Pakistan economic crisis will singe insurance too

Pakistan is currently in great economic crisis. How could this impact the country's insurance industry? **Intl Risk Consultants' Mr Suresh Khairwar** shared his thoughts with *Asia Insurance Review*.

By Anoop Khanna

Pakistan is in the throes of an economic crisis. Inflation is shooting up to a 48-year high, and industries are either shutting down or curtailing their production. People are grappling with shortage of essentials and fuel prices are rising with regularity. The country's foreign exchange reserves are scraping the bottom.

Petrol dispensing stations are either running dry or there are no customers to have their vehicles filled. According to a media report, Pakistan's oil companies are on the verge of collapse due to the current economic crisis and currency devaluation.

Pakistan's rupee has been on a slide during recent weeks. In February this year it fell to PKR284 to $1. The consumer price index rose by around 28% in January this year. The wholesale price index also rose to around similar level. The cost of essential commodities has gone up drastically.

Prior to this precarious situation, Pakistan was devastated by historic floods that continued for almost six months in 2022 and caused economic damage of $40bn to the country's infrastructure. It affected over 33m people.

Floods compounded economic woes

Speaking with *Asia Insurance Review*, Intl Risk Consultants principal officer Suresh Khairwar said, "The economic woes of Pakistan were exacerbated by the floods. The raging floods impacted largely rural areas of the country and hence, most of the essential crops were washed out."

He said, "Pakistan is even otherwise dependent on imports for a lot of essentials, the destroyed crops made the country import items that it is generally self-sufficient in. Importing food items added to the already depleting foreign exchange reserves."

Speaking about the economic resources that could have been utilised for solving the socio-economic problems of the population, but were instead used for rehabilitation and reconstruction, Mr Khairwar said, "This is the case even in the best of situations and especially in countries where insurance penetration is still poor and especially in the property and casualty lines."

Agricultural labour and industrial workers were displaced by the long floods and this also impacted post-flood resurgence of the devastated areas.

Economic growth reduced

The economic growth rate of Pakistan in 2018-19 was around 6% and is likely to slump to 1%-1.5% in the current fiscal. External debt servicing in the first two quarters of 2022-23 rose by 70% as the supply of foreign exchange is worsening. The domestic demand is currently focused only on essentials necessary to keep alive.

Mr Khairwar said, "The closure of manufacturing units leads to lay-offs and increase in unemployment. In addition, rising inflation leads to depleting economic growth and in some cases even to recession.

"Rising unemployment and worsening economic health of the society at large negatively impacts the demand for insurance, which even otherwise in developing countries like Pakistan, is a discretionary expense item. It could even be termed as non-essential."

Motor insurance plummets

He said, "According to auto-industry sources, auto-sales in recent months have fallen by 65% and are at the lowest level in last three years. This directly tells upon auto-insurance.

"Further, with the price of petrol and diesel have risen exorbitantly during this crisis period while usage of personal vehicles has come down drastically. This also brings down motor insurance renewals."

He said, "Insurance claims, too, will become expensive. With industrial production either shut or highly reduced and foreign exchange at a high premium, getting spares for not only high-end models but also for the normal man's vehicles would be prohibitively expensive."

Payments of reinsurance premiums is another major bottleneck. Mr Khairwar said, "Reinsurance premium is generally made in foreign exchange and with foreign exchange reserves thinning out, insurers will not be able to make use of market resources."

He said, "If they utilise their reserves, it might tell on their solvency margins. This could lead to reputational risk too."

Investment income impacted

"With industrial production either completely shut down or curtailed, share and stock markets, too, have been roiled and as such insurers' investment income suffers. Many of their assets either become stressed or assume non-performing status leading to credit and receivable challenges."

Another fallout of the economic crisis on the insurance sector would be loss of talent. Speaking about the manpower issues, Mr Khairwar said, "Several insurers (especially non-life insurers) may not be able to match up with the contractual or employment terms and conditions with some of the specialised employees. The players stand to lose such talent, which may not be available again."

He said, "Inflation also negatively impacts the health of the society. People may not be able to renew their health policies and hence be devoid of that cover. Added to that the precarious living conditions in such times aggravate physical problems and people tend to fall sick more often, necessitating increased use of healthcare."

Insurers can be good Samaritans

Moreover, increasing demand for healthcare resources and overutilisation of healthcare services at such times can push up medical inflation, which otherwise is even higher than general economic inflation. Mr Khairwar said at such times it is necessary for insurers to help soften the negative impacts on customers.

He said in such lean periods, insurers can also work on designing products that could take care of such situations in the future. This gets them an empathetic image with the customers. During the pandemic, people realised the importance of health cover. Perhaps this could be an opportