

Opportunities and Challenges in Pakistan

By Azeem Pirani

Pakistan is among the top 10 most populous nations in the world. This makes it a very fertile market for Takaful, albeit one with some interesting challenges.

Takaful is the latest “wave” in financial protection. Pakistan saw its first Takaful operator, in the General side, start in 2006. Since then, another two operators in General and one in Family have entered the picture.

Takaful is not just another tool for risk mitigation and financial protection. Rather, it is a system which works as a source of good for those that use it and the community at large. Tools like these are critical for developing nations, especially those seeing rapid economic growth. Increasing personal debt, the widening divide between the haves and have-nots, and other such issues regularly plague those in rapidly growing developing nations. Pakistan is one of those countries. To truly comprehend the opportunities for Takaful in Pakistan, we need to see where the present insurance sector stands and, at the same time, keep our sights on the demographic data in Table 1.

Table 1

| | |
|------------------------|--|
| Population | 165 million |
| Population growth rate | 1.83% |
| Median age | 20.9 years |
| Age structure | 0-14 years: 36.9% 15-64 years: 58.8% 65 years and over: 4.3% |
| GDP per capita | US\$752 |
| GDP growth rate | 6.6% |

The best way to understand the meager values from Table 2 is by comparing them to another nation which shares many traits with Pakistan. India, a much larger neighbor, has an insurance penetration of 4.8%, against Pakistan’s 0.8%, and its insurance density is US\$38.40, against Pakistan’s US\$5.90.

Table 2

| | |
|--|---|
| Total premium volume | US\$949 million Life: US\$375 million Non-life: US\$574 million |
| Insurance penetration (premiums as % of GDP) | 0.8% Life: 0.3% Non-life: 0.5% |
| Insurance density (premiums per capita) | US\$5.90 Life: US\$2.30 Non-life: US\$3.60 |

Another aspect of the financial market that is not yet effectively utilizing these tools is the consumer banking sector. Table 3 shows how rapidly this sector is growing and the possibilities it holds for financial protection. This is an area that the present insurance companies are working on moving into but thus far, they have only touched the surface. Given the growth and figures in Table 3, there is a lot of room for growth. These values make it very clear that there exists a significant gap in Pakistan for financial protection tools.

Table 3

| | |
|------------------------------|---|
| Total number of banks | 40 |
| Size of banking sector | PKR4.4 trillion in total assets |
| Growth in banking sector | 16% |
| Total consumer financing | PKR50 billion (US\$823 million) Secured: PKR15 billion (US\$246 million) |
| Growth in consumer financing | 15% to 20% annually |

As we know, achieving expectations is not as easy as formulating them. There are significant challenges for Takaful in Pakistan.

- **Education and awareness**

Is it because of Shariah issues? Or is it due to the fact that as a nation, Pakistanis are conservative spenders? Given the low GDP per capita, spending on something additional with uncertain benefits is not easy.

Or perhaps it is because Pakistanis do not know the benefits of using these tools and that little effort has been made to educate the masses about this aspect of the financial industry.

It would be safe to assume that the answer consists of a combination of the above elements. In order to deal with the issues, significant investments will be required to reach out to the public and educate them.

- **Ambiguity in regulatory statutes**

Given how recently the rules were formulated by the Securities and Exchange Commission, a lot of aspects need clarity.

- **Thin margins**

Unlike the insurance companies, the Takaful operators’ primary source of revenue is the Wakalah fee. This has relatively little room to maneuver and so they will need to work very hard to ensure that their operations are not just effective but also lean. Thus we see that the challenges are not small by any measure but they can definitely be overcome.

If the present and future Takaful operators are not just looking at going after those individuals which are “religion-centric”, they need to look at positioning their offerings in a slightly different manner. The key selling proposition would have to be that Takaful products should be based on the following variables: need-based, appropriate pricing and immaculate customer service. An additional feature would be that the products are Shariah compliant and so, customers need not compromise on their beliefs to be able to get the best in financial protection.

Effectively dealing with the challenges present and properly positioning their offering will allow Takaful operators to achieve levels that even existing insurance companies have thus far been unable to reach. ☺



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