



“As a strategic partner and provider of decision based financial and operational information, management accountants are responsible for managing the business team”

Naved Yunus

Managing Director
East West Insurance Company Limited

ICMAP: Please tell us briefly about your company and its standing in the insurance sector in Pakistan in terms of paid up capital, gross premium revenue, total claims and investment income?

NY: East West Insurance Co., Ltd was established in 1983 and registered in Quetta, Balochistan. The idea of floating insurance company in Balochistan was to support and boost the economic activities of the province. The initial paid up capital of the company was Rs.5.00 Million which subsequently increased with the increasing requirements of the regulators. Today it's paid up capital is Rs.451 Million with gross premium revenue of Rs.1.76 Billion earning gross profit before tax of Rs.183 Million which includes underwriting profit of Rs.163.4 Million, Investment and other Income of almost Rs.100.00 Million. Whereas, the total claims expense was Rs.378 Million for the year 2015.

ICMAP: How much is the size of private and public insurance business in Pakistan and their contribution towards the national GDP?

NY: Currently we have seven (07) life insurance companies are operating in private sector and only one in the public sector whereas, 38 non-life insurance companies are operating in our industry which includes one in the public sector. Detailed Statistics of insurance sector as of 31st December, 2015 are appended below:

Name of the Company	No. of Companies	Gross Premium	Tax/ GDP Ratio
Life Insurance Companies	08	Rs.122 Billion	0.52%
Non-Life Insurance Companies	38	Rs.62 Billion	0.26%
Family Takaful	02	Rs. 0.06 Billion	0.03%
General Takaful	03	Rs. 0.02 Billion	0.01%
Re-Insurance Companies	01	Rs. 0.09 Billion	0.04%

ICMAP: How insurance sector is playing its role in the economic progress and development of the country?

NY: Considerable attention has been devoted to evaluating the relationship between the economic growth and financial market deepening. Most of what we have learned relates to banking systems and securities markets with insurance receiving only a passing mention. Fortunately in past few years, various research have evidenced that insurance contributes materially to economic growth by improving the investment climate. Empirical studies suggest that non-life insurance companies contribute to growth in under developed countries, while life insurance makes substantial contribution to growth in develop countries.

ICMAP: How do you compare the insurance sector in Pakistan with other countries in the region?

NY: The Insurance Industry of Pakistan is relatively small compared to its peers in the region. The insurance penetration and

density is also modest as compared to the developed countries. This ratio is 3.8% in India, 3% in China, whereas, substantial rise in our GDP has lowered the insurance penetration.

After the promulgation of Insurance Ordinance 2000, we have observed improvement in the insurance industry particularly in life sector which has shown tremendous growth in the last five (05) years. The statistics are showing encouraging growth and with the right set of macroeconomics reforms, liberalization and market based regulatory and supervisory regime, substantial development can be expected in future.

ICMAP: What is the current tax structure on insurance industry and whether any tax incentives have been provided to this sector in the budget 2016-17?

NY: The government may bring drastic changes in the income tax structure of insurance sector, while levying a new tax on insurance premium that could adversely affect the growth of this industry which is still in its infancy. In the current budget the government has announced to charge single rate of tax 31% from new financial year 2016-17 on all sources of income of insurance companies.

Previously the insurance income was categorized in various segments ranging its tax rates from 10% to 32%, whereas; a levy of withholding tax on premium has been added from 1% on life insurance & 4% of general insurance from 1st July 2016. In addition the government has increased tax rates on the commission of insurance agents from 2% to 2.5% based on the concept of filers/non-filers of tax returns. Considering the small size of our insurance industry single rate tax of 31% and a levy of W.H.T on insurance premium would further reduce the insurance penetration in Pakistan.

ICMAP: Please identify few major issues and concerns of the insurance sector in Pakistan?

NY: Challenges and opportunities are mostly interrelated with each other and sound commercial organizations convert challenges into opportunities. It depends highly upon the efficiency of the resources of the company how they use it to maximize its profit without compromising its goodwill/reputation. There are always lots of challenges for the insurance industry in emerging markets. Some of these are as given below:

- | | |
|-----------------------------|----------------------------------|
| 1. Awareness | 7. Halal & Haram Conflicts |
| 2. Skilled Human Resource | 8. Challenging Customer Behavior |
| 3. Clarity of Premium Rates | 9. Inflation Effects |
| 4. Customers Access | 10. Regular Growth |
| 5. Political Pressure | 11. Product Development |
| 6. Economic Changes | 12. Technological Development |

ICMAP: How do you see the role of Securities and Exchange Commission of Pakistan (SECP) in promoting, strengthening and ensuring an effective regulatory environment for the insurance business?

NY: In 2001, the responsibilities of a regulator/supervision were deputed to SECP. Though the Insurance Industry of Pakistan is highly under developed compared to its potential, it has shown tremendous growth of premium under the new regulatory regime in the last five years.

SECP has strategic priority and commitment to strengthen and maintain an effective regulatory environment in which insurance and takaful business can flourish and prosper. To strengthen SECP's role as an effective facilitator so as to achieve the underline objectives for raising the insurance penetration level with key focus on the areas as under:

- Safeguard interest of policyholders
- Formulate regulatory frame work with amendments to augment the role of SECP

- Development of personal lines of business
- Protection to less privileged segment of society
- Public image of the insurance industry
- Train and produce professional human resource

ICMAP: What are the reasons for low penetration of insurance business in Pakistan? Do you have any suggestions for raising the insurance penetration level?

NY: Despite significant presence of insurance companies, insurance penetration in Pakistan is at the lowest level compared to other countries across the world. Insurance penetration is measured by the ratio of premiums to GDP. One of the reasons for low penetration is the low literacy rates in a population of almost 180 Million. Although insurance business has increased substantially during last decade but the huge increase in size of GDP has underplayed the insurance penetration which remains around 0.7% as against 3.43% of the world. As regards to proposal for improving the insurance penetration, we believe that if the challenges mentioned in our reply to question 06 are adequately addressed, we can surely improve the insurance penetration in Pakistan.

ICMAP: What is the significance of insurance for the growth of trade and industry in the country?

NY: Insurance sector plays very important role in the operations and development of industries, trade and commerce by minimizing the potential risk. Every industry has its own characteristics whereas, two specific elements that set insurance apart from many other activities are its facilitating nature and wide scope. Consequently, the economic importance of the insurance industry is only partly reflected by the number of people it employs in a country, its assets under management, or its contribution to the economy. It actually plays a more fundamental role in the mechanisms of a modern society and enables some activities, for which its absence would render the financial risks too great for the relative benefit to exist at all. As such, insurance is a key component of economic development and an important driver for growth. Modern economics need functioning markets for transferring risks and as an extension for insurance. Therefore, the rules that govern the conduct and trade of insurance are hugely influential, not just on the business but on the wider economy.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in insurance companies and also cost effectiveness in financial products offered to policy holders?

NY: Consistent with other roles in modern companies, management accountants have dual reporting relationship. As a strategic partner and provider of decision based financial and operational information, management accountants are responsible for managing the business team and at the same time having to report relationships and responsibilities to the finance organization and finance of the organization of their profits from information economy. It costs are significant source of uncontrollable spending, which in size is often the greatest corporate cost. A function of management accounts in such organizations is to work closely with the I.T department to provide I.T cost transparency. In short financial accounting is a stepping stone to management accounting which helps drive the success of business while strict financial accounting is more of a compliance and historical endeavor.

The interview ended with a vote of thanks to Naved Yunus, Managing Director, East West Insurance Company Limited, who spared his valuable time and gave his candid views exclusively for this Journal - Editor