

# Importance of insurance sector economics essay



**ASSIGN  
BUSTER**

\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Importance of Insurance Sector](#) \n \t
2. [Economic Impact](#) \n \t
3. [Performance and Growth](#) \n \t
4. [History of the Selected Companies](#) \n \t
5. [Jubilee Life Insurance](#) \n \t
6. [EFU](#) \n

\n[/toc]\n \n

The study is about the performance analysis of insurance sector of Pakistan. Financial safety is not stable in today's world. It does not matter how big earnings we have for a month or how huge savings we have there are often situations beyond our expectations or control. We cannot make us safe completely. This is why we need to take all the safety measures to secure our financial state and our lives as well. And to do this the best way is to have insurance. Insurance can be the best safe measure for the financial losses and the loss of life. Even if anybody has huge savings secure in a safe place there can always be some type of catastrophe that can pull out all of the savings. In such kind of situations insurance can only be the security measure that makes anybody safe and secure. When a contract is made with an insurance company that contract is called insurance policy. Insurance is basically a transfer of risk for transferring the risk on the company in return insurer must pay some agreed amount called the premium. A company may cover all the loss or some part of it depending upon the policy.

Insurances policies or contracts purchased when anybody feel that it is not possible to bear the loss completely. For example sudden health condition like any accident, heart attack, or anything else that may cause a serious loss of life or permanent loss or injury. In the same way financial accident may happens like house burn, theft, car accident, or property stolen or any business liability. These things are so expensive that anybody cannot pay all these losses or some of them from own pocket or savings. In these kinds of situations insurance helps a lot a person pays a small amount of money for the promise that a loss will recovered if any accident happens. Insurance is nothing but an agreement between an insurance company and a person to pay an amount for compensation in shape of occurring a loss of insured property or life. The amount can vary from a thousand to millions depending upon the insurance policy and premium agreed.

## **Importance of Insurance Sector**

Insurance sector is very important sector in any economy. Because individuals and companies keep investing in new ideas in new businesses and in new ways of doing businesses. For doing that individuals and companies have to take a lot of risks and to avoid that riskiness or loss of investment or other important resources companies and individuals go for insurances to protect their investments or transfer of risks.

In Pakistan insurance industry is 7th largest industry of the whole economy. Pakistan is a large country having a population near about 200 million of which majority are Muslims. As a religious belief many people avoid insurance to improve their living standards. About 65% of the population lives in rural areas and 60% to 70% people live below poverty line and their <https://assignbuster.com/importance-of-insurance-sector-economics-essay/>

earnings are less than 2\$ a day as a result less income to spend a less educated people as a result insurance industry in our country could not grow well as compare to other countries in the world.

## **Economic Impact**

Insurance industry in Pakistan known as inadequate and in efficient less innovative products of insurance and monopoly of single state own insurance company name as state life insurance company of Pakistan. In 2001 state life insurance captured 80%of the total insurance market of Pakistan. And in 2005 the share was 74% of the total market. Though the share of state own company has go down in last few years and the share of private companies has increase a lot. But still insurance sector in Pakistan could not grow as compared to the international standards. The major reason of not growing the insurance industry in Pakistan is that the people are more religious and avoid insurances and companies do not offer innovative insurance products.

Further insurance is divided in to two parts one is life insurance and the other is general insurance. In general insurance all other insurances include other than life insurance. Now five insurances companies are dealing in life insurance business of which four are private owned companies and one is state owned company. Out of those four private companies two are local life insurance companies and remain two are operating as foreign insurance companies.

## **Performance and Growth**

Till 2005 the total amount received from policy holders in shape of premium 62% of total premium is of general insurance and remaining is of life insurance. Life insurance requires more capital.

(SECP, 2007).

About life insurance life insurance is divided into two major parts individual life insurance and group life insurance. Individual life insurances have big part in life insurance business which is 79% of total life insurances. And 20% share of group life insurances both group and individual life insurances have a 99% share of total life insurances. The other remaining 1% of total life insurance is of pension plans, health insurances, and children education plans etc.

(SBP Report, 2005)

If we see historically major life insurance business is owned by state owned company which is state life insurance company. State life insurance corporation or (SLIC) of Pakistan is the only government owned corporation that was made by merging 41 insurance companies in process of nationalization in early 1970(SBP, 2005). From that time state life insurance corporation became the leader insurance company in the country and having a 76% share of life insurance business.

