

Pakistan's Insurance Industry- Concept, Scope, Growth and Future

The concept of sharing risk and helping one another in times of need or misfortune has been in existence since the earliest of civilization. Societies were formed on this very concept of sharing and protecting one another. The concept remained the same while the means and methods changed from time to time. In the present era, we use the term 'Insurance' for this concept.

Insurance is defined as a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of an unexpected loss. Agreeing to the terms, an insurance policy creates a contract between the insured and the insurer. In exchange for payments from the insured (called premiums), the insurer agrees to pay the policy holder a sum of money upon the occurrence of a specific event.

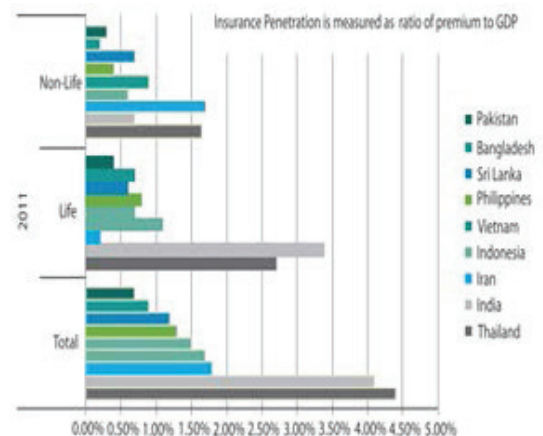
Insurance Industry Present Outlook- Pakistan

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density has remained very modest as compared to other jurisdictions as evident from the graphs.

However, the situation has been improving over the last 5 years and the insurance industry, especially Life Insurance, has shown tremendous growth. This growth can be attributed to the change in perception of life insurance which is now

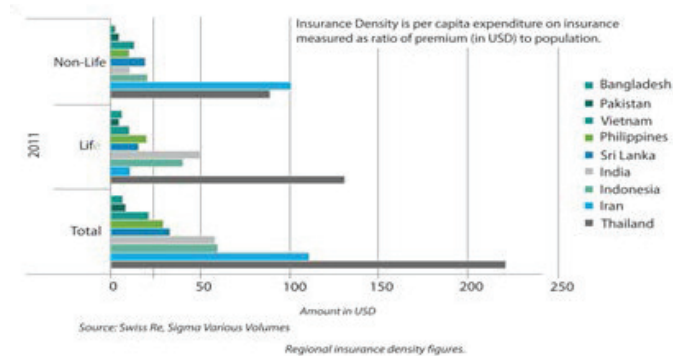
Regional insurance penetration figures.

Source: Swiss Re, Sigma Various Volumes



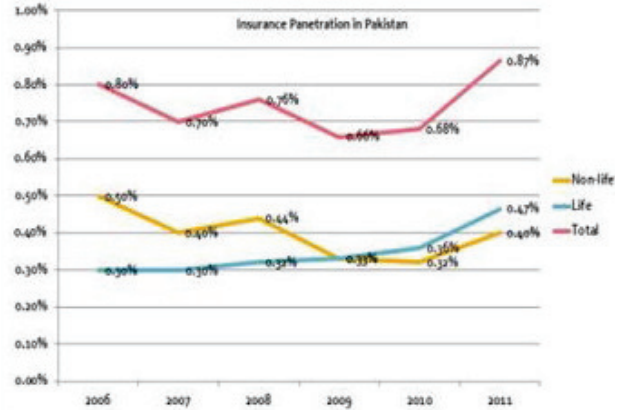
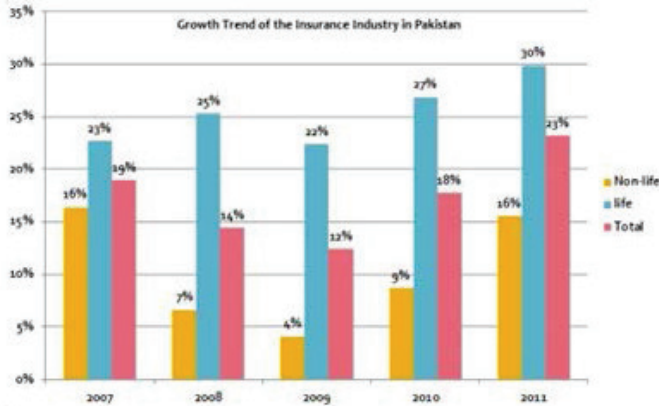
being perceived as security for a prosperous future should something untimely and unfortunate happen. This positive change is depicted in the graphs:

These growth statistics are encouraging and with the right set of macroeconomic reforms, further liberalization and market based regulatory and supervisory regime substantial development can be expected in the future.



Scope of Life Insurance Industry in Pakistan:

Life insurance affects a country's social and economic structure to a great extent. Due to its nature, life insurance differs from all other kinds of insurance. In the last few years, the life insurance sector in



Pakistan has experienced tremendous growth of 30-35% annually. There have also been many product and operational innovations as a result of customer need and increased competition among the players. Although the industry faces the challenges of uncertain economic conditions, it has also benefited from the changes in the regulatory environment.

The impressive growth of the last few years is due to aggressive expansion of the distribution channels, especially bancassurance which now comprises of a significant proportion of the business of most of the private sector players. Bancassurance has enhanced the insurance industry in Pakistan in terms of increased market penetration by being able to access millions of bank customers.

Recently, SECP has allowed conventional companies to open Window Takaful operations and this will further boost the insurance sector as companies with their existing substantive distribution channels will be able to target the market, which to date for religious reasons, has not been accessible. Takaful now gives this target market the opportunity to access the value proposition of insurance. Takaful aims to target the market that deems conventional insurance against the Islamic principles.

Even though Insurance is primarily a matter of private contract, it is largely affected with the public interest. The regulatory laws have facilitated in building consumer trust by taking measures to control market conduct, prevent unfair trade practices, monitoring and preserving financial solvency, standardizing insurance products etc.

Future of Insurance Sector in Pakistan

The key drivers of insurance growth in a country are typically macroeconomic factors, regulatory factors and demographics of a country. In Pakistan the insurance penetration is only 0.7% of GDP (2011), which is very low as compared to countries like India and Bangladesh. Yet there is a silver lining: new opportunities. There is a remarkable opportunity for the whole sector as there is a huge untapped market. Insurance companies can take advantage of this opportunity with innovative products tailored to consumer needs. Life insurance in Pakistan promises exciting growth.

Further, given the recent growth there is also room for new players in both conventional and Takaful areas. However, multinational players do not appear to be interested in exploiting this growth potential, though the unstable political and security environment is mainly responsible for that lack of interest. A major challenge facing the insurance sector is lack of quality human resources. Insurance companies need to invest in developing the competencies and skills of their employees along with technical ability to innovate new products. Further, inculcating ethics and good business practices is also crucial.

Another major area of utmost importance is customer services. The needs of the customers are evolving and they rightly demand value and differentiation in return for their loyalty and long term relationship. To make it more complex and expensive, insurers must also abide by the numerous operational, regulatory, and financial requirements. When insurers deliver an exceptional and engaging customer experience, it eventually translates into profits. Therefore, continuous improvement and innovation is required in this area for insurance companies to excel.

CONCLUSION

The insurance sector is going through dramatic changes worldwide, creating new challenges to the insurers and regulators. Therefore, it is essential for insurance companies to achieve organizational and operational restructuring to achieve overall efficiency. At the same time, avoid increased financial risk and uncertainties.

Lastly, it is imperative for all the businesses that are present in the insurance market to present life insurance to an individual with all its advantages and benefits. Better education and awareness that would result from a fair and quality transfer of knowledge would itself represent a motivational force that could be highly beneficial for the insurance sector and for the economy as a whole.

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