

Afghanistan's Insurance Industry Sector Overview

Office of the Economic Advisor

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This report has been made via interviewing some organizations

Organization	Discussion Summary
Insurance Authority of Afghanistan	Overall industry challenges, Proposed law
Afghanistan national insurance corporation	Financial strength of the company, impediments to the growth
Insurance companies	Financial status of the companies, the major challenges faced by them

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Executive Summary

This presentation will provide an overview of the Insurance industry of Afghanistan. The presentation will provide details in terms of the contribution to the GDP, number of players, importance in the economy and provide suggestions for the betterment of the industry. The size of the Insurance industry in the GDP of Afghanistan is very small. Total gross written premiums (GWP) reached AFN101M in 2014*.

There are four Insurance companies in Afghanistan; (1) State Owned Afghanistan National Insurance Corporation (ANIC), (2) Insurance Corporation of Afghanistan, (3) Afghanistan Global Insurance, and (4) Sky International Insurance. Insurance is regulated by Afghanistan Insurance Authority under the Ministry of Finance. The total number of employees working in the insurance industry are 287 persons, with a customer base of 20,000 persons.

The total Investment of the industry is \$6.5M as of November 2015. The total annual revenue generated by the industry is \$8.8M, of which \$1.5M is the profit. The industry provides various types of insurance products, however, the authority has given only non life insurance license to companies. Only one insurance company has offered life insurance policy based on a special case. However, insurance companies are required to get separate license for each activity i.e life, non-life or Islamic insurance policies.

The key challenges faced by the industry include: (1) the insurance authority is not part of DAB or independent, this makes it difficult for them to play a major role in development of the industry, (2) there is no domestic re-insurer company, (3) there is a lack of product diversity.

We studied the Insurance industry and its performance over the past years. For the development of the industry in Afghanistan. We provide three recommendations; (1) **Insurance Authority Transformation:** the Insurance Authority of Afghanistan should be merged with DAB (Central Bank), this will give them more flexibility to monitor the industry, (2) **Re-insurer Company:** ANIC should progressively be converted as re-insurer company in Afghanistan. As a re-insurer this company will provide partial protection to Insurance companies, (3) **Product Diversity:** Insurance Authority of Afghanistan should facilitate the Bancassurance products in an agreement with the banking industry.

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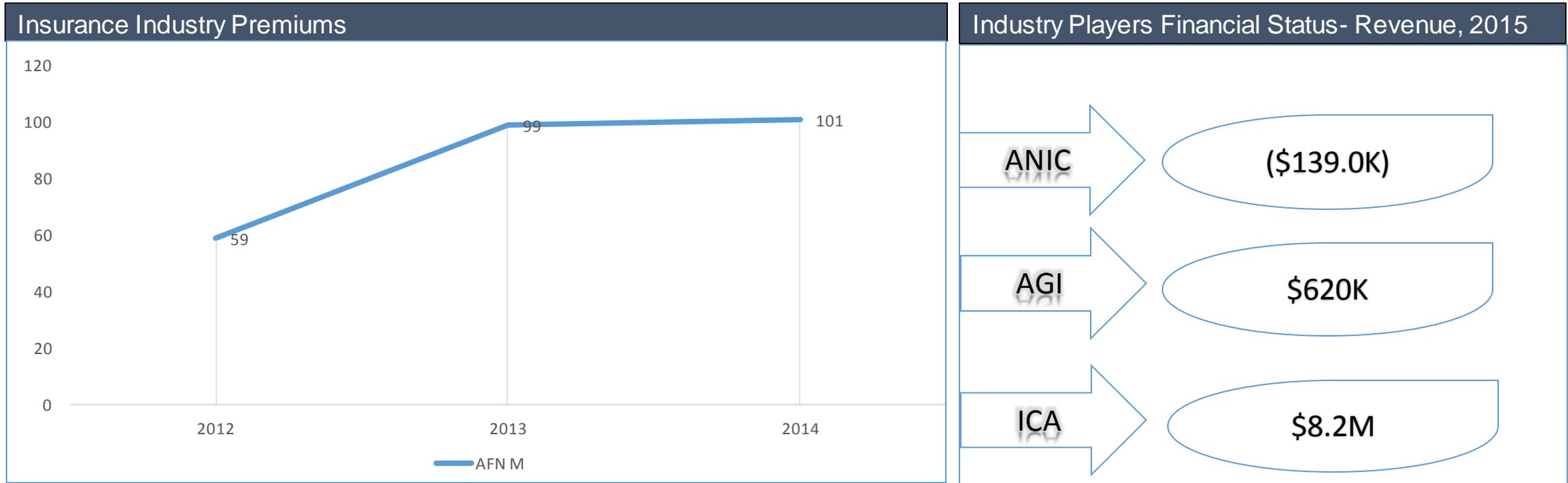
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Insurance Industry Overview

Annual total insurance gross written premiums are **AFN578.7M (equivalent to \$9.9M) in 2015**. Meanwhile, as per some surveys 60-80% of the respondents were unaware about the various products available by the Insurance companies. There are four Insurance companies operating in Afghanistan and employ 287 persons. The industry paid a total of AFN3.4 billion of claims during the previous three years.



Note: In 2015, ANIC had net profit of \$1.2M, the company's profit was due to other income in the amount of \$1.5M

Note: Exchange rate is assumed AFN 67

Note: ANIC = Afghanistan National Insurance Corporation, AGI = Afghanistan Global Insurance, ICA = Insurance Corporation of Afghanistan

Insurance Law

Afghanistan Insurance Authority under the Ministry of Finance is the regulatory body of the Insurance industry. This authority was established in 1384 and has a board which passes the law and regulations. The board consists of MoC, MoEC, AISA, MoFA, MoJ. The existing insurance law was passed on January 18, 2009/ 29 Jadi-1387. This law has 44 articles. There is a new proposed law which consists of 160 articles.

Proposed Insurance Law Highlights

Insurance Authority

Should be merged with Central Bank of Afghanistan (DAB) (Article #03)

Data Management

Insurance related data should be kept for five years (Article #31)

State Company

State Owned Insurance company shall be established with the suggestion of GD insurance and approval of Cabinet council.

Islamic Insurance

Insurance Company should get a separate license for Islamic Insurance Activities

Life Guarantee

The guarantee for life Insurance is reduced to AFN40M in the proposed law

The new proposed law has been significantly improved than the existing law. These are the major points in the proposed law

*Note: New proposed Insurance law is not passed yet. Its approval is pending (lack of technical expertise) , recently ministry of justice with a representative of IAI is working on each article of the law to finalize it
IAI= Insurance Authority of Afghanistan*

International Regulatory Environment

We have studied regulatory environment for insurance industry in some countries. We found that the regulatory body was either dependent to other gov't organizations like ministries or central bank, or independent gov't body.

Detailed is shown as below,

Country	Regulatory body			
	Independent	Ministry of Finance	Ministry of Commerce	Central Bank
Afghanistan		X		
India	X			
Pakistan			X	
China	X			
Malaysia				X
USA	X			

IAI is under the Ministry of Finance (**Afghanistan**)

IRDA is an independent gov't body (**India**)

MOC Ministry of Commerce manages insurance industry (**Pakistan**)

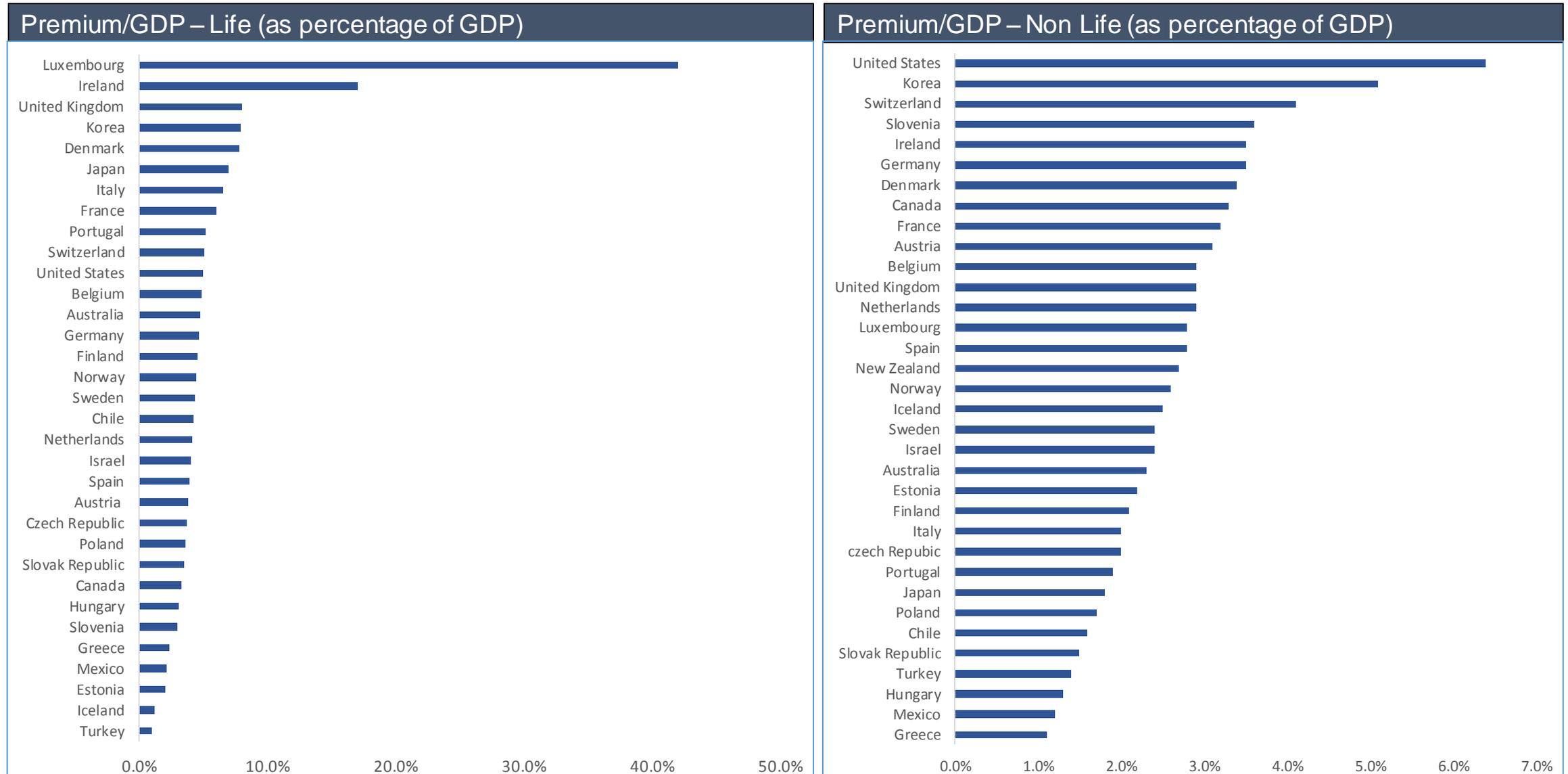
CIRC This body works under the state council (**China**)

NAIC The NAIC is an Internal Revenue Code Section (NPO) (**USA**)

Note: IAI Insurance Authority of Afghanistan
 IRDA Insurance Regulatory and Development Authority
 MOC Ministry of Commerce
 CIRC China Insurance Regulatory Authority
 NAIC National Association of Insurance Commissioners

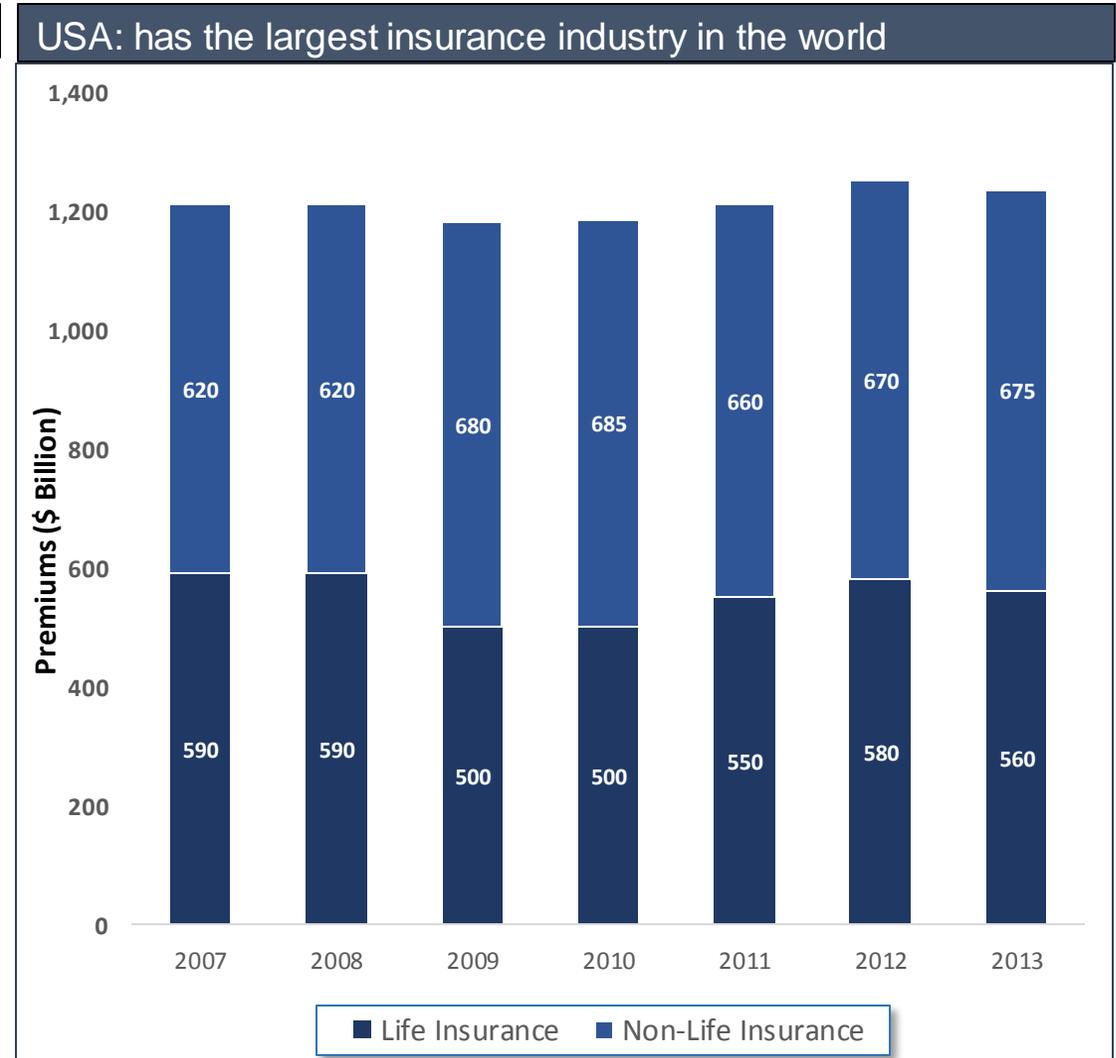
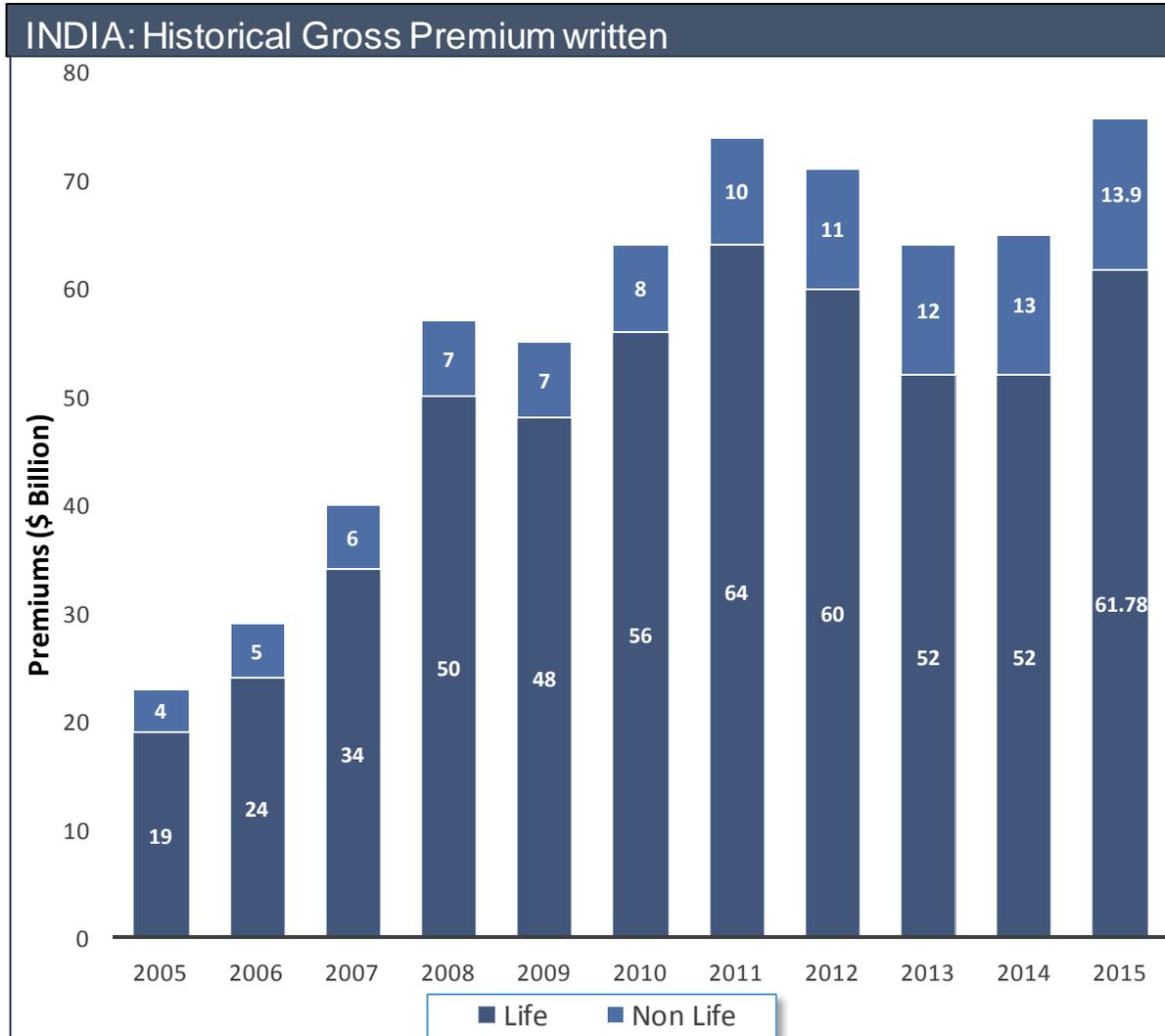
International Insurance Overview

We have studied the insurance industry in a global context, we found that life insurance Policies contribute more than 30% in the GDP of some countries. Meanwhile, the Non life insurance policies contribute up to 6.5% of the GDP. Below tables illustrate the same.



International Case study

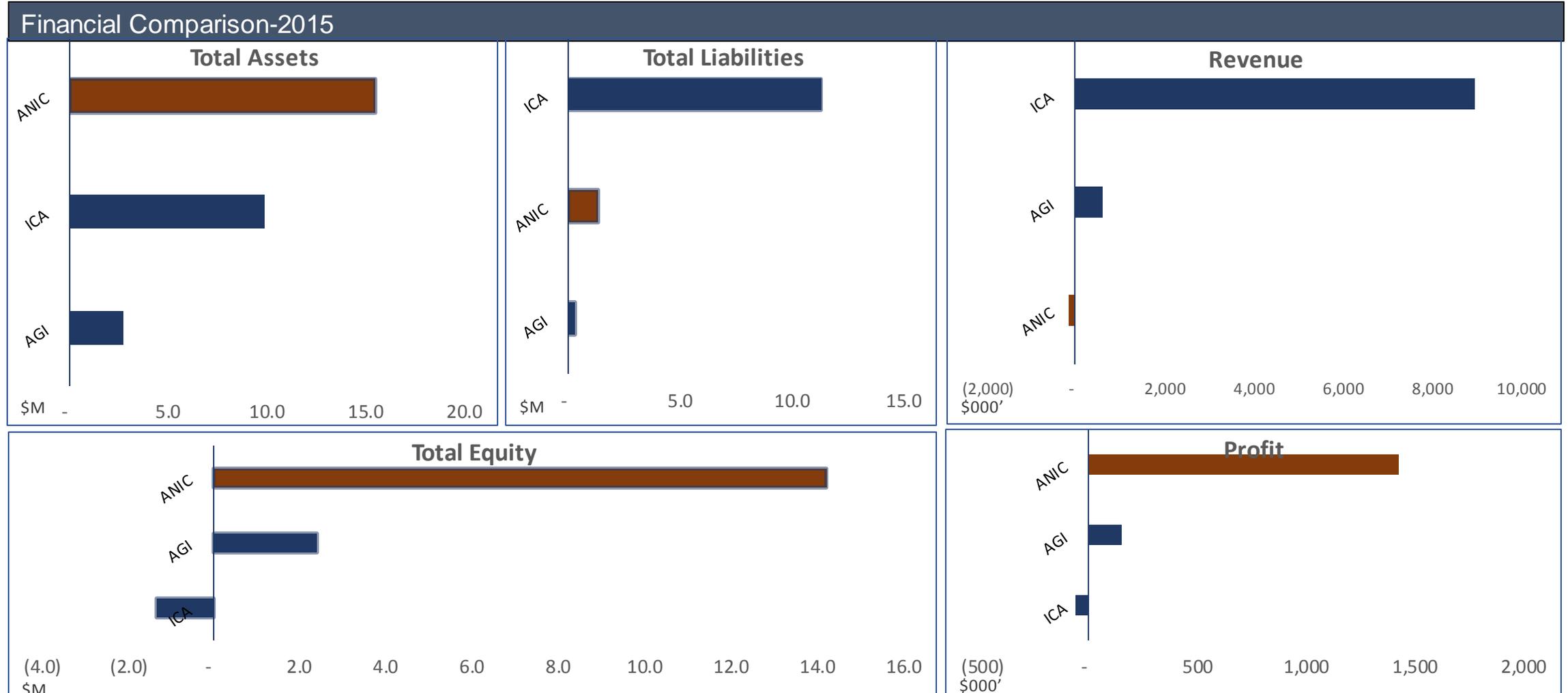
The total insurance market expanded from \$23.0B in 2005 to \$75.7B in 2015 in India. Moreover, total gross written premiums of India increased at a GAGR of 12.6%.



Source: <https://www.ibef.org/download/Insurance-February-2017.pdf> / <http://marketrealist.com/2015/02/us-insurance-industry-largest-world/>

Domestic Company Analysis

There are four major state owned and private sector Insurance companies in Afghanistan. Namely, (1) The state owned ANIC, (2) ICA, (3) AGI, and (4) Sky International Insurance. Moreover, There are four Iranian Insurance companies in the process of establishing Insurance branches with the total investment of AFN100M in Afghanistan.



Note: Sky International Insurance was incorporated with \$1.5M investment in September 2016. Since, the company is newly established, therefore, they have not prepared financial statements.

Note: These Iranian Insurance branches will provide only insurance policy for trip to Iran.

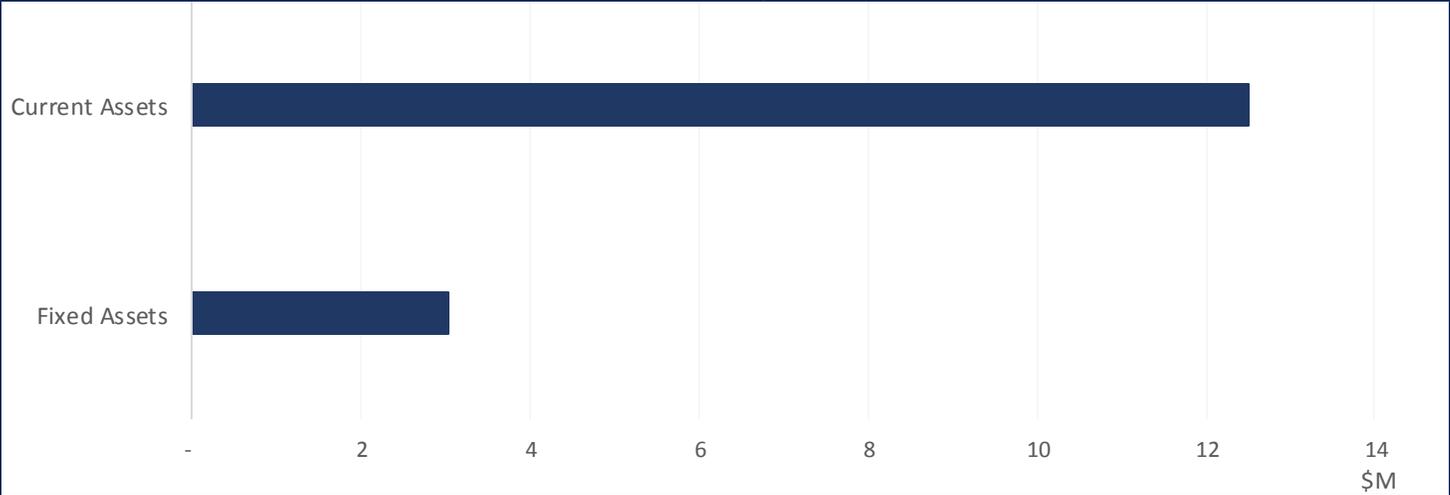
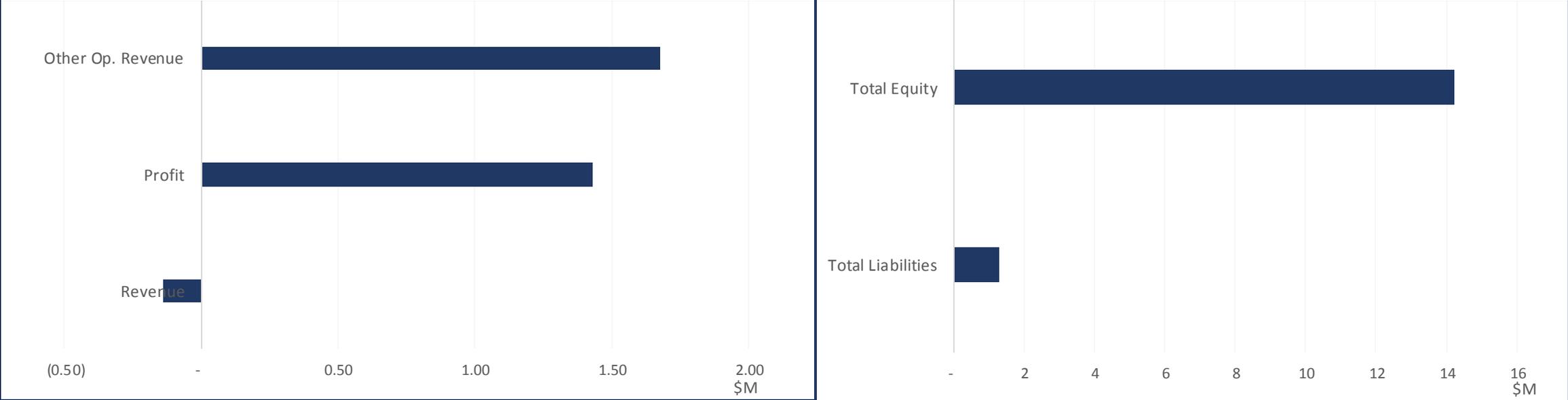
Source: <https://www.ibef.org/download/Insurance-February-2017.pdf>

Note: ANIC had an extraordinary income, this resulted to a positive profit

Afghanistan National Insurance Corporation (ANIC)

