

Exclusive Interview



Mr. Abdul Waheed
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“The pandemic has set the insurance industry on the fast track to technology adoption for not only centralizing risk management activities but also acting as a cornerstone for risk engineering to reduce gaps in risk management”

ICMA: How the insurance sector is playing role in the business and economic development of the country?

Abdul Waheed: People are likely to think that insurance provides protection against financial aspects of loss of property, loss of earning power, legal liability, or other unexpected expenses. All that is true. But it is so much more than that and the industry's contribution to the economy goes much further as we are the Capital Protectors, Partners in Social Policy, Capital Infusers, Sustainers of the Supply Chain, Infrastructure Enablers, Credit Facilitators, and Innovation Catalysts. Additionally, millions of people are employed in insurance and related activities, and the billions of income taxes and excise duty paid are the by-products of the contributions of an industry that is at the heart of the growth and progress of every modern economy.

ICMA: The insurance penetration and density in our country are very modest as compared to other countries in the region. What are the core reasons and how we can improve this situation?

Abdul Waheed: True! But you see by all its standards, Pakistan is a nascent insurance market despite it being constantly challenged by continued security concerns,

widespread poverty, lower disposable income, frequent natural catastrophe events, constrained access to capital, religious concerns, etc. to name a few. Additionally, like other emerging markets, we still suffer from low awareness among our people about the benefits of insurance in protecting assets and securing progress.

That's one side of the equation. On the other side, some responsibility lies with us as well. Heavy reliance on Macro-insurance, focus on large corporate accounts, limited range of retail products, age-old sales models, lack of insurance aggregator models, etc. also contribute to low penetration rates. Working on both sides of the equation shall illicit a genuine and broad-based demand for insurance products that we observe is currently missing.

ICMA: What types of risks are faced by an insurance company and how these risks are managed by the Boards?

Abdul Waheed: Insurers are always in a precarious position of balancing financial, reputational, under-writing, credit, market, operational, and liquidity risks; while harboring major concerns over economic weakness, reduction in workforce productivity, decrease in consumer confidence, and the regulatory headwinds.



Adding to already a complex landscape these factors put immense pressure on Boards to continually assess if and where risk management sits on their agenda as they are not only responsible but are also accountable for establishing an insurer's risk appetite and risk tolerance, both qualitative, and quantitative. It is imperative that the Boards now factor risk as an integral part of organizational strategy and work multifront to mitigate it effectively including building efficient enterprise risk management (ERM) practices, investing in technology initiatives, and ramping up information security compliance programs.

ICMA: The claim ratio of the general insurance business is quite high. What are the reasons?

Abdul Waheed: Although it is quite true at times, you see claim ratio is not a stand-alone affair. We need to address the same considering the macroeconomic landscape. Despite economic distress from the pandemic wave and natural catastrophic events, the non-life insurance sector registered a significant jump in gross premiums in the wake of national health program expansion.

With more health insurance policies being underwritten, claims also increased resulting in an overall increasing claims ratio. Gross premium also increased in line with banks' auto financing as SBP's Prudential Regulations require lending banks to ensure that vehicles under auto financing are properly insured. Similarly, fire and property damage premiums drove the increase in non-life gross premiums however statistics clearly indicate that the corresponding non-life claims did not register a significant increase. Due to the appreciable growth in premiums with net claims remaining stable compared to the previous years, the overall claims ratio has declined. Consequently, the non-life sector posted higher profits on the back of increases in premiums and contained net claims.

ICMA: What are the key elements of an effective risk management strategy, especially in an insurance company?

Abdul Waheed: Risk Management Strategy like any other strategy should be a holistic and all-encompassing affair, addressing both the short-term and long-term challenges. With so much change percolating in the industry, it is

essential to have a mature and efficient enterprise risk management program in place. The focus should be on unifying risk management activities across siloed business groups, including internal audit, risk management, and compliance functions to centralize all risk management activities in one place. It is of paramount importance that an organization aligns its risk profile with its business strategies and its risk appetite.

ICMA: How do you make assessments of risks in various segments of insurance contracts?

Abdul Waheed: Well as you know that insurance is a promise to pay when certain contracted events occur. Therefore, a major source of risk to us is in the promises made, that is, the terms of the insurance contract. We assess and mitigate such built-in risks through optimizing product features, tapping into embedded options and guarantees, employing not only historical data but also predictive statistics, and performing sensitivity testing of assumptions for the pricing of the product. We try to estimate the probable maximum loss, minimize risk accumulation & concentration, assess our reinsurance risks, and employ a robust methodology to estimate Technical Provisions. Lastly, we ensure that robust underwriting policies and controls, including clearly documented underwriting guidelines and criteria, are in place to minimize underwriting risks.

ICMA: What is the role of underwriting and reinsurance cover in mitigating the risks of insurers?

