



Capturing Growth Opportunities in key Takaful Product Segments: Assessing the Outlook for Life, Pension, and Health Products

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Agenda



- The Need
- Family Takaful - Present situation and future outlook
- Health Takaful –Present situation and future outlook
- Pension-Present situation and future outlook



The Need

- Mr. X is a middle level manager in a Multinational firm, or a self-employed individual earning a decent salary, having a typical family of 5-6 members. His salary, generally, is just enough to meet his monthly expenses such as;
- Repayment of his Home Finance installments
 - Repayment of personal loans
 - Credit card payments
 - Car leasing/Ijarah payments
 - Children's educational expenses
 - Household expenses



The Need

- If God forbid, he faces a situation where he is not around or unable to make his living due to a major illness or disability ;
- Now...
 - What would happen to the financed home?
 - Who would repay his personal loans and credit card payments?
 - Where would the car go?
 - How would his children continue their education?
 - And who would take the responsibility of his family's living expenses.....



The Need

- And if a person now reaches the age of 55 – 60, how will he be able to meet the expenses for his,
 - Post-retirement life ?
 - Daughters' weddings ?
 - Children's higher education ?
 - Old parents and self medication ?
- Most of the people do not have the answers to these questions.
- We are either simply ignorant or living in a state of denial.

Present Market- Life Insurance



- Prior to Nationalization in 1972 around 40 life companies were operational in Pakistan
- From 1972 to 1992 there was only one state owned organization that was offering life insurance products.
- In 1992 the government allowed private insurers to underwrite Life business.
- From 1992 to 1996 four players entered into the conventional life insurance market.
- For the last 12 year no new company has entered this market.

Present Market- Life Insurance



- Total Premiums in 2005 were Rs. 18.5 billion
 - Includes both Group and Individual Life
- Life Premium per Capita in 2005
 - Pakistan: US\$1.9
 - India: US\$18.3
 - Indonesia: US\$10.5
- Pakistan is ranked 55th out of 57 developing countries in terms of premium per capita
- According to an estimate there is a gap of Rs. 45 billion per year in premium written and market potential

Present Market- Factors Limiting Growth



- ❶ Lack of education and awareness amongst the public at large regarding risk mitigation and savings.
- ❷ Negative image of conventional insurers.
- ❸ Lack of quality products and services mainly due to limited number of providers. Currently there are only four service providers working in life insurance. In non-life there are around 45 operators.
- ❹ Poor capitalization resulting in lack of investment in technology, human resource and marketing.

Pension/Retirement Income



- Considering a population of about 165 million and a work force of approximately 50 million the present amounts show an incredible gap
- Considering the inefficient government social security infrastructure reliable pension plans are a dire need
- Rapidly urbanizing population means more and more seniors will require financial support as their children will not be able, financially or otherwise, to provide it to them

Pension/Retirement Income....



- There are hardly any retirement income plans available in the market mainly due to:
 - Reluctance on the part of the employers to offer long terms benefits to their employees.
 - Unavailability of suitable tax incentives which could support long term savings. Recently the government has announced some incentives on VPS
 - Lack of expertise on part of the service providers to develop and market such products effectively and efficiently



Pension Market- Outlook

- New tax benefits and the pension schemes being offered by Mutual funds means that more and more companies would want to offer these to their staff
- Takaful providers and Mutual Fund Managers should come closer to develop products which are need based and competitively priced.
- Finding matching assets and investment allocation would remain a major challenge
- Another challenge would be the short-term approach of the individuals and companies towards wealth management



Health Plans....

- Present Market
 - Government health coverage is insufficient and not up to par in terms of quality
 - Private health care is usually beyond the reach of most Pakistanis
 - Very few service providers who are mainly focusing on a very limited segment of the market i.e. employer employee groups.
 - Total Premiums are well below a billion Rupees



Health Plans- Outlook

- As health is something which can be offered by Family/Life or General companies there will be a lot of new players in this segment.
- However managing a profitable portfolio would remain to be a question mark. No significant effort is being made to develop expertise to manage this business
- Enhancement in the service provider network could bring efficiencies.
- Need for TPA ??

How to Bridge these Gaps?



- Education and Awareness
- Product Innovation and Services Quality
- Promotion and distribution capabilities
- Investment in technology and human capital

How to Bridge these Gaps? (cont.)



● Education & Awareness

- Focus on this area to develop the market and not just leverage those who are already inclined in this direction
- Utilize the media to get information to the masses
- Use more personalized and targeted options for educating (seminars, workshops, trainings, etc.)

How to Bridge these Gaps?



- Product Innovation and Services Quality
 - Need based products
 - The use of improved technology in automating process (ease of buying a policy and speed of claim handling)
 - Give the customers what they need and not what we want them to take

How to Bridge these Gaps? (cont.)



- Promotion and distribution capabilities
 - Focus on overall insurance potential – Not on a small niche
 - Use alternate distribution channels like Bancatakaful
 - Sales teams should be trained to only use ethical and transparent means to achieve goals



Family Takaful- Outlook

- The outlook of the industry is very encouraging.
- First Family Takaful company launched.
- A number of new player are in the process of entering into the market.
- Bancatakaful will play a major role.



Family Takaful- Outlook

- Through Takaful there is a window of opportunity to improve the image of the industry and increase market penetration
- The decision on Takaful window operations will play a major role for the future development of the industry.
- Allowing Takaful windows would discourage entry of the new players.
- This would also mean reduced capitalization and lesser investment in human resource and technology

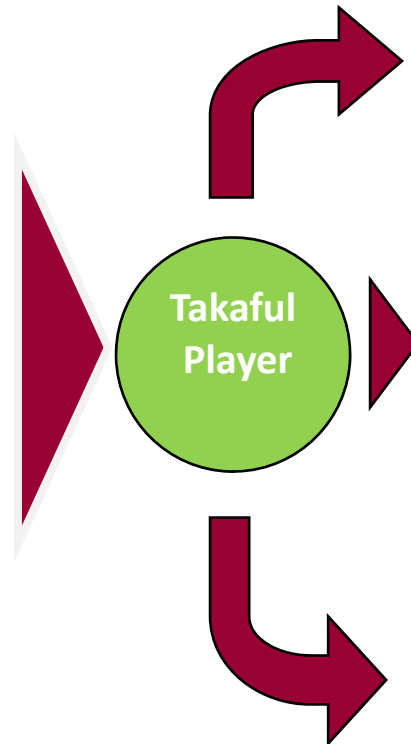
Growth of Consumer Banking- An Opportunity and a Threat



- Consumer Banking in Pakistan has grown with rapid pace in recent years.
- Secured and unsecured consumer financing amounts to Rs 65 billion
- This presents a huge opportunity to sell risk only products like Credit Takaful, Home Finance Takaful etc.
- Individual customers are now accessible conveniently through the bank branch network.
- However, this also limits one's ability to save and hence finance premiums for long term needs.

Key internal improvement areas

- Human resources
- Marketing and Distribution processes
- Product development
- Service Quality



Other players

- Market discipline
- Transparency
- Sharing of knowledge
- Formation of a *takaful* association

Customers

- Education and awareness campaigns on risk protection / savings
- Enhanced product development

Regulators

- Creating a level playing field between Takaful and conventional insurers
- Emphasis on corporate governance, transparency and market discipline



Jazak-Allah khair