup>rd</sup> Proposition seems to be somewhat true, if we look at the success of Takaful business in different countries across the globe. It is interesting to note here that it is not always the Muslims who buy Takaful products, but other non-muslims do buy as well who are attracted towards it due to its fairness. This trend is evident from the statistics of Malaysia and Sri Lanka where lots of non- Muslims are Takaful clients. So, we can easily say that, in the light of above discussion that Takaful business is going to be success in the Pakistani insurance market.

## **Research Question:**

*“Is Pakistani insurance industry ready to absorb international insurers in terms of skilled person, depth in insurance industry and readiness of insurance sector to international regulations?”*

The above mentioned question was one of the questions that our research study is trying to look for answers. The first part of this question asks whether there are qualified and skilled human resource available for this very industry, we have come up with the following answer:

---

<sup>61</sup> An article by Muhammad Ayub, PAGE, March 12-18, 2007

## **Human Resource**

Insurance subject is highly technical in nature and requires qualified and experienced personnel in underwriting as well as on the marketing side. There is an acute shortage of insurance professionals due to lack of education and training in the field of insurance. This area requires special attention to meet the challenges of growth.

The Punjab University, Hailey college of Banking and Finance has taken a commendable step by introducing BBA (Hons), MBA and Exec. MBA in the Insurance and Risk Management disciplines.

In addition to that, Master degrees are being offered in near future by the NUST institute of Management Sciences under the supervision of “*Dr. Tahir Khan Durrani*” who is specialized in this area and well aware of the industry’s demand pattern for such high qualified individuals in this very field. Similarly, Pakistan Insurance Institute (PII) should develop its own insurance programs customized to our domestic requirements. It is the need of hour for insurance companies and institutions to explore new business horizons and avenues besides traditional insurance business segments.

As a concluding statement, we say that although there is a shortage of qualified human resource in this sector but government and the academia has felt this gap and as a reaction, they are responding to fill this gap as mentioned above.

## **Government’s Interest**

In the past, government has not taken this sector seriously, that’s why this sector is underdeveloped, but current government is showing its interest in this very sector from time to time. It is evident from the Insurance ordinance 2000 and then the Takaful guidelines set by the government back in 2004. Government is trying to make this sector attractive for foreigners as well as for the local players by addressing their concerns. Below is the excerpt of Prime Minister’s Shaukat Aziz’s briefing:

*“PM approves policy to remove insurance sector bottlenecks<sup>62</sup>”*

“Prime Minister Shaukat Aziz in principle approved the new insurance sector policy, which aims at increasing penetration, removing impediments to insurance industry development and outlines a more rational role of the public sector in line with the best international practices. The premier said the current 0.28 per cent life insurance in the

---

<sup>62</sup> *THE NEWS INTERNATIONAL*, Wednesday, April 18, 2007

country is among the lowest in the region. The immediate goal should be to enhance it to one percent in a period of three years.

“Life insurance is an excellent way of increasing savings, risk mitigation and has direct impact on capital formation and investment levels”, he commented.

*Shaukat* said that attention should also be focused on improving coverage and outreach in the areas of health, general and micro insurance. He also agreed to the proposal for opening the insurance of public property (other than strategic assets) to private companies after formulating comprehensive rules and procedures.”

The above mentioned statement of the PM indicates that Government is serious in resolving issues that are hindering the growth in insurance sector of Pakistan. They are in fact getting ready to welcome the big players from international arena by reforming this sector. In addition to that, Government is trying to make it mandatory that every insurance company has to insure minimum 15% from the rural population in order to increase the insurance penetration in the country. The government has taken this step while keeping in mind that Pakistan is an agricultural country where majority of population resides in rural areas.

So, answer to our research question is that, although the insurance industry is not ready yet to absorb the international insurers in terms of skilled labor available to them and regulatory framework but much of the related work is in pipeline as the government and concerned bodies have chalked out plans to more liberalize this sector and to increase the insurance penetration further in the country.

## REFERENCES

- <http://strategis.ic.gc.ca/epic/site/imr-ri3.nsf/en/gr-94452e.html>
- <http://www.aigpakistan.com/>
- <http://www.nji.com.pk/>
- [http://www.sbp.org.pk/departments/stats/Insurance\\_Guide/ANNEXURE-II.pdf](http://www.sbp.org.pk/departments/stats/Insurance_Guide/ANNEXURE-II.pdf)
- *THE NEWS INTERNATIONAL* Wednesday, April 18, 2007
- <http://www.accountancy.com.pk/newsgen.asp?newsid=1742>(APR 18, 2007)
- [http://www.thenews.com.pk/daily\\_detail.asp?id=51138](http://www.thenews.com.pk/daily_detail.asp?id=51138)
- [http://www.pakboi.gov.pk/Useful\\_Links/general\\_insurance\\_companies.html](http://www.pakboi.gov.pk/Useful_Links/general_insurance_companies.html)
- [http://www.pakboi.gov.pk/Useful\\_links/by\\_net\\_worth.html](http://www.pakboi.gov.pk/Useful_links/by_net_worth.html)
- [www.insurancewide.com](http://www.insurancewide.com) (UK insurance industry)
- <http://en.wikipedia.org/wiki/Insurance>
- <http://www.pier55.com/Insurance/Insurance-History.shtml> ( May 7, 2007)
- [http://www.sbp.org.pk/publications/FSA-2003/Chapter\\_5.pdf](http://www.sbp.org.pk/publications/FSA-2003/Chapter_5.pdf) (May 8, 2007)
- Economics book: McConnell/ Brue, 16<sup>th</sup> edition
- [http://www.qiic.net.qa/English\\_Pages/News/2007/Feb/article2.html](http://www.qiic.net.qa/English_Pages/News/2007/Feb/article2.html)
- [<http://onlypunjab.com/fullstory2k5-insight-news-status-25-newsID-5656.html>]
- <http://www.financeinislam.com/article/7/1/304>
- Pakistan: Financial Sector Assessment 2004
- Pakistan and Gulf Economist edition: March 12-18,2007
- [www.pakistaneconomist.com](http://www.pakistaneconomist.com) edition :March 19-25,2007
- [www.statelife.com.pk](http://www.statelife.com.pk)
- *Pakistan & Gulf Economist, Dec 11-17,2006*
- Presentation by: Dr. Asad Ali Shah “Planning Commission” 26 December 2006
- Daily, The NEWS int’l edition: Friday April 20, 2007
- <http://www.brookings.edu/comm/conferencereport/cr17.htm>

- <http://www.brook.edu/comm/conferencereport/cr17.htm> visited on June 09, 2007
- Pakistan Microfinance Network (PMN)
- <http://www.sbp.org.pk/report/Annex%20%96%20IXa.pdf>
- <http://www.answers.com/topic/insurance>
- General insurance, Financial Services Authority.  
[http://www.fsa.gov.uk/consumer/05\\_INSURANCE/types\\_insurance/general\\_insurance.html](http://www.fsa.gov.uk/consumer/05_INSURANCE/types_insurance/general_insurance.html)
- <http://www.ibexi.com/papers/Bancassurance.pdf> (Sep 10,2007)
- <http://www.edupk.com/pow/modules.php?name=News&file=article&sid=265> (Sep 10,2007)
- <http://www.secp.gov.pk/annualreport/2003/pdf/IDivision.pdf> (Sep 10,2007)
- (Islamic Financial Services Board) (Sep 10,2007)  
<http://www.ifsb.org/view.php?ch=4&pg=261&ac=16&fname=file&dbIndex=0&ex=1189406704&md=8%97o%DD%AC%ED%D87%15%D6y%60%D3F%C0q>
- [www.kalpoint.com](http://www.kalpoint.com) (Sep 10,2007)
- [http://www.captive.com/service/kpmg/kpmg\\_article2.html](http://www.captive.com/service/kpmg/kpmg_article2.html) (Sep 11,2007)
- [www.business.uiuc.edu/ormir/Research%20Paper.doc](http://www.business.uiuc.edu/ormir/Research%20Paper.doc) (Sep 11,2007)
- <http://www.pakistaneconomist.com/database2/cover/c97-21.asp> (Sep 11,2007)
- <http://www.trafalgar-intl.com/definitions4.htm> (Sep 11,2007)
- <http://www.trafalgar-intl.com/definitions4.htm> (Sep 11,2007)
- <http://www.iap.net.pk/insurance.asp> (Insurance Association of Pakistan) (Sep13,2007)
- <http://www.palgrave-journals.com/gpp/journal/v32/n1/pdf/2510111a.pdf> (Sep13,2007)
- <http://www.genevaassociation.org/gptheory.htm> (Sep13,2007)

## Bibliography

- <http://strategis.ic.gc.ca/epic/site/imr-ri3.nsf/en/gr-94452e.html>
- <http://www.aigpakistan.com/>
- <http://www.nji.com.pk/>
- [http://www.sbp.org.pk/departments/stats/Insurance\\_Guide/ANNEXURE-II.pdf](http://www.sbp.org.pk/departments/stats/Insurance_Guide/ANNEXURE-II.pdf)
- *THE NEWS INTERNATIONAL* Wednesday, April 18, 2007
- <http://www.accountancy.com.pk/newsgen.asp?newsid=1742>(APR 18, 2007)
- [http://www.thenews.com.pk/daily\\_detail.asp?id=51138](http://www.thenews.com.pk/daily_detail.asp?id=51138)
- [http://www.pakboi.gov.pk/Useful\\_Links/general\\_insurance\\_companies.html](http://www.pakboi.gov.pk/Useful_Links/general_insurance_companies.html)
- [http://www.pakboi.gov.pk/Useful\\_links/by\\_net\\_worth.html](http://www.pakboi.gov.pk/Useful_links/by_net_worth.html)
- [www.insurancewide.com](http://www.insurancewide.com) (UK insurance industry)
- <http://en.wikipedia.org/wiki/Insurance>
- <http://www.pier55.com/Insurance/Insurance-History.shtml> ( May 7, 2007)
- [http://www.sbp.org.pk/publications/FSA-2003/Chapter\\_5.pdf](http://www.sbp.org.pk/publications/FSA-2003/Chapter_5.pdf) (May 8, 2007)
- Economics book: McConnell/ Brue, 16<sup>th</sup> edition
- [http://www.qiic.net.qa/English\\_Pages/News/2007/Feb/article2.html](http://www.qiic.net.qa/English_Pages/News/2007/Feb/article2.html)
- [<http://onlypunjab.com/fullstory2k5-insight-news-status-25-newsID-5656.html>]
- <http://www.financeinislam.com/article/7/1/304>
- 'Aqila, in Marghinani, Eurhanuddin, *Hidaya*, (kitab *al-Ma'qil*); Schacht. Joseph. An Introduction to *Islamic Law*, (Oxford, 1964) p. 186, Nawawi. *Minhaj al-Talibin*. (Eng. tr. by E.C. Howard. (London 1914) 420-28.
- Pakistan: Financial Sector Assessment 2004
- Pakistan and Gulf Economist edition: March 12-18,2007
- [www.pakistaneconomist.com](http://www.pakistaneconomist.com) edition :March 19-25,2007
- [www.statelife.com.pk](http://www.statelife.com.pk)
- *Pakistan & Gulf Economist*, Dec 11-17,2006
- Presentation by: Dr. Asad Ali Shah “Planning Commission” 26 December 2006

- “NATIONAL TRADE CORRIDOR VISION” by Dr. ASAD ALI SHAH  
PLANNING COMMISSION (26 December 2006)
- Daily, The NEWS int’l edition: Friday April 20, 2007
- Excerpt from interview: Syed Ameer Ali Rizvi, Head of Sales &  
Marketing(NJLI),Pakistan and Gulf Economist Magazine
- <http://www.brookings.edu/comm/conferencereport/cr17.htm>
- <http://www.brook.edu/comm/conferencereport/cr17.htm> visited on June 09,  
2007
- <http://www.icap.org.pk/Downloads>
- [http://www.qiic.net.qa/English\\_Pages/News/2007/Feb/article2.html](http://www.qiic.net.qa/English_Pages/News/2007/Feb/article2.html)
- <http://onlypunjab.com/fullstory2k5-insight-news-status-25-newsID-5656.html>
- Jamshaid Islam, FSA, FPSA General Manager, EFU Life Assurance Ltd  
(presentation)
- Pakistan Microfinance Network (PMN)
- <http://www.sbp.org.pk/report/Annex%20%96%20IXa.pdf>
- [http://www.britishhighcommission.gov.uk/servlet/Front?pagename=OpenMar  
ket/Xcelerate/ShowPage&c=Page&cid=1078995529551](http://www.britishhighcommission.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1078995529551)
- [www.ficci.com/media-room/speeches-presentations/2005/feb/actuaries/feb15-  
actuaries-Jamshaid-Islam.PPT](http://www.ficci.com/media-room/speeches-presentations/2005/feb/actuaries/feb15-actuaries-Jamshaid-Islam.PPT)
- <http://www.answers.com/topic/insurance>
- General insurance, Financial Services Authority.  
[http://www.fsa.gov.uk/consumer/05\\_INSURANCE/types\\_insurance/general\\_i  
nsurance.html](http://www.fsa.gov.uk/consumer/05_INSURANCE/types_insurance/general_insurance.html)
- Research paper by: Abdul Rahim Abdul Wahab, “Takaful Business  
opportunities and obstacles in Pakistan”
- [http://www.modarabas.com/php/admin/resources/uploads/obstacles%20in%20  
pakistan.pdf](http://www.modarabas.com/php/admin/resources/uploads/obstacles%20in%20pakistan.pdf), (September 08,2007)
- <http://www.math.purdue.edu/academic/actuary/what.php?p=what>(Sep  
08,2007)
- [https://www.reorient.co.uk/pdfs/takaful\\_retakaful\\_companies.pdf](https://www.reorient.co.uk/pdfs/takaful_retakaful_companies.pdf)(Sep  
08,2007)

- [http://www.salaam.co.uk/themeofthefmonth/november02\\_index.php?l=8](http://www.salaam.co.uk/themeofthefmonth/november02_index.php?l=8)  
(Sep08,2007)
- <http://www.ibexi.com/papers/Bancassurance.pdf> (Sep 10,2007)
- <http://www.bimaonline.com/cgi-bin/newsupdates/ProcessArticles.asp?name=articles/bancassurance.html&slno=2374> (Sep 10,2007)
- <http://www.edupk.com/pow/modules.php?name=News&file=article&sid=265>  
(Sep 10,2007)
- <http://www.secp.gov.pk/annualreport/2003/pdf/IDivision.pdf> (Sep 10,2007)
- (Islamic Financial Services Board) (Sep 10,2007)  
<http://www.ifs.org/view.php?ch=4&pg=261&ac=16&fname=file&dbIndex=0&ex=1189406704&md=8%97o%DD%AC%ED%D87%15%D6y%60%D3F%COq>
- onlinepr (*Pratibimba, Vol. 04, No. 01, January 2004*) *Social Science Research Network website* (Sep 10,2007)  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=944402](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=944402)
- [www.kalpoint.com](http://www.kalpoint.com) (Sep 10,2007)
- Sumit Kundu, “What’s next in India’s insurance market? “,  
[www.Knowledgedigest.com](http://www.Knowledgedigest.com) (Sep 10,2007)
- Manoj Kumar, “Distribution Channels in Bancassurance”, (Sep 10,2007)  
[www.einsuranceprofessional.com](http://www.einsuranceprofessional.com)
- Research Paper, “Captive Insurance Companies” by: TordBirlingmair, Chris Herring (February 28, 2006)
- “Captives & Other Risk-Financing Options”, (Sep 11,2007)  
[www.iii.org/media/hottopics/insurance/test3](http://www.iii.org/media/hottopics/insurance/test3)
- Simon Owen, “Captive Insurance Companies- What are they?” (Sep 11,2007)
- [http://www.captive.com/service/kpmg/kpmg\\_article2.html](http://www.captive.com/service/kpmg/kpmg_article2.html) (Sep 11,2007)
- [www.business.uiuc.edu/ormir/Research%20Paper.doc](http://www.business.uiuc.edu/ormir/Research%20Paper.doc) (Sep 11,2007)
- <http://www.pakistaneconomist.com/database2/cover/c97-21.asp> (Sep 11,2007)
- <http://www.trafalgar-intl.com/definitions4.htm> (Sep 11,2007)
- <http://www.trafalgar-intl.com/definitions4.htm> (Sep 11,2007)



- <http://www.iap.net.pk/insurance.asp> (Insurance Association of Pakistan)  
(Sep13,2007)
- <http://www.palgrave-journals.com/gpp/journal/v32/n1/pdf/2510111a.pdf>  
(Sep13,2007)
- <http://www.genevaassociation.org/gptheory.htm> (Sep13,2007)
- Research Paper “Changing Life Cycles and their Impact on Insurance” by  
Didier Blanchet
- Research Paper “Climate Change Impacts on Personal Insurance” by Gilles  
Benoist
- Research Paper “Climate Change and the Global Insurance Industry” by  
Michael Hawker

# **Annexure**

## **Annexure I**

### **State Life Insurance Corporation<sup>63</sup>**

On 1st November 1972, State Life Insurance Corporation of Pakistan was established with a view to run the insurance business on sound lines, provide more efficient service to the policyholders, maximize the return to the policyholders by economizing on expenses and increasing the yield on investment to make life insurance a more effective means of mobilizing national savings, widen the area of operation of life insurance and make it available to as large a section of the population as possible, extending it from the comparatively more affluent sections of society to the common man in towns and villages and use the policyholder's fund in the wider interest of the community. The main objective behind the establishment of State Life was to provide the benefits of life insurance to all sections of society and generate 'savings' at the macro level to help fuel the economic growth of the country.

State Life has successfully completed 33 years of financial commitment and services to the policyholders and the nation. About 25% of Pakistani families are protected by State Life's Group under individual life insurance, but endeavors are to be undertaken to cover the remaining 75%.

The Renewal Premium of State Life stood to Rs. 8.45 millions while on the Group Life side State Life secured Rs. 2.54 billion by marketing 183 new group life policies. The International Business which comprises UAE, Kuwait and Saudi Arabia stood at 141 million during the period 2005. State Life has showed robust business performance up to June 2006 by securing Rs.1325 million as new business (first year premium) while showing an increase of 19.59% in that period.

State Life remains the nation's largest real estate holder, whose market value stood at 21 billion rupees. State Life lends its way by effectively providing the quality financial services to its 6 million policyholders, 2.1 million individual life and 3.9 million group life policyholders. Since its inception in 1972 till to date State Life has paid billion of rupees on account of maturity and death claims that had benefited millions of policyholders and their families both in the individual and group life.

---

<sup>63</sup> PAGE: Dec 11-17,2006

## **IGI Insurance<sup>64</sup>**

IGI Insurance Limited (formerly known as International General Insurance Company of Pakistan Limited) was incorporated in 1953. IGI, a part of the Packages Group, was listed on the Karachi and Lahore Stock Exchanges in December 1987.

Over the last 50-years IGI has established a sound business footing in the non-life insurance sector in Pakistan on the bases of well-governed operations founded on the highest ethical and moral practices. IGI is one of the leading quoted insurance companies of Pakistan with an asset base of over 4 billion rupees, serving a large number of prestigious local and multinational clients throughout Pakistan.

