Pakistan's Insurance Industry at a Crossroads

1. Briefly describe your company, Asia Insurance Company Ltd., and the insurance products it offers.

Asia Insurance is a publically listed company, listed on the Pakistan stock exchange. We operate in Pakistan with 24 branches throughout the country, and a staff of over 150 employees. Our underwriting process is decentralized; all of the branches are connected to our head office in real time. The head office services all inquiries and branch operations, including claims handling, underwriting, re-insurance, administration, HR, and accounts. Asia Insurance has grown rapidly in recent years; from 2012 to 2016 we grew by a factor of 10, figures that were just published last week. We offer all classes of non-life insurance, in accordance with the license granted by the Securities and Exchange Commission: fire, marine, motor, bonds, suretyship, gas and transit, inland transit (within Pakistan) agriculture (for crops, livestock, and incidents), health, and travel.

2. What are your responsibilities at Asia Insurance?

I serve as Executive Director. My responsibilities include deputizing for the CEO when he is not present, and on a day-to-day basis working on various assignments that I'm given by either the CEO or the Board. For instance, if there are problems related to complex insurance products that we have to develop or organizational teams that we have to put together, I get involved. Due to the rapid growth in our business, I am also responsible for in-house organizational development, putting together SOPs, network plans, and related policies for our company. Lastly, I follow on the instructions and investment plan authorized by the board.

3. Asia Insurance is involved transportation insurance, which encompasses both marine and inland commerce. Are there any new technologies that have improved rate making for marine or inland transit insurance by tracking risk?

Marine cargo is an area for many clients in which the occurrence of loss never happens, because the maritime industry is well-established. The shipping companies coming to Pakistan are familiar with routes, and it's unusual when a ship has strayed due to a storm, or other reason. Due to this, premium rates for marine insurance are low.

However, what we have seen in Pakistan is that there is a robust market for inland transit cover. Furthermore, insurance contracts within Pakistan's borders can only be executed by a company in Pakistan. Because of this we have seen a lot of growth in inland transit, particularly in shipments by the U.S. armed forces or NATO: from Karachi to Afghanistan and then back. On this route there are several tricky areas. Fairly often, for instance, we would hear that a convoy of ten trucks that leaves Karachi for the Afghanistan border would only have nine trucks at the border checkpoint. One truck has vanished, and there is no possibility for recovery, because robbers have taken and made off with it. There's no chance of finding the missing truck, because it is not a traditional civilian case involving the police. We would also notice that when these containers are being moved, is that they were emptied, sealed, and returned to the truck. There was no way of determining what happened.

In response there have been innovative solutions, using trackers with seals on the container's lock after it is closed. Every time the container is opened, the seal breaks, and customs officials can immediately tell that the container was opened. The policy can be adjusted accordingly, by stating that the containers should not be opened between the port of departure and the destination.

There are tracking devices for containers that have been developed that don't require constant recharging from the car's batteries. Such trackers don't need to transmit continuous data 24/7; their purpose is narrowed down to protecting the cargo. There's also a user interface that the clients, and the end users themselves appreciate, in which they can track progress in real time. As insurers, we have access to this data and it is instrumental when evaluating such a claim.

These technologies have been instrumental in protecting against volatility in inland transit.

4. Insurtech have seen an explosion in interest from investors and consumers in recent years. What benefits does insurtech offer consumers, and what are some of its current limitations?

There is an explosion of interest in insurtech in the U.S. and Europe, and in forward-looking, tech-savvy markets in Asia, such as Singapore. In Pakistan, interest remains limited, and I can speak to why this is the case. The primary reason is the lack of penetration for the existing insurance market. In Pakistan there is a very narrow band of mandatory insurance. There are no legal requirements that individuals purchase car, house, property, or health insurance. Instead, mandatory insurance only exists against bank loans. For example, if you have a car on lease, the bank/lending institution rather than the government, asks that you get insured. Since insurance is not on consumer's minds, little thought is given to purchasing superior insurance products. This approach differs from that of Western countries, which require that individuals purchase various forms of insurance.

However, when mandatory insurance requirements are implemented in Pakistan, I believe that the market for insurtech will expand dramatically. Pakistan has already skipped the e-commerce stage, and gone directly to mobile commerce. The largest online retailers in Pakistan have reported that growth in mobile sales easily exceeds growth in online sales. The future for insurtech is bright, given this background, but it's still a long way from being realized in Pakistan.

5. Autonomous cars have the potential to radically change auto insurance business models. How will auto insurers need to adapt to account for the growing prevalence of autonomous cars in the coming decade?

Auto insurance is an important segment for our company, has seen growth in recent years in Pakistan, and is projected for rapid growth in the future. In Pakistan we don't have autonomous cars yet, or related regulations. In countries such as Pakistan, with chaotic traffic, it could offer enormous benefits.

From an insurance standpoint, autonomous cars will have an interesting effect. They will move the liability from the person operating the car, to the manufacturer or company providing the telecommunications service. Perhaps the relationship will be between the insurer and the manufacturer of the car, rather than with the car owner.

This paradigm shift will affect the market for auto insurance. There are relatively few car manufacturers, and the government may intervene with anti-competition legislation that stipulates that car manufacturers must spread their risk among several different insurance companies.

Perhaps it is in the interest of car manufacturers anyways that the risk is spread around, instead of for instance, a large car manufacturer picking a single insurer. There comes a point when the incremental benefit of scaling up is lost. I doubt that a car manufacturer would be able to obtain a significantly better rate at 15,000 cars, as opposed to 10,000 cars. Instead the manufacturer may determine that they are better off distributing the risk among different insurance companies, and in doing so avoid their insurer getting into trouble.

Moving forward, it may be easier for the government to implement a mandatory insurance policy for autonomous cars, because mandatory insurance would ensure that all of the cars coming out of the factory are already insured. It would be the job of the car manufacturer to price the insurance into the car, and the individual user will be absolved of that responsibility.

All of this is of course hypothetical still, but it makes for a very fascinating thought experiment.

6. What are some promising sectors for growth in the Chinese insurance market? What is the focus of Asia Insurance's business in China?

China is a very large export partner with Pakistan, and Pakistan is a part of the "New Silk Road" corridor that the Chinese government is working on. At last check there was $55 billion of Chinese investment in Pakistan in a variety of projects including road, rail, and power infrastructure, as well as the development of a port city along the coastline, in what has been named the China Pakistan Economic Corridor (CPEC).

You may recall that the law stipulates that any insurance policy active within Pakistan's borders must be issued by an insurance company operating in Pakistan. Since it will be primarily Chinese companies involved in these projects, our interest in the Chinese market is in providing coverage for such companies operating in Pakistan.

In addition, we are interested in working with Chinese insurance companies that would like to set up shop in Pakistan. Setting up in Pakistan is a difficult process, requiring nearly $5 million in startup capital. However the requirements for joint ventures are less strict and we believe that Chinese insurers would regard Asia Insurance as a useful partner.

Therefore, our interest in the Chinese market is multi-faceted: providing coverage for Chinese companies invested in Pakistan, and establishing partnerships with Chinese insurance companies.