Abdul Waheed: The underwriting stage is the entry point of insurance risks. Underwriting policies and controls that ensure adherence to retention and accumulation limits as well as underwriting authorities, check the risks are properly assessed in line with underwriting guidelines, identify potential moral hazards, address potential conflict of interests, and review application forms to ensure relevance and adequacy of underwriting information collected, etc. act as vanguards in managing the organization's risk exposure. On the other end of the continuum, reinsurance is a key measure to mitigate insurance risks through transferring risks that are more than a direct insurer's net retention to a reinsurer.

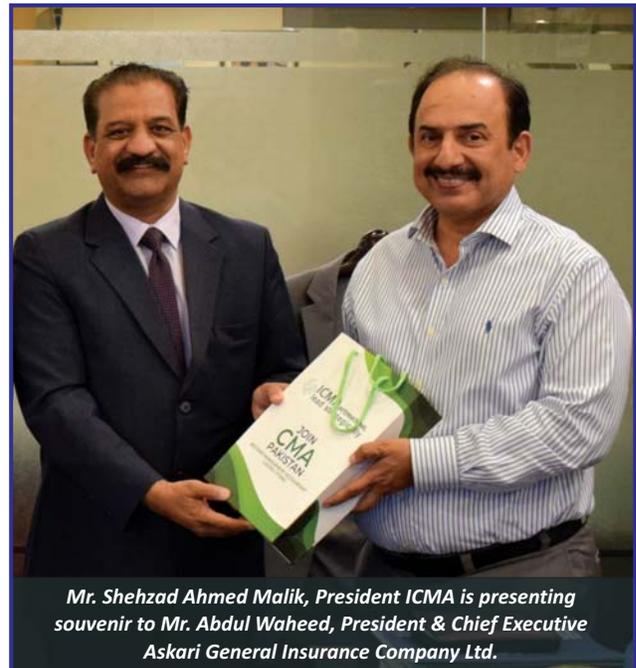
Thus effective reinsurance reduces the volatility of an insurer's underwriting results and enhances an insurer's underwriting capacity, both technically and financially.

ICMA: Do you think a diversified portfolio of investments is the best strategy for mitigating credit risk?

Abdul Waheed: That alone would not be ample. You see for mitigating a risk we need to understand its origination and focus on all the aspects to mitigate it effectively. On one hand, an insurance company is exposed to credit risk from full or partial defaults by reinsurers, agents, brokers, other trade debtors & related parties, and on the other hand from financial losses due to default or deterioration in credit quality arising from balances held with deposit-taking institutions, its loan portfolios, securities issuers or investment counterparties. Thus most effective mitigation measures include policies and controls w.r.t. appropriate credit exposure limits, credit criteria, and analysis, dealing with counterparties who no longer satisfy established criteria, approving, accepting, and monitoring of collateral, if any, and doing aging analysis of outstanding balances, monitoring the credit standing of debtors and counterparties and reporting of credit exposures and any breaches.

ICMA: Are Pakistani insurance companies investing in risk management technology and data analytics? Do you think that adoption of technology can help in improving risk assessment in insurance companies?

Abdul Waheed: The insurance industry has undergone disruption in recent years that have brought new risks to the forefront of insurers' priorities. But right on the heels of these risks come new opportunities. Business models, services, and processes are rapidly evolving, largely backed by technological developments. The particular historical context of COVID-19 provides a suitable case to understand the relevance of exploiting technology to react quickly to traditional and emerging risks. The pandemic has set the insurance industry on the fast track to technology adoption for not only centralizing risk management activities but also



acting as a cornerstone for risk engineering to reduce gaps in risk management.

As far as Pakistani Insurance companies are concerned, I believe our industry is embarking on a journey and has a long way to go. We are laying the foundations for future developments where, I hope, a wider range of risk data will be collected automatically and in real-time.

ICMA: Can we insure agricultural crops in Pakistan?

Abdul Waheed: Of course, we can and we are! But the current coverage is like a drop in the sea as most crop insurance in Pakistan is sold through compulsory bundling with bank loans on growing specific crops. As such, non-banking agency channels are still untapped and Agico is striving to increase the share of Agriculture Crops in its portfolio.

ICMA: Do our insurance companies have adequate re-insurance arrangements with international insurers to make payments on flood-related claims of recent massive floods in the country?

Abdul Waheed: Limited domestic Reinsurance options and historical and predictive data related to rural and urban flooding in the upper, central, and southern parts of the country compel the insurance companies to ensure that ample reinsurance arrangements are in place. Given the challenging macroeconomic environment on both the global and domestic front, growth and performance of the insurance sector will remain dependent upon not only the emerging macro-financial conditions and business activity in the economy but also on sound reinsurance arrangements with diversified counterparties.

The Editorial Board thanks Mr. Abdul Waheed, President & Chief Executive, Askari General Insurance Company Ltd. for giving his exclusive interview for Chartered Management Accountant Journal.



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