(SBP Report, 2005)

Through the share of state life insurance corporation has decreased as compared with past but still state life insurance corporation has the major

<https://assignbuster.com/importance-of-insurance-sector-economics-essay/>

portion of the life insurances. But compare to international markets Pakistani market do not grow that much compared with other countries. There is urgent need for government to take steps to aware the people of Pakistan that insurance is beneficial for them so that the market may grow quickly and more investment come in Pakistan which is ultimately good for local economy and people of Pakistan.

(Annual reports of life insurance companies 2001-2005)

The above picture shows the overall performance of the insurance business in Pakistan done in the years of 2001 to 2005. The average growth in profits were almost 14% which a very handsome growth in a developing country. And the average ROA means return on assets is . 4% which is a good result. Return on assets shows one rupee of asset generated the percentage of profit.

Now about general insurances national insurance is the only state owned company that deals in the general insurance business in the country. Where as many private companies deals in the business of general insurance. There are five major categories of general insurance motor insurance, fire insurance, marine insurance, health insurance, and last one called miscellaneous insurance.

Motor insurance having the largest share of 48% of total general insurance business. The reason behind this huge share is increasing number or cars on the road. Marine insurance having a share of 21% of total general insurance business. It is linked with the international exports and imports of services and products. Fire insurance is having a share of 18% of total of general

<https://assignbuster.com/importance-of-insurance-sector-economics-essay/>

insurance business and it is linked with the growth of industrial and construction business. Health insurance is having a 6% share of total of general insurance business. And miscellaneous insurance having a remaining share of 7% which includes aviation insurance, cash insurance and travel related insurances.

(Insurance association of Pakistan, 2006)

General insurances business is largely dominant by private companies, Government owned company having a share of 14% of total of general insurance business. Whereas a huge share is owned by the private sector companies which is 82% of the business of general insurances. And remaining 4% share owned by foreign companies.

In the past few years Government owned companies have lost their share in the business of general insurances.

(Insurance Association of Pakistan, 2006).

The general insurance business has shown an outstanding performance in terms of profits. The average increase in profits over the five years was 52% per annum. And if talked about the return on assets it also showed a great result. The overall return on assets for over a five year period was 8%, which is a remarkable outcome.

(Annual Reports of General Insurance Companies, 2001-2005)

Now about the overall performance of insurance companies, before this section the individual performance of life and general insurances business

was shown. In this section comparison of both life and general insurance would be shown which would show the overall picture of insurance industry of Pakistan. The map below shows the growth of premium, net profit growth and assets growth for life and general insurance business as well.

The map below gives a comparison between general and life insurance premium for the five year period. The overall average growth in life insurance business has been 28% per annum. The average rate of growing of the general insurance business has been 22% per annum. Which means life insurance business is growing greater than general insurance business.

(Annual Reports of Insurance Companies, 2001-2005)

The below map will show the growth in profits of life and general insurance business over five year period. The average growing rate for the life insurance business has been 14% every year. And the average growing rate for the general insurance has been 52% a year. It clearly shows that the profits of general insurance business have grown much faster than the life insurance business.

(Annual Reports of Insurance Companies, 2001-2005)

## **History of the Selected Companies**

### **Jubilee Life Insurance**

Jubilee life insurance claims to bring global skills to Pakistan. For more than 15 years Jubilee life insurance doing business in Pakistan and claims to provide a better life, and the life of security and safety. Jubilee life insurance established in Pakistan in June 1995 as a public company, under the



company's ordinance 1984. Jubilee life insurance starts its operations on June 1996. Jubilee life insurance companies shares are listed on stock exchange with paid up capital of 627 million rs. Jubilee life insurance proud to be having leading industries board of directors, and having the ability and experience to give Jubilee life insurance a better future for the people of Pakistan.

Jubilee life insurance is under the Aga khan fund for economic development Switzerland. It is the monetary growth wing of Aga khan development network. It is a group of private agencies development looking for improvement of living conditions in selected areas of under developed countries. The association of Jubilee life insurance with Aga khan development network permits to attracts its worldwide knowledge and funds to give our customers in Pakistan with the finest insurance option already there in the country. Jubilee life insurance customers can be feeling safe in information that our process are secured by a globally accepted organization with worldwide excess. With popular assignments around Africa and Asia, Aga khan fund for economic development is one of the world leading private growing organizations active in the whole industry.

**EFU**