Pakistan Insurance Institute Quarterly Newsletter

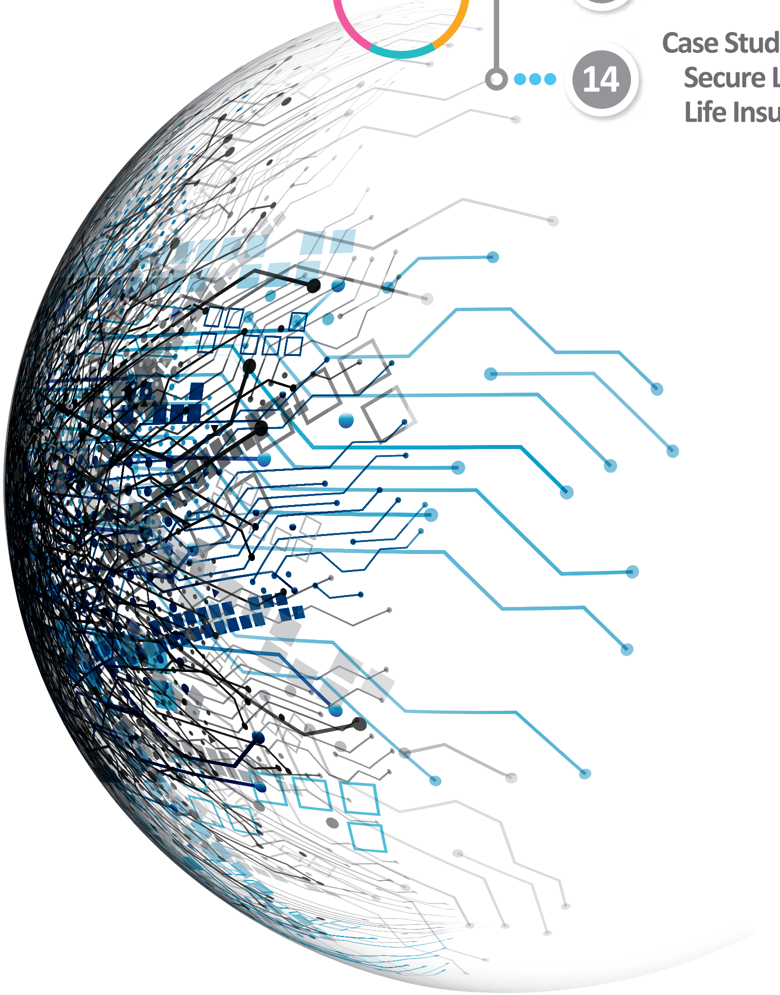
INSURE

Issue 25, March 2019

PII
Pakistan Insurance Institute
Since 1951

CONTENTS

"The challenge is not the technology. It's how it is delivered is key"
Matteo Carbone



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Property & Business Interruption Underwriting & Claims

March 6, 2019

Pakistan Insurance Institute organized a half day workshop on the topic of "Property & Business Interruption - Underwriting and Claims" and invited Nabeel Turabi, Property & Casualty Manager, Chubb Insurance Pakistan, Azfar Arshad, EVP & Head of Operations, Jubilee General Insurance Ltd. and Hasnain Nanjee, Director, Iqbal Nanjee & Company (Pvt) Ltd. to conduct the workshop.

In the first session Nabeel Turabi provided an in-depth analysis of the process of evaluating a risk, and using that information to decide about the acceptability, pricing and terms.

Underwriter has a broader overall role to write a profitable portfolio.

Underwriting Evaluation – COPE

- Construction
- Occupancy
- Protection
- Exposure

To evaluate the risk, role of engineers is very important.

Role of Engineers

- Risk Identification
  - » Maintenance Programs
  - » Moral and Physical Factors
- Risk Appraisal
  - » Physical Damage
  - » Working Condition
  - » Consequential Loss
- Risk Control
- Claims investigation

During his session, he distributed a case study for risk review and this session was very interactive and informative.

After discussing the case study he discussed various manuscript wordings and practical challenges faced by underwriters as below:

Practical Challenges

- Information
- Values
- Tendering (yearly)
- Timely reporting of claims
- Pricing sacrificing quality

Nabeel also highlighted the challenges and shared some of the catastrophic claims around the globe.

Business Interruption (BI) Underwriting

Following tea break Azfar Arshad presented a comprehensive review of underwriting Business Interruption.

The main goal of this session was to understand the principles of Business Interruption underwriting.

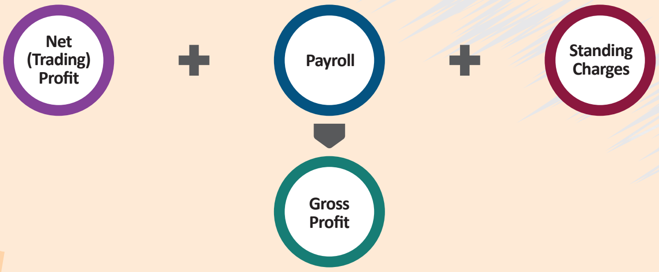
Effects of Fire on a Business

The purpose of business interruption insurance is to indemnify the insured against the effect which damage to property has on the income of the business.

Subject matter of Business Interruption insurance is Gross Profit. This refers to that part of the insured's turnover, which is at risk following destruction or damage at the insured's premises (excluding variable costs).

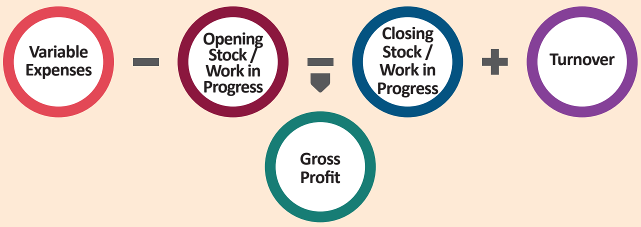
2 Ways of arriving at the Gross Profit

Addition Method – Listing the insurable amount from the Accounts



The items to be covered have to be listed in the policy and the amounts have to be totaled from the Accounts which requires a constant check on the items included

Difference Method – Turnover Less Non Insured items (e.g. variables)



Gross Profit is understood to be the amount of turnover less the amount of variable expenses

or

The amount by which the sum of the turnover and the value of the closing stock shall exceed the value of the opening stock and the specified working expenses

Meaning of the Sum Insured in Business Interruption Insurance policy is

- Maximum Liability
- Basis for premium calculation (as in property)

Setting the sum insured is the responsibility of the Insured.

The insured must consider the following factors for the evaluation of sum insured:

- General rate of inflation (or deflation)
- Past performance of the business
- Plans for future expansion
- Maximum period the company needs to recover in case of a loss

Two Ways to agree on BI Sum Insured

Sum Insured Basis ("Provisional Premium")

- Insured agrees on TSI in excess of the assessed amount for the period of insurance
- 75% provisional premium is paid at inception
- Insured supplies details on Gross Profit actually earned in the year of insurance when accounts are available
- Final premium is calculated and insured pays difference or receives a refund (usually maximum 1/3 of the 75% of provisional premium paid)

Linked basis ("Declaration")

- Insured provides an estimate of Gross Profit for the period of insurance. Insurer provides cover for this amount plus one third, i.e. up to 133.33% of estimate
- Premium is paid on the estimated TSI, and adjustment are made as above
- Average does not apply up to the 133.33% limit, all losses to be paid in full up to this amount

Indemnity Period / Maximum Indemnity period

The Business Interruption Insurance Indemnity Period is the period during which the business' results are affected due to the loss or damage, beginning with the date of the loss or damage and ending not later than the Maximum Indemnity Period.

The Maximum Indemnity Period is stated within the Policy Schedule. Common Maximum Indemnity Periods are 12 months, 18 months, 24 months and 36 months. When deciding upon the length of the period you need to work out how long it would take your business to recover back to today's trading levels following a Fire, Theft or the perils covered under material damage policy.

Factors that influence the stipulation of the Maximum Indemnity Period

Increased Cost of Working is an additional expenditure necessarily and reasonably occurred for the sole purpose of avoiding or reducing the shortfall in turnover during the indemnity period.

Insurers will cover an Insured's increased cost of working as long as it does not exceed the economic limit.

Formula for Economic Limit =
Rate of Gross Profit x Reduction in Turnover
avoided by increased cost of
working

Material Damage Proviso

No claim is admitted under a business interruption policy unless the interruption has been caused by material damage for which property insurers have accepted liability, or would have accepted liability, but for operation of deductibles.

Material damage and BI are intended to go together. In case of breach of warranty, there would be no payment under either policy.

Contingent Business Interruption / Customers & Suppliers

BI following property damage at specified customers or suppliers: Why is it important?

- » Increasing dependency amongst industrial and Medium Sized companies
- » One important customer may make the difference
- » Alternative suppliers may need lead time for special requirement
- » The larger the company, the more complex its trade relationships.

A challenge to underwriting management because of:

- » Potential accumulation exposures with other business
- » Potential lack of transparency / insufficient information
- » Possible concerns of the insured about confidentiality
- » Pricing difficulties Coverage?
- » Scope of cover acceptable? / Physical damage trigger required?
- » Is maximum coverage expressed as a sub limit (in amount or %) per name customer / supplier?
- » If the coverage is given in the name of unnamed customers/suppliers, is the sub limit much lower?

Claims

In the last session of the workshop Hasnain Nanjee was the facilitator on the topic of claims and he discussed various Energy Sector Losses in detail with remedies and consequences of those losses.

He also discussed the history of some major losses that he had attended in Oil and Gas sector and Power Generation.

On conclusion of the workshop, Mr. Tahir Ahmed, Chairman, Pakistan Insurance Institute thanked the speakers for their very interesting and enlightened presentations of a technical subject and presented them with mementos.

The workshop was followed by lunch and all the participants had a chance of networking, and participants from various insurance companies found it to be a learning experience.

Interpersonal Communication Skills

February 19, 2019

A workshop on Interpersonal Communication Skills was held on February 19, 2019 at Movenpick Hotel, Karachi which was attended by 44 participants from the insurance industry.

Ms. Arshi Ahmad Aziz, a well reputed training consultant of Pakistan who is founder and Lead Trainer of Institute of Training & Consultancy (ITC) conducted the workshop.

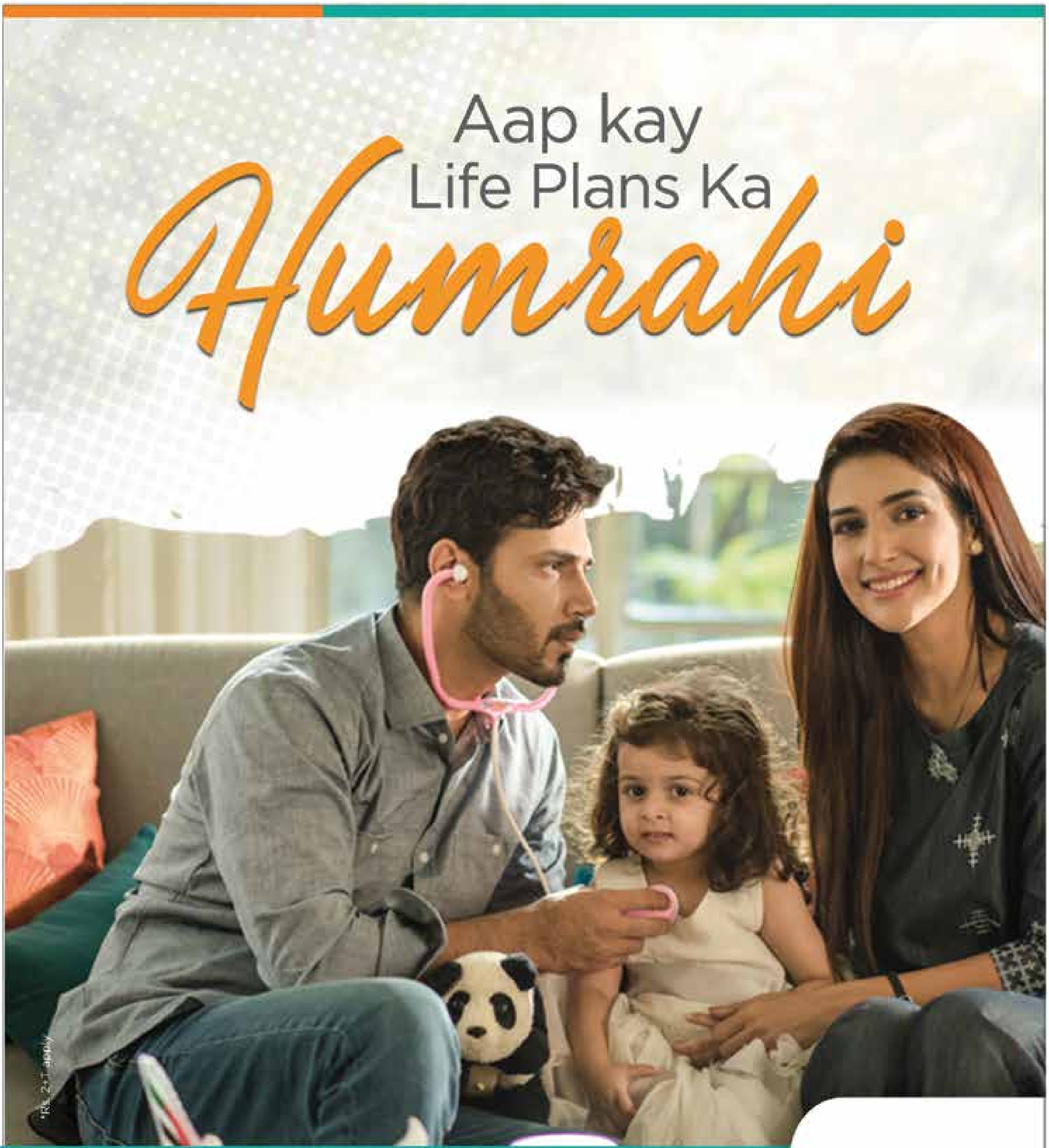
It was a very interactive session in which Ms. Aziz explained that the way we communicate with people depends on our relationship with them. The communication model was discussed in order to gain an understanding of the possible problems that can occur in the encoding and decoding process of communication. Simulation exercises explored the impact of communicating one-way as compared to two way and the benefits and drawbacks of each method.

The concept of perception and its effect on communication was discussed and participants were led through a step by step strategic approach to communication for easy understanding and implementation.

Other topics covered were non verbal communication, the interpretation of body language and the importance of active listening for effective interpersonal communication.

The participants gave very positive feedback and over 95% felt that it was interactive, well organized with useful material provided and helpful in knowledge sharing and networking.

A job aid / handout summarizing the concepts discussed was distributed to the participants at the end of the session.


Aap kay
Life Plans Ka
Humrahi

INNOVATION IN TECHNOLOGY THE FUTURE IS HERE !

DRONES

Drones can check the condition of roofs and other difficult-to-access property, both at the time of underwriting and during claims, for quick and accurate assessments.

Drones could save the insurance industry up to $6.8 billion per year.

https://www.pwc.pl/pl/pdf/clarity-from-above-pwc.pdf

ARTIFICIAL INTELLIGENCE

Artificial Intelligence will seek out patterns that previously were indentifiable only by the most experienced underwriters.

75% of insurance execs believe Artificial Intelligence will transform the industry in the next 3 years.

https://s3.amazonaws.com/assets.accenture.com/PDF/Accenture-Tech-VisionReport-2017.PDF

DATA ANALYTICS

New data sources and analytics will enable more accurate assessment of a business's unique risks.

Data analytics will be at $76 billion market by the end of 2020.

http://www.snstelecom.com/bigdata

WEARABLES

Wearables will prevent accidents in high-risk industries. For example, wearables could be used to ensure employees lift properly, avoiding workers' comp claims.

By 2020, more than 75 million wearables will pervade the workplace.

https://www.pwc.com/ee/et/publications/pub/pwc-cis-wearables.pdf

MOBILE LOCATION DATA

Combining mobile location data with AI allows insurers to more accurately assess risk - a trip to the coffee shop and a trip to the bar carry different degrees of risk.

Location-based information is expected to be worth $61.9 billion by 2022.

http://www.prnewswire.com/news-releases/location-based-services-market-expected-to-reach-61897-million-by-2022-globally---allied-market-research-612280803.html

CYBER SECURITY

Data breaches, ransomware and other attacks leave businesses exposed. Cyber coverage is helping businesses guard against these risks.

The cyber security industry will grow from $137.9 billion in 2017 to $231.9 billion by 2022.

http://www.marketsandmarkets.com/PressReleases/cyber-security.asp

BLOCKCHAIN

Blockchain's decentralized ledger will help with data exchange between parties, simplifying both the quote and claims processes.

The blockchain market is projected to grow from $210.2 million in 2016 to $2.3 billion in 2021.

http://www.marketsandmarkets.com/Market-Reports/blockchain-technology-market-90100890.html

INTERNET OF THINGS

Real-time data from IoT devices will make ongoing risk monitoring easier and help businesses better predict and prevent incidents.

The global IoT insurance market will be worth $42.8 billion by 2022.

http://www.marketsandmarkets.com/PressReleases/iot-insurance.asp

AUTOMATION

Insurance will automate routine processes, leaving time and resouces for building client relationships and coaching businesses to reduce risk.

By 2025, there will be 5.3 robots per 1,000 humans, up 4x from 2017.

https://www.sciencealert.com/new-statistics-reveal-the-scale-of-robots-replacing-human-workers

SIZE OF INSURANCE MARKET OF PAKISTAN 2017~2018*
(INCLUDING PUBLIC SECTOR)

CONVENTIONAL BUSINESS

Life Insurance

	2017	2018
Number of Companies	07	07
Gross Premium Written in PKR	188 BILLION	117 BILLION
Premium to GDP Ratio	0.60%	0.45%

Non- Life Insurance

	2017	2018
Number of Companies	30	29
Gross Premium Written in PKR	76 BILLION	70 BILLION
Premium to GDP Ratio	0.24%	0.27%

TAKAFUL BUSINESS

Family Takaful Operators

	2017	2018
Number of Companies	02	02
Gross Written Contribution in PKR	10 BILLION	6.4 BILLION
Contribution to GDP Ratio	0.03%	0.02%

General Takaful Operators

	2017	2018
Number of Companies	03	03
Gross Written Contribution in PKR	01 BILLION	01 BILLION
Contribution to GDP Ratio	0.00%	0.00%

*Upto September 2018 (Estimated)

Source: Insurance Association of Pakistan

WINDOW TAKAFUL BUSINESS

Window Family Takaful Business

Window General Takaful Business

Window Family Takaful Business

	2017	2018
Number of Companies	04	04
Gross Contribution in PKR	12 BILLION	10.58 BILLION
Premium to GDP Ratio	0.04%	0.04%

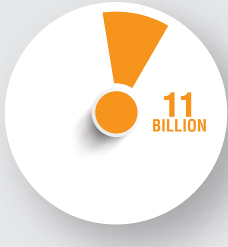
Window General Takaful Business

	2017	2018
Number of Companies	17	21
Gross Contribution in PKR	06 BILLION	6.4 BILLION
Premium to GDP Ratio	0.02%	0.02%

Total Premium Written by Conventional (Life & Non Life) Insurance Companies

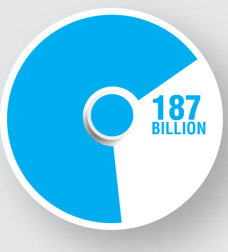
Total Contribution Written by Takaful (Family & General) Operators

Total Contribution Written by Window Takaful (Family & General) Operators



2017

TOTAL 293 BILLION — GDP RATIO OF TOTAL BUSINESS 0.92%



2018

TOTAL 211 BILLION — GDP RATIO OF TOTAL BUSINESS 0.81%

REINSURANCE

Pakistan Reinsurance Company Limited (PRCL)

	2017	2018
Premium (Non-life Conventional Only) written in PKR	08 BILLION	7.3 BILLION
Premium to GDP ratio	0.03%	0.03%

ACKNOWLEDGMENT

In appreciation for the valuable contribution in knowledge sharing activities of Pakistan Insurance Institute Ms. Achala Nayak, Director, J B Boda & Co (S) Pte Ltd being presented a memento by Mr. Tahir Ahmed, Chairman, Pakistan Insurance Institute

Secure Life – Reshaping the Life Insurance Distribution Landscape

Case studies received for the Case Study Competition 2017 are being reproduced for our readers interest

Introduction

It was late December 2015, and Zafar Iqbal found himself looking forward to the Senior Management Meeting that he was scheduled to preside over at the beginning of the next year. Given his role of Chief Strategy Officer at Secure Life Assurance Ltd. (Refer to Exhibit 1 for Company's profile), it was his job to provide recommendations to the company's senior management that in turn facilitated the in-depth strategic discussions which were fundamental in maintaining Secure Life's leadership position in the evolving life insurance industry. However, nearly a year before in response to the widespread perception that the industry was facing an unprecedented set of challenges such as low life insurance penetration rate in Pakistan, Zafar had been asked to undertake a comprehensive review of how the industry was likely to evolve and whether Secure Life should consider making significant changes in its core distribution strategy and/or its business model as a result.

About Secure Life

- One of the players in the life insurance industry of Pakistan providing a comprehensive range of financial planning solutions.
- Quality provider of long term savings and protection products to meet different life stage requirements of its customers.
- Business strategy focused on middle income and above socio-economic group for its retail products.
- Current distribution channels include:
    - Specialized Sales Force: Providing one to one consultation to individuals interested in buying life insurance products.
    - Bancassurance: Allows it to put forward insurance based products and services to the clients of banks ensuring an even greater reach.

Exhibit 1 Secure Life's Company Profile

Following this, Zafar had pulled together a competent team of high calibre individuals to look at the changing dynamics and key environmental uncertainties facing the industry with the motive of answering the question, "What should Secure Life do in the future to secure a greater market share and ensure a greater reach to the market?" The team worked into three interrelated phases: the first one being related to understanding and researching on how the future of the industry might evolve, the second being related to exploring alternative distribution channels for reaching the market and the third being exploring the feasible distribution channel options available to Secure Life with respect to its core capabilities.

The team under the leadership of Asma Sohail, Senior Manager of Strategy & Planning Department at Secure Life, had successfully completed the first two phases and Zafar was confident that the team now had an idea of the changing industry dynamics as well as of the avenues in which the company can tackle issues such as low insurance penetration rate through viewing it as an opportunity rather than an obstacle. However, for the last phase, the team yet had to test and trial with other unconventional distribution channels which supported the company's core competencies as well. Hence, as a team they needed to come up with recommendations for Secure Life's senior management as to which alternative channels the company should explore along with developing new capabilities to position the company for the future. Zafar sighed turning back to his desk as his laptop's screen indicated him of a long night ahead.

Life Insurance Industry in Pakistan

Over the years, the life insurance industry in Pakistan has been facing several challenges with the top most being the industry's size in comparison to its peers in the region. The insurance penetration and density has remained modest as compared to other markets in the world and hence, the industry remains under developed relative to its potential. Pakistan has an insurance penetration ratio (both life & non-life) of 0.84 percent in the year 2016 which is higher than 0.77 percent in the year 2015 but nonetheless remains significantly lower than its regional peers such as India: 3.44 percent and China: 4.2 percent (Refer to Exhibit 2 for Life Insurance Penetration Comparison with Regional Peers)[1]. The industry in itself hasn't entered the maturity phase which is often characterized by innovative products and advancements in product offerings however, this hasn't been the case of Pakistan's life insurance industry. Lack of public awareness is generally considered as another contributing factor which inhibits the industry's growth whereas all around the world individuals while making financial plans or taking out loans or incurring liabilities back them up with matching insurances however; this has not been the case in Pakistan as our population remains unaware about its benefits followed by the habit of the low income sector to always look for an instant result, and the misconception that bad things happen in human life due to God's will that have to be accepted.

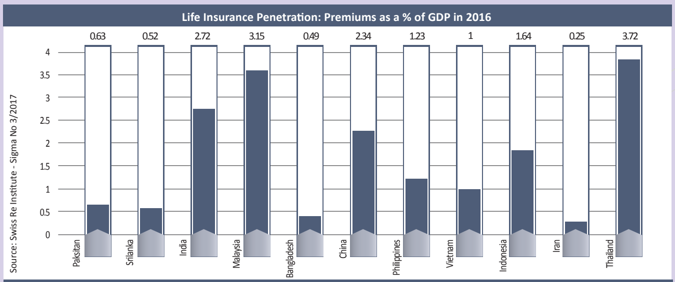


Exhibit 2 Life Insurance Penetration – Pakistan's Comparison with Regional Peers

The improving economic environment of the country and regulations have facilitated the growth of this sector. Life insurance sector has shown considerable growth due to factors such as Bancassurance (collaborating with banks to sell insurance products), aggressive marketing and greater consumer awareness. The most significant development in the industry has been SECP's granted rights to conventional companies to open Window Takaful operations which will allow companies to access target markets that haven't been tapped to date for religious reasons.

Another major development in the banking and insurance industry has been the implementation of National Financial Inclusion Strategy (NFIS) in May 2015, which focuses on achieving universal financial inclusion in Pakistan through enhancing financial access to 50 percent of the adult population by 2020.

[1]Financial Stability Review 2016
Source: http://www.sbp.org.pk/FSR/2016/pdf/3.6.pdf

The stated vision for financial inclusion in Pakistan is along the following lines:

"Individuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness[2]".

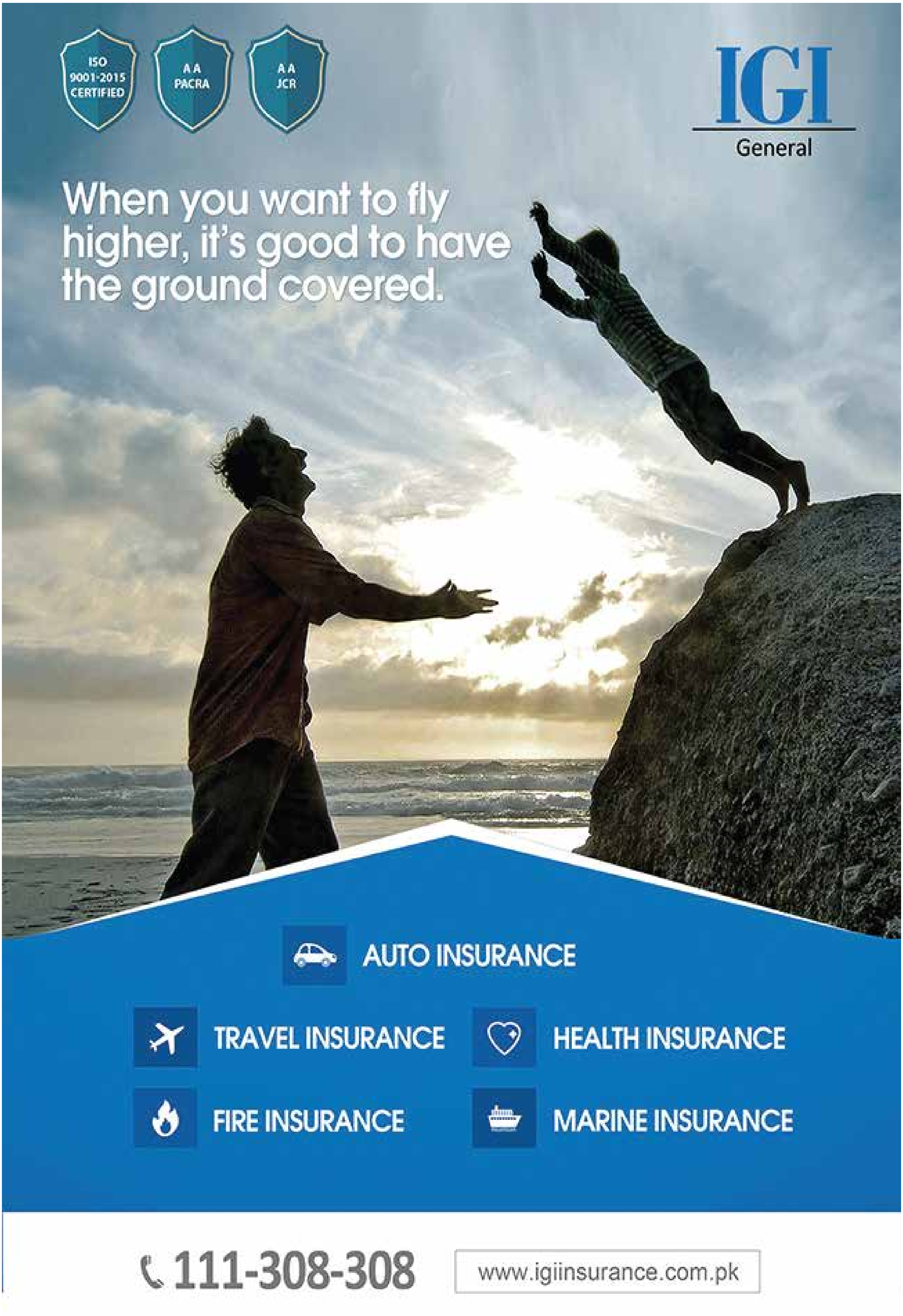
The Challenge

About hundred million adults in Pakistan, mainly classified as the mass market segment, still do not have access to formal and regulated financial services and account to about 5 percent of the world's unbanked population. Zafar Iqbal's team had realized this massive opportunity of tapping 100 million potential customers for insurance products and services. The issue that they were now faced with was the selection of relevant and appropriate distribution channels of reaching out to this market. Their extensive research also provided them insights regarding the practices carried out worldwide to tap the micro/mass segment.

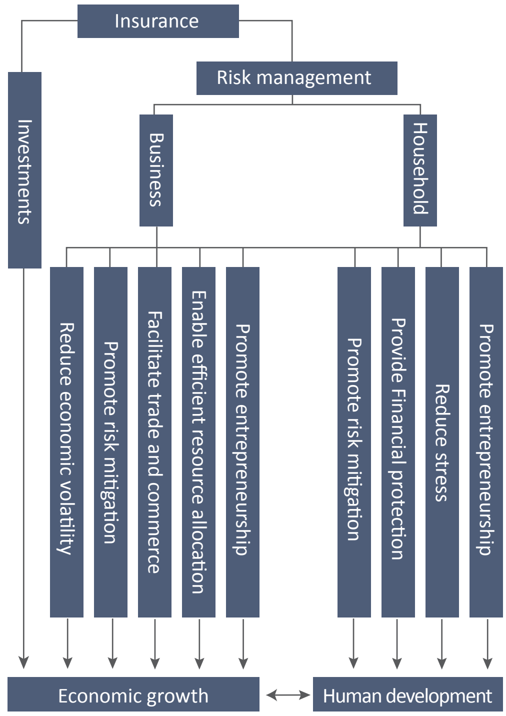
Some of the key learnings from the Pakistani market that were yielded as a result of their research included the characteristics of the unserved masses comprising of individuals belonging to SEC B and C. The incomes of the poor are not just low, but also irregular and unpredictable. Farmers face the ups and downs of seasons, income from microenterprises is volatile, and employment is highly uncertain. The lives of low-income people are more uncertain as compared to other segments of the society. Low-income households face higher risk of health problems, accidents and death, and they often live or work on land that is prone to natural disasters. Such low income households also use a variety of mostly informal tools to spread their incomes over time, deal with risk and put up large sums when needed. They borrow from friends, save in groups with neighbours or get advances from the grocery shop. These tools are flexible, but also often unreliable.

Insurance as a product has the capability to yield immediate benefits for these low-income households as it provides them core protection against the uncertainties of life such as death or disability of the breadwinner (Refer to Exhibit 3 - Insurance Supports Human Development and Economic Growth).

[2]National Financial Inclusion Strategy - Pakistan
Source: http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf


ISO
9001-2015
CERTIFIED
A A
PACRA
A A
JCR
IGI
General
When you want to fly higher, it's good to have the ground covered.
AUTO INSURANCE
TRAVEL INSURANCE
HEALTH INSURANCE
FIRE INSURANCE
MARINE INSURANCE
111-308-308
www.igiinsurance.com.pk

Channels through which insurance supports human development and economic growth.



Source: Swiss Re Institute

Exhibit 3 How Insurance Supports Human Development and Economic Growth

However, the team also realized the challenges related to product design for mass/micro market as it differs significantly from traditional insurance products with reduced premiums and coverage levels. It requires a significant refocus in every aspect of product development and delivery. Low-income household and small medium enterprises within Pakistan are vulnerable to the financial risks that they face depending on their lifestyle and earnings. They usually don't have access to financial services hence, are devoid of a formal saving mechanism and are prone to financial risk to a large extent which means that as a segment they can relate to the benefits of insurance well.

While brainstorming regarding this opportunity, Zafar Iqbal was posed with several questions regarding the viability of this approach. The foremost challenge that Zafar faced was in terms of the reservations from the stakeholders as it was for the first time that the company was entering a segment which required volumes to be profitable whereas the margins involved were bare minimum as majority of the cost constituted of administration and distribution charges in contrast to the traditional insurance products. In any such business model that caters to the segment at the 'bottom of the pyramid', the basis for returns on the investment is in terms of the acquired volume. Even though the per unit margin associated with a micro insurance policy may be small, but given the fact that the targeted population is large in number hence, the returns will be attractive if the numbers of sales are huge. This was contrary to the conventional life insurance practices where a single life insurance policy sold yielded a higher profit. Apart from this, the segment also required experimentation on a greater scale and there were no such past learnings of the industry which could have been banked upon to make this initiative successful hence, the company required specialized group of individuals and investment to ensure the effective implementation of this strategy. The stakeholders also had reservations from the perspective of reach to the targeted audience as Secure Life's current distribution channels such as Individual Sales Force and Bancassurance were mainly limited to urban cities which meant that the company needed to formulate a strategy through which it could ensure low distribution costs and effective reach to rural areas where the target market resided.

The Dilemma: Choosing the 'Right' Channel

While Zafar's team was fully cognizant of the key challenges in providing micro life and health insurance such as low premiums not being able to cover the costs insurers incur in underwriting, distribution, claims processing and other overheads, they had high hopes that as a team they could formulate an effective strategy which can overcome the challenges associated with insuring hundred million lives.

Mobile Network Operators (MNOs):

While viewing the potential of Mobile Network Operators in Pakistan, Zafar thought that as a distribution channel they could provide access to vast number of low income clients. GSMA's recent research titled 'The Mobile Economy' suggests that a large number of rapidly increasing mobile subscribers, 72 percent to be precise, are from ten countries, which includes Pakistan. It is anticipated that by 2020, an additional 17 million subscribers will be added to the current base of 137 million. Each new mobile subscription is a massive opportunity for expanding financial inclusion through an increase in the number of mobile wallets. Pakistan, hence leads its way in branchless banking as compared to South Asia. Viewing this as a viable growth and partnership opportunity, Zafar decided to further brainstorm the idea with his team. In one of the brainstorming sessions, Asma also supported the viability of MNOs as she believed that they can play the role of a passive distribution channel, which allows clients to register for insurance by using their mobile phones; or by actively providing clients with insurance coverage, for example as part of a loyalty scheme. From the perspective of scalability, MNOs in Pakistan have access to a vast pool of mobile phone subscribers, which can be automatically or voluntarily enrolled. Mobile technology also allows MNOs to enrol and collect premiums from clients in remote areas (See Exhibit 4 - Support provided through Various Distribution Channels across the Value Chain), which may be inaccessible to other distribution channels. Apart from this, as a brand MNOs are highly trusted in low income markets in Pakistan. Also, they can significantly reduce costs involved as the process will become agent-less.

	Promotion	Enrolment	Premium collection	Education	Providing value-added services	Claims reporting	Claims assesement	Claims payment
Financial institutions	☺	☺	☺	☺		☺		☺
Cooperatives etc.	☺	☺		☺	☺	☺	☺	
Retailers	☺	☺	☺			☺		☺
MNOs	☺	☺	☺		☺	☺		☺
Employers	☺	☺	☺	☺		☺	☺	☺
Direct sales	☺	☺	☺	☺	☺	☺		☺

Source: International Labour Organization - Microinsurance Distribution Channels (2014)

Exhibit 4 Support provided through Various Distribution Channels across the Value Chain

However, Haris, Assistant Manager for Strategy Planning & Development Department at Secure Life, explained to Zafar that opting for MNOs as a distribution channel was not feasible since Pakistani market lacked awareness regarding life and health insurance products specifically the lower tier market. An unengaged customer base according to him will not pay premiums or submit claims even if they are enrolled in the scheme automatically as a part of a loyalty scheme. He was of the view that selling insurance is a lot harder as compared to airtime or mobile money given its complex nature and negligible understanding regarding insurance of Pakistan's inhabitants. Even if the agents of MNOs were properly incentivized and trained to support product distribution, the proposition was still expensive since profit margins expected were small and MNOs commission structure were quite stringent. To support his stance, Haris also quoted a recent failure, Linda Jamii, which was a low-cost medical cover provided in partnership with telecommunications firm Safaricom, Changamka Micro Insurance and investment firm Britam. The three firms had projected to recruit over a million users in under a year. However official figures show that the product had attracted only 80,000 subscribers, a far-cry from its target. The insurance regulatory authorities believed that micro insurance works better with groups than with individuals because the cost of selling micro insurance to individuals is higher than that of selling to groups (Refer to Exhibit 5 which depicts the transition of health insurance in groups to individuals based on economic growth). While Haris's stance made sense, Zafar at the same time also thought of the success of Tigo Family Care in Ghana which used mobile technology platform to insure the lives of people in Ghana.

Microfinance Institutions

While pondering on the available channels that were familiar with the needs of the low-income households, had frequent contacts with them, and can provide them with advice as well as support during financial crisis, the only option that popped up in Zafar's mind had been Microfinance institutes. Most people working in microinsurance sector globally started by working in partnership with MFIs, which typically have a strong and trusted brand in the communities they serve, as they give out loans that require frequent repayments. The loan officers are already in the community making loans and receiving repayments, and it's easy to embed the premiums into the loan disbursement with claims distributed by the loan officers.

However, Zafar at the same time also knew that MFIs have certain limitations when it comes to the distribution of microinsurance products. Most MFIs focus on products that benefit the MFI more than the client, which explains the ubiquity of credit life. The client does benefit from not having to repay the loan after a shock event; however, the primary beneficiary is the MFI. However, over the years credit life as a product has diversified to provide coverage for a wider array of risks such as accident, funeral cover, hospitalisation etc. MFIs can also be unwilling to offer microinsurance as a separate product and outside of the loan period which in turn leaves the client with gaps in coverage because most of them don't borrow back to back. Even those who do, may encounter delays that may leave them uncovered against an unforeseen accident. Studies also suggested that the outreach of MFIs is constrained as only 150 million families opt for a microfinance loan worldwide whereas an estimated 4 billion individuals require insurance.[3] hence, Zafar thought that the available market was simply larger than the distribution MFIs can afford and opting for them as a channel meant not exploiting the opportunity to its full potential.

Retail Channels

There are various reasons as to why distribution of microinsurance products through retail channels would interest the stakeholders, Zafar believed. Pakistan's retail sector is worth USD 152 billion and is the third largest contributor to the economy as it accounts for 18

[3]Swiss Re "Microinsurance – Risk Protection for 4 billion people", June 2010
Source: http://media.swissre.com/documents/sigma6_2010_en.pdf


adamjee
insurance
IT'S THE CUSTOMERS THAT MAKE
ADAMJEE INSURANCE
THE LARGEST GENERAL INSURANCE
COMPANY OF PAKISTAN
PKR 21.4
BILLION
Written Premium and Takaful Contributions in 2018
in Pakistan and UAE.
Our customers are the root of our achievement.
With PKR 21.4 Billion in 2018 Written Premium and Takaful
Contributions, we are thankful for the faith they have bestowed
in the company. As the first Pakistani insurance company offering
its services in UAE, Adamjee Insurance is leading the way
in the trust and security of its customers.
PACRA RATING "AA+"
AM BEST RATING "B+"

percent of the total GDP[4]. Given their extensive distribution network as compared to financial services provider, they have the ability to reach larger markets cost effectively as they already have an established infrastructure that is required (Refer to Exhibit 6 - Feasibility Analysis of Various Distribution Channels). Furthermore, their passive sales approach doesn't increase the staff costs. Low income people have regular transactions with retailers and so premium collection can be added to the existing transaction for convenience. Trust, is yet another important factor that is essential when selling insurance and it is needless to say that retail stores in Pakistan have established a visible and trusted presence among lower-income households. Kiryana stores in Pakistan tend to be the most preferred option low income segments visit on a frequent basis to cater to their daily needs. Most daily wage earners with limited budgets often when they don't have cash, buy basic necessities on credit which indicates that they have a well-established and trusted relationship with these store formats.

However, while thinking whether the channel despite of its extensive reach was right for the targeted market, Asma thought of the nature of retail channels in general. As a pull channel, they expect customers to pick the product off the shelf rather than actively selling it. This approach limits their effectiveness and at the same time increases the risk of misselling in an environment where the understanding of insurance is low such as in the case of Pakistan. Even from the perspective of promoting insurance products in the retail environment through offering incentives and discounts may lead the customer to purchase it but he/she may not understand the product benefits completely.

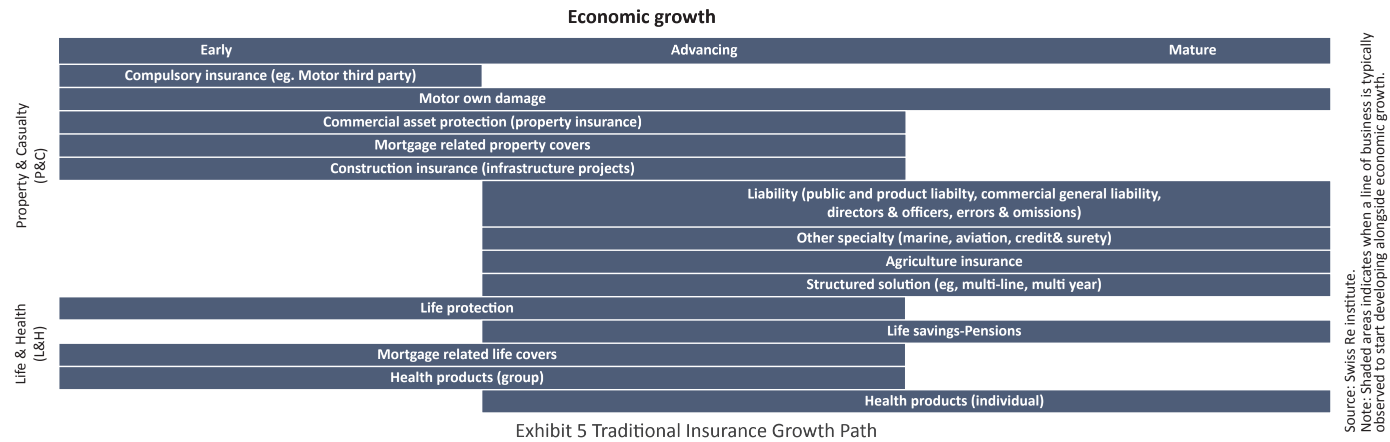


Exhibit 5 Traditional Insurance Growth Path

	Financial institutions	Cooperatives etc.	Retailers	MNOs	Employers	Direct sales
Client understanding - is the channel able to improve clients, understanding and give advice?	–	☺	☹	☹	☺	☺
Product diversity - is the channel open to offering a wider range of products?	☺	☺	☹	☹	☺	☺
Scale - Does the channel have access to a large number of potential clients?	☺	–	☺	☺	–	☹
Brand and trust - Does the channel have a popular brand? Is it trusted within a community?	–	☺	☺	☺	☺	–
Priority - Does microinsurance matter to the channel? Is it willing to prioritise it?	☹	☺	☹	–	–	☺
Cost -Does the channel offer low-cost distribution for the insurer?	–	–	☺	☺	☺	☹
Partnership risk - Does the channel offer a long-term partnership?	☹	–	–	☹	☺	☺

Source: International Labour Organization - Microinsurance Distribution Channels (2014)

Exhibit 6 Feasibility Analysis of Various Distribution Channels

The Challenging Decision

Zafar saw himself standing at crossroads as he weighed the three options in front of him. He realized that earlier what seemed to him as an easy choice to make had now grown murky. The differing opinion of his team members had given him a crucial insight to the potential pitfalls these channels had embedded in their structure. With huge potential underlying the mass market segment in Pakistan for life insurance products, Zafar thought whether he will be able to identify the right platform to reach the masses, design products that cater to their needs and most importantly convince the senior management regarding his selection in the upcoming meeting.

Yusra Syed
EFU Life Assurance Ltd.

[4]Aurora DAWN - Retail Revs Up
Source: http://aurora.dawn.com/news/1142025

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