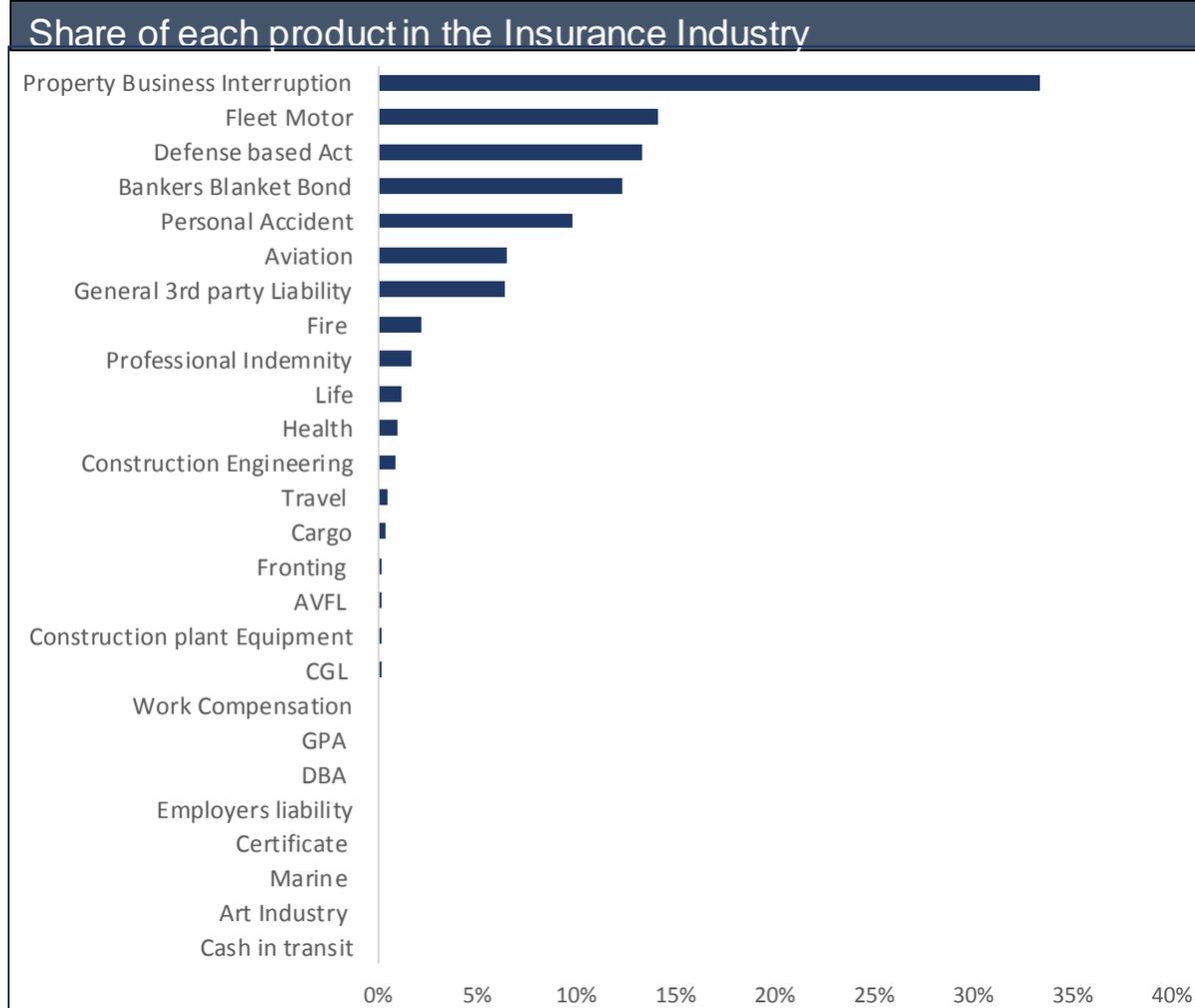
ANIC is the state owned company. The company was established 30 years ago. The company had a profit of \$1.4M for the year 2015. Currently, ANIC has AFN900M (Equivalent to \$13.4M) capital. In addition, the company has 195 employees as per its tashkeel (In annex#4).

ANIC FINANCIAL HIGHLIGHTS - 2015



Domestic Product Analysis

There are various insurance products in Afghanistan. Majority of the insurance products offered in Afghanistan are non-life insurance. For issuing any type of insurance products, companies are required to get a permission certificate. Currently, Afghanistan insurance industry lacks life insurance policies. Moreover, the new proposed insurance law consists of Islamic Insurance (Takaful).



Insurance Industry Product Analysis

Lack of Life Insurance: As per a comparison between India, Pakistan, China, Malaysia and USA, we found that we lack a life insurance product in Afghanistan.

Non-Life Insurance: In terms of non-life insurance products, Afghanistan Insurance industry has various products as mentioned in the graph.

Islamic Insurance: Islamic Insurance Takaful is only provided in Malaysia and Pakistan.

*Note: ICA had once issued life insurance policy to Etisalat telecommunication in Afghanistan.
Source: Insurance Authority of Afghanistan*

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Recommendations

We provide three main recommendations: (1) transfer the regulatory authority to DAB, (2) convert ANIC to a re-insurer, and (3) mandate some forms of insurance for gov't employees.

Regulatory Body	Conversion of the Company	Initiatives
<ul style="list-style-type: none">▪ The Insurance Authority of Afghanistan should be merged and become part of DAB (Central Bank of the country). This will give them more flexibility to monitor the industry in a better way. The reason is that financial oversight capabilities are key and these capabilities exist at DAB, and would be difficult to replicate at a small independent regulatory authority.	<ul style="list-style-type: none">• ANIC should progressively be converted as re-insurer company in Afghanistan. As a re-insurer this company will provide partial protection to Insurance companies. This company has been operating in Afghanistan since decades. The company was not able to attract the confidence of people. Moreover, the company in terms of financial status is not very profitable.	<ul style="list-style-type: none">▪ Insurance Authority of Afghanistan should facilitate the Bancassurance products in an agreement with the banking industry. Banking industry has more than 3.8M customers, providing insurance through banks will help in creation of trust on the insurance industry.▪ Moreover, some of the insurance policies like Employer's Insurance, Fire Insurance, and Transportation Insurance should be compulsory for government employees. There are more than 440K person working as gov't employees, if the employer's insurance becomes compulsory, then this will create a large premium for the industry, also will develop a culture of insurance in the country.

Note: Insurance rate in Afghan Industry is 0.7%-5%

Implementation plan

The following Gantt Chart illustrates the implementation plan for the reformation of Insurance Industry.

No.	Activity	Lead	Start Date	End Date	Days	2017						2018					
						Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
1	Insurance Authority Merger	DAB	01-April-17	31-Oct-17	210		█	█	█	█	█	█	█				
2	ANIC conversion to reinsurer	IAI, MoF	01-April-17	10-june-17	70		█	█	█								
3	IAI should facilitate Bancassurance products in an agreement with banks	IAI	4-Mar-17	30-Jun-17	118		█	█	█	█							

Source: AOP

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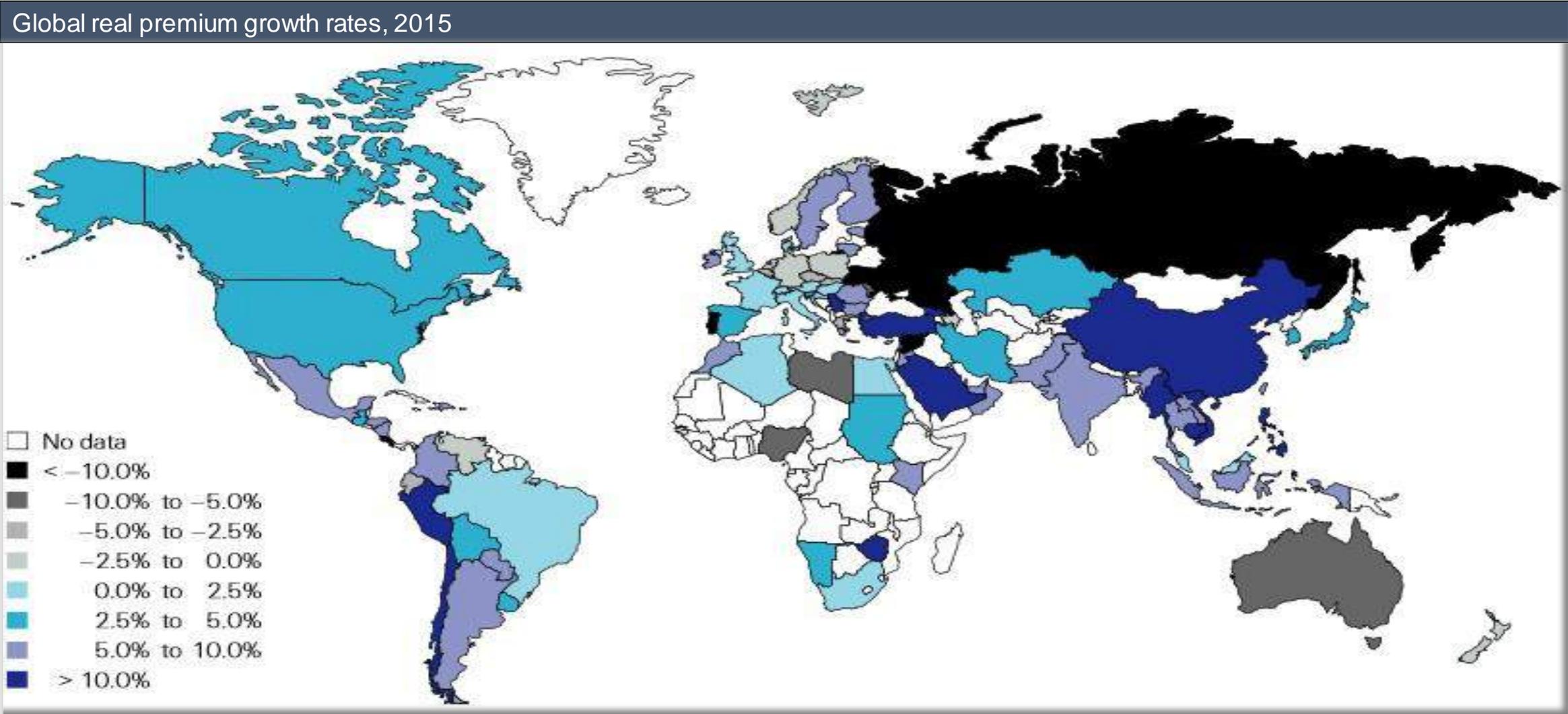
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Annex#1: International Insurance Overview

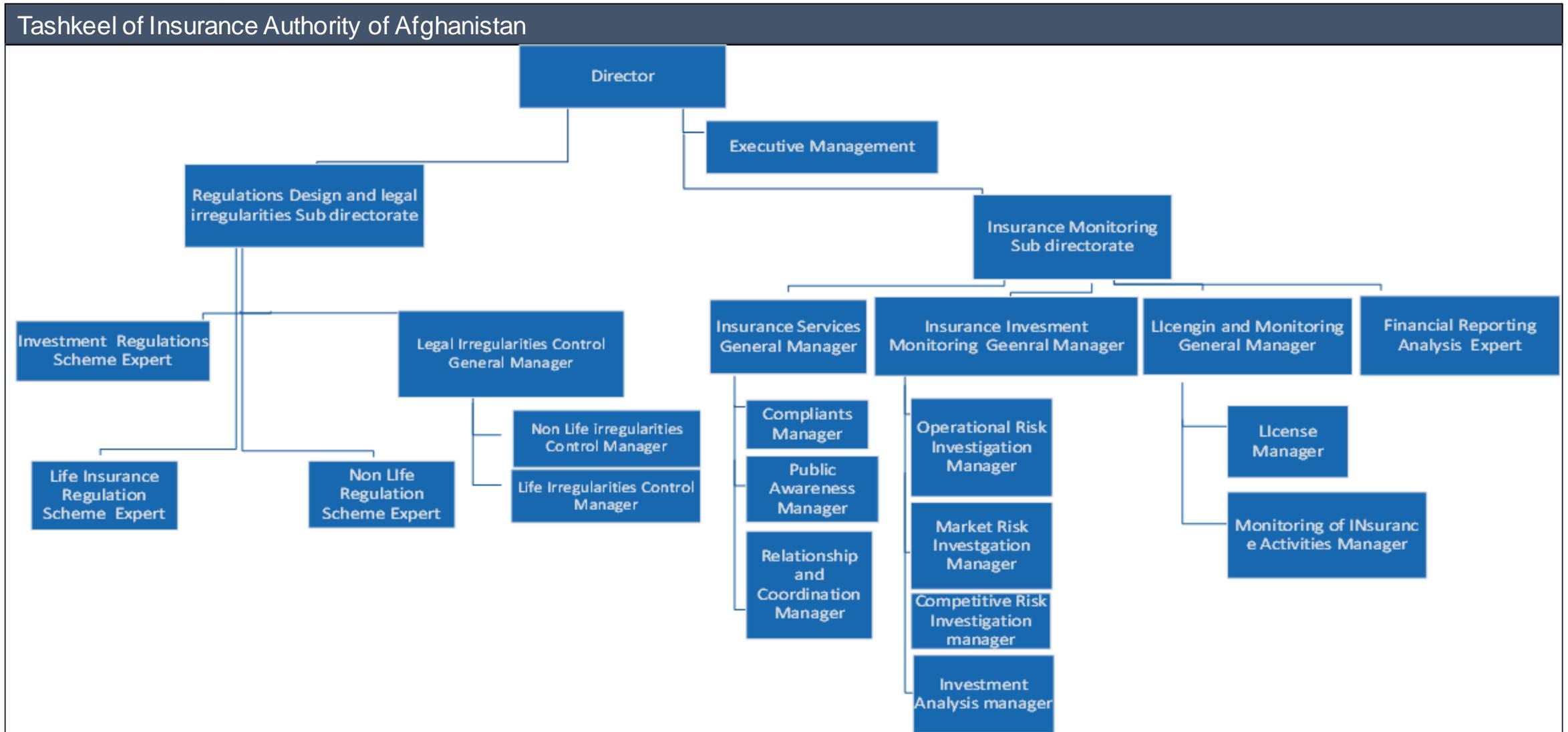
The map below illustrates the premium growth on the map. In terms of premium, there is a negative and positive growth by 10% in the world. Total direct premiums written grew by 3.8% in real terms in 2015, up from 3.5% growth in 2014. Global premium volumes were \$4,554 billion.



Source: http://passthrough.fw-notify.net/download/733813/http://www.tsb.org.tr/images/Documents/sigma_3_2016_en.pdf

Annex#2: Tashkeel of Insurance Authority

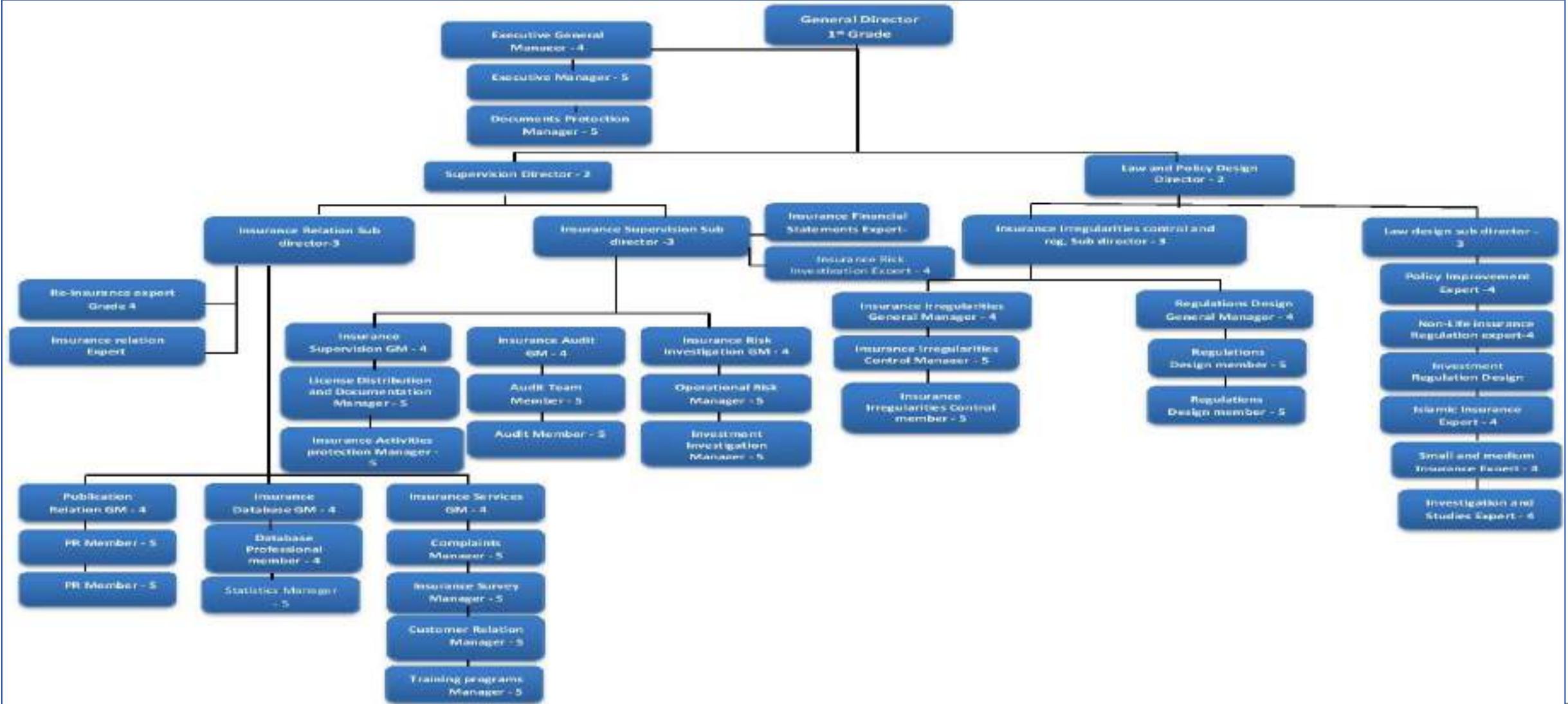
The existing tashkeel of Insurance Authority consists of 23 employees. The authority requires 61 persons in its tashkeel to better manage the industry's activities.



Annex#3: Proposed Tashkeel of Insurance Authority of Afghanistan

The following chart is the proposed tashkeel of insurance authority of Afghanistan, if the authority is converted to an independent body. The authority requires 61 persons in its tashkeel to better manage the industry's activities. We recommend this to be reduced to 50 persons.

Proposed Tashkeel of Insurance Authority of Afghanistan



Note: Numbers shown with the title of each position is the position's grade

Annex#4: Tashkeel of ANIC

ANIC has 195 persons in its tashkeel. The company operates across 20 provinces of Afghanistan

Tashkeel of ANIC