IGI Insurance Limited has re-insurance agreements with the most prestigious and world renowned re-insurers such as Swiss Re and Sumitomo Re. The Company is referenced for its good standing and reputation by domestic as well as international re-insurers.

In line with the Company's growth strategy, it has acquired the Pakistan operations of Royal and SunAlliance Plc. U.K. As a result of this transfer, IGI has positioned itself amongst the top five insurance companies operating in Pakistan. IGI Insurance Limited is now a global network partner of Royal and SunAlliance Plc U.K

## **New Jubilee<sup>65</sup> Insurance Company Pakistan**

Established in 1953, NJI is one of the most reputable and brightest names in the insurance sector. Its major shareholders include Aga Khan Fund for Economic Development and Hashoo Group. NJI has its head office in Karachi.

### **About Life Insurance business**

New Jubilee Life Insurance Company limited is a subsidiary of the Aga Khan Fund for Economic Development (AKFED), Switzerland. It was incorporated in Pakistan on June 29, 1995 as public limited company under the companies' ordinance 1984. Its shares are quoted on the KSE. The company started its business on June 20, 1996. Paid up capital of the company is Rs. 627 million, which is the highest amongst public insurance companies in Pakistan. Within a decade NJI Life has been able to

---

<sup>64</sup> [http://www.aig.com/gateway/home/1-9-Pakistan\\_index.htm](http://www.aig.com/gateway/home/1-9-Pakistan_index.htm)

<sup>65</sup> <http://www.nji.com.pk>

make over 35,000 individual customers and over 650 corporate customers covering over 500,000 lives in total.

The operations of general insurance businesses started late in 1961 with the name of Commercial union at that time which eventually converted into New Jubilee insurance. It has been well known entity in the corporate sector. Later on, the company went in to two types of life insurance i.e. Group life insurance and individual life insurance. The business of life insurance is being done through the agents of company's own branches which are spread throughout the country. Talking about the products, Mr. Javed Ahmed, MD and chief executive New Jubilee Life insurance, says: *"Our products are not new for the market but we have offered the flexibility which helped a lot in building up our repertoire."*

### **Adamjee Insurance Company Ltd.**

<sup>67</sup>Adamjee Insurance Company Limited is the leading general insurance company of Pakistan. It has remained the symbol of reliability & convenience since its inception in 1960. It is one of the subsidiary companies of Nishat Group. The Company has a large network of branches across Pakistan & an overseas branch in UAE.

Adamjee Insurance Company Limited (AICL) was incorporated as a public limited company on September 28, 1960 and is listed on Karachi and Lahore stock exchanges of the country. The company is also registered with the Central Depository Company of Pakistan Limited (CDC).

Adamjee is the largest non-life insurance company in Pakistan. In 1996, Adamjee accounted for 41% of the industry's gross premium and 43% of the total profits. It is the largest insurance company in Pakistan's highly profitable non-life insurance sector. Widely recognized as one of the best-managed local companies in Pakistan, Adamjee has never missed a single dividend since 1964, which has grown at a rate of 17.2% since 1970. The top two insurers (Adamjee and EFU) accounting for 61% of the industry's total premiums, and the top five for 78%. Below is the glimpse of financial performance of Adamjee Insurance Company in year 2006;

---

<sup>66</sup> Interview: Pakistan and Gulf economist, edition (May 14-20, 2007)

<sup>67</sup> [http://www.adamjeeinsurance.com/who\\_we\\_are/company\\_profile.aspx](http://www.adamjeeinsurance.com/who_we_are/company_profile.aspx)

<b>2006: Highlights of Financial Performance</b>			
<b>(Rupees in Millions)</b>			
<b>Financial Indicators</b>	<b>Dec-06</b>	<b>Dec-05</b>	<b>Increase</b>
Shareholder's Equity	3,788	2,426	56%
Investments	4,503	3,040	48%
Total Assets	11,139	9,182	21%
Direct Premium	7,912	6,682	18%
Underwriting profit(Inside Pak)	547	346	58%
Underwriting profit(overall)	482	306	57%
Profit before Tax	1,685	1,278	32%
Profit after Tax	1,577	1,163	36%
Investment Income	1,515	1,147	32%
Earning per Share	15.42	11.38	35%
<b>Source: THE NEWS Int'l, April 11, 2007, Wednesday</b>			

### **National Insurance Company Limited (NICL)<sup>68</sup>**

In 1947 subcontinent was divided in two sovereign states --- Pakistan and India. At independence Pakistan inherited 5 insurance companies. Later 2 more companies shifted their offices to Pakistan making a total of 7 companies competing against 77 foreign insurance companies.

In 1948 Insurance Association of Pakistan (IAP) was established as tariff determining body. IAP also acts as a connecting link between the government agencies and the private sector insurance companies.

In 1953, as the country progressed the Government of Pakistan realized the need to promote indigenous insurance industry and to check the flow of funds from Pakistan to foreign companies. Pakistan Insurance Corporation (PIC) was established in 1953 under Pakistan Insurance Act of 1952. All insurance companies were required to cede 10% of all business underwritten in Pakistan to the PIC. This was later increased to 30%.

---

<sup>68</sup> <http://www.nicl.com.pk/services/>

In 1955 National Co-Insurance Scheme (NCS) a pool of Pakistani companies was sponsored to help Smaller Pakistani companies grow. The result was an increase in number and financial strength of Pakistani companies.

In 1973 Following the Government's decision to nationalize all types of industry, NCS was converted into National Insurance Fund (NIF) in 1973.

In 1976 National Insurance Fund was converted into National Insurance Corporation in 1976. The corporation became the sole insurer of the Public sector enterprises.

In 2001, in January 2001, the government changed the legal status of the National Insurance Corporation to National Insurance Company Limited and raised its paid up capital from Rs 5 million to Rs 2 billion, thus making it the largest insurance company in Pakistan.

#### **ALICO**

Alico's emphasis is on continuous education and field training. Their policy of developing local talent has greatly contributed to its success in understanding and responding to changing customer needs.

#### **EFU**

Eastern Federal Union Insurance Co. Ltd started its operations in 1993 and has over 14 branches in Pakistan. But its origin can be traced back to 1932 in Calcutta where it emerged for the first time as a Muslim Life and general insurance company in the sub-continent. EFU life earned its first profits after five years of starting its operations in the life business. The company has reinsurance arrangements with the "Munich Reinsurance companies.

#### **Metropolitan Life Assurance Company**

Metropolitan Life Assurance Company of Pakistan is one of the four private insurance companies that entered the life assurance field following the lifting of nearly quarter of a century's monopoly of State Life. The other three were EFU, American Life and Commercial Union. Metropolitan Life commenced operations on February 22, 1993. The company intends to focus on renewed concentration on expanding the Group life

Insurance portfolio; stricter expense control; increase business procurement from urban cities; improve internal working of support areas and improve product base to meet needs of the clients.

### **New Hampshire Insurance Company**

New Hampshire Insurance Company a member of the American International Group, Inc. has been operating in Pakistan since 1949 with offices in all major cities Islamabad, Lahore, Faisalabad, and head office in Karachi. They offer Automobile, Personal Accident & Health and Homeowners Insurance. For commercial and industrial clients various insurance schemes are offered including Property Insurance, Marine Insurance, Liability Insurance and Workmen Insurance. As far as the profitability of all the Life Insurance companies is concerned, life insurance being a long-term business, it usually takes between 5-7 years for a company to enter the profit phase. EFU life earned its first profits after five years of starting its operations in the life business.

### **Pakistan Re-insurance Company<sup>69</sup>**

The Company is the only professional Reinsurance organization operating in Pakistan. It accepts 15% compulsory quota share from the general insurance companies operating in Pakistan who are also required to offer, at least 35% obligatory surplus to PRCL. Its also accepts local facultative business and foreign treaty and facultative cessions. The compulsory and voluntary cessions to PRCL provide very attractive and competitive terms to the local insurance companies. Cession under 15% Quota Share has no maximum limit and this provides comparatively higher rate of commission for the portfolio which would otherwise be reinsured on facultative basis with lower commission.

---

<sup>69</sup> <http://www.pakre.org.pk/Miscellaneous.ASP>



## **Annexure II**

### **Bancassurance: Issues & Success Factors**

#### **Issues to be tackled**

Given the roles and diverse skills brought by the banks and insurers to a Bancassurance tie up, it is expected that road to a successful alliance would not be an easy task. Some of the issues that are to be addressed are:<sup>70</sup>

- The tie-ups need to develop innovative products and services rather than depend on the traditional methods. The kinds of products the banks would be allowed to sell are another major issue. For instance, a complex unit-linked life insurance product is better sold through brokers or agents, while a standard term product or simple products like auto insurance, home loan and accident insurance cover can be handled by bank branches
- There needs to be clarity on the operational activities of the bancassurance i.e., who will do the branding, will the insurance company prefer to place a person at the bank branch, or will the bank branch train and put up one of its own people, remuneration of these people.
- Even though the banks are in personal contact with their clients, a high degree of pro-active marketing and skill is required to sell the insurance products.
- There are hazards of direct competition to conventional banking products. Bank personnel may become resistant to sell insurance products since they might think they would become redundant if savings were diverted from banks to their insurance subsidiaries.

---

<sup>70</sup> <http://www.bimaonline.com/cgi-bin/newsupdates/ProcessArticles.asp?name=articles/bancassurance.html&slno=2374>

## **Critical Success Factors for Bancassurance**

Following are factors that appear to be critical for the success of bancassurance:<sup>71</sup>

- Strategies consistent with the bank's vision, knowledge of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanism, quality administration, synchronized planning across all business lines and subsidiaries, complete integration of insurance with other bank products and services, extensive and high-quality training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems.
- Another point is the handling of customers. With customer awareness levels increasing, they are demanding greater convenience in financial services.
- The emergence of remote distribution channels, such as PC-banking and Internet-banking, would hamper the distribution of insurance products through banks.
- The emergence of newer distribution channels seeking a market share in the network.

---

<sup>71</sup> <http://www.bimaonline.com/cgi-bin/newsupdates/ProcessArticles.asp?name=articles/bancassurance.html&slno=2374>

### **Annexure III**

#### **Issues to be tackled by Takaful Companies**

Following are the issues that should be taken care of:<sup>72</sup>

- A Takaful operator has an obligation to ensure that all aspects of the insurance operations are compliant with Shari'a rules and principles. To do so, it will draw on in-house religious advisers, commonly known as a Shari'a board.
- The Takaful operator will be representing to policyholders, either explicitly or implicitly, that its operations are in accordance with Shari'a rules and principles. Some regulators would consider they had a responsibility to ensure that such representations are well-founded.
- In a Family Takaful plan there are generally no guarantees (i.e. they operate on a 'defined contribution' rather than a 'defined benefit' basis). This implies that the risk profile is different from the standard insurance product, where guarantees are normally given in terms of maturity benefits, surrender benefits and death benefits. This has implications both for capital adequacy and for disclosure to consumers.
- The solvency regime needs to reflect the location of risk. For example, if there is a deficit in the underwriting fund, how strong is the obligation on the operator to give an interest-free benevolent loan, and what account should be taken of this in the solvency regime. This raises the issue in practice of whether liability can be extended to policyholders' investment accounts.
- Because policyholders share in any surpluses and, in principle, meet any deficits in the underwriting pool, there is a need to determine how their shares should be determined. At present different companies follow different policies in this respect.
- Because investments must be Shari'a compliant, a Takaful firm cannot invest in conventional interest-paying bonds, or in certain types of equity (brewers being an obvious example). There are also limitations on the use of

---

72

<http://www.ifsb.org/view.php?ch=4&pg=261&ac=16&fname=file&dbIndex=0&ex=1189406704&md=8%97o%DD%AC%ED%D87%15%D6y%60%D3F%C0q>

derivatives, for example to hedge currency risk. The asset risk profile will therefore be different from that of a conventional insurer.

These are only examples, but they should be sufficient to indicate that regulatory regimes developed for conventional insurance cannot necessarily be applied uncritically to Takaful.

There is thus a need to develop standards and interpretations:

- To provide benchmarks for use by Takaful supervisors in all jurisdictions adapting and improving existing regulatory regimes or, where necessary, establishing new ones.
- To address regulatory issues, such as risk management and financial stability, for the Takaful industry.
- To provide appropriate levels of consumer protection in terms of both risk and disclosure.
- To support the orderly development of the Takaful industry in terms of acceptable business and operational models, design and marketing of Takaful products.

## **Annexure IV**

**Interview of Ms. Nasreen Rashid**

**Chief Operating Officer Adamjee Insurance Company Ltd.**

### **Interview with KalPoint.com**<sup>73</sup>

**KALPOINT.COM (KPDC): Please share a little about your family, education and brought up?**

**Ms. Nasreen Rashid (NR):** After completing my Associate-ship I joined Adamjee Insurance and it has been about 13 years now. I served at Adamjee initially for four and a half years and then I became C.E.O. of Shaheen Insurance. I ran that company for about 6 and half years and when the management of Adamjee Insurance was taken over by MCB Bank in 2004; I rejoined the company.

**KPDC: How would you compare the insurance industry in Pakistan with the other insurance industries of the region?**

**NR:** I think that our Insurance Industry is still in its infancy stage. If we look at Europe, South Africa, America or even if we look at UAE and countries like Malaysia, Indonesia and Philippines we are way behind. Recently, we went to India and visited ICICI Lombard, which is the biggest private sector Insurance Company in India. When we looked at the way they do business, we were very impressed so we have started benchmarking ourselves with them. That is why we are not competing with any Insurance Company in Pakistan. It is our desire and passion to transform Adamjee into a world class organization.

**KPDC: What is the reason behind poor performance of the Insurance sector in our country?**

**NR:** I think it is the total failure of the insurance companies to reach the masses. They have only been focused on the whole-sale sector and never tried to approach the retail sector and that is where the numbers lie. The future of insurance business in Pakistan

---

<sup>73</sup> <http://www.edupk.com/pow/modules.php?name=News&file=article&sid=265>

as in India or in any other country of the world lies in focusing on the retail side. In India 60% of their insurance business is being executed at retail side and only 40% is on the whole-sale side. If we talk about Adamjee we have a great competitive advantage and that is our linkage with MCB Bank. MCB Bank over most other companies has about one thousand branches. We are going to make use of these branches. This month we are going to start our Bancassurance in a very big way. Bancassurance is the easiest and most cost effective way to reach the masses. Since MCB's branches are spread all over the country, even in the rural and remote areas so we will bundle our products with the bank products and we will start selling Insurance Products through these branches. Initially we are going to start with ten branches of MCB and then by the end of the year it will be increased to hundred branches.

**KPDC: Please tell us what is the importance of insurance in our industrial and commercial organizations? Why should one acquire insurance?**

**NR:** I think in our country insurance is acquired mostly by the commercial and industrial sector to fulfill the contractual obligations. In Pakistan the general public is not very much aware of the importance of insurance. Many people don't believe in insurance because of the religious reasons.

**KPDC: Being a woman, what hurdles did you actually face when stepping into your career?**

**NR:** Well, a woman not only in Pakistan but throughout the world has to face a lot of gender bias, especially at senior management positions. When I stepped into the professional life, I faced the same bias but I am a fighter by nature and the more difficult the situation, the stronger is my will to succeed. By the grace of ALMIGHTY ALLAH, I managed to prove myself and make my way to reach here.

**KPDC: Whom would you dedicate your success to?**

**NR:** Of course, it's all first of all because of the grace of ALMIGHTY ALLAH that I have been able to reach here and then it's my mother who gave me a strong value system, a solid upbringing and quality education. Here, I would also like to mention the cooperation of my kids who have always been very supportive.

**KPDC: How much insurance industry has progressed in the past years and what future do you see for this industry in Pakistan?**

**NR:** Our Insurance industry has been progressing at a snails' pace. I think AIC's takeover by MCB Bank was like the 9/11 event. It literally shook up the entire industry from its deep nap. It is now maturing at a very rapid pace.

**KPDC: How many types of insurance do your company offer and which type is most famous amongst public? And do you offer your services in the rural areas of the country or they are only limited to the bigger cities?**

**NR:** Well, Adamjee is one of the pioneers in insurance business. We offer the biggest bouquet of products. In fact Adamjee has been always the first to introduce innovative products. We have established a separate product development department which is dedicated to roll out four new products this year. Our Bancassurance department will launch some good products specially planned for the retail market.

**KPDC: Generally people avoid insurance as it is not affordable for a common man to pay hefty amount for premiums. Does Adamjee plan to launch any insurance product with more affordable premiums in future?**

**NR:** Yes, we will launch small ticket size products this month. The premiums will be affordable by small income groups.

**QUESTION: Are you satisfied with the quality of professional trainings and educational programs being provided in Pakistan specifically in the area of insurance? (Sultan Ahmed, Karachi)**

**NR:** I think the insurance sector has is a very long way to go. The quality of human resource is one of our weakest areas. Unfortunately, most insurance companies of our country have been involved in unhealthy competition and price war. As a result they haven't been able to play their role effectively towards the collective good of the industry. But now, the Commerce Ministry and SECP have also started to play an active role in this regard. Professional institutes like Pakistan Insurance Institute and Karachi Insurance Institute, are being encouraged. The Insurance Association of

Pakistan is also taking a lot of interest in this area and we feel that in the years to come the quality of training in these institutes is going to improve. Our company is also playing a significant role towards supporting the educational institutes. We have offered scholarships and employment opportunities for the top 3 to 5 students of Hailey College in Punjab. We have also nominated some gold-medals for the students of the same college. Apart from that our Executives, visit Karachi University and teach the students of MSc.

**Question: I would like to know what amount of time it takes to settle an industrial insurance claim and what is the process to file a successful claim?  
(Akbar Ali, Hyderabad)**

**NR:** We always say that ‘we are in the business of paying claims’ instead of saying that we are running an insurance company. I am very happy to tell you that in the next couple of weeks, our clients will be able to lodge their claims online on our website and buy insurance on the net too. I think this will be a very important development. Adamjee Insurance has always been the leader and innovator in this sector and will play the leading role again. Unfortunately, we don’t have any benchmarking in our industry. If you look at the international insurance sector, there are benchmarks for everything. For instance, a motor claim needs to be settled or responded within 48 or 72 hours. All insurance companies in the developed countries have such benchmarking except our country. We have taken a major step in order to improve our response time. We have purchased a state-of-the-art IT system from India. The implementation and installation of this system has already started and by the end of the year we will be able to set-up a call center as well. Our call center will also generate an SMS on their mobile phone numbers through which they will be able to know the status of their claim.

**Question: why your company does not offer Life Insurance? Is there any particular reason behind that policy? (Arasalan Qureshi, Lahore)**

**NR:** I believe that our company should have entered into the life insurance sector about 10 to 15 years earlier. I don’t know why the previous management didn’t take this decision. If you look at the potential for the Life Insurance, the Life Insurance



penetration is only 0.4% of GDP. According to our feasibility and calculations, there is an untapped potential of about one billion US\$. We are going to set up a life insurance before the end of this year. For this, we are talking to some foreigner partners. We have already applied for the license and hope that before December this year we will be ready with our life insurance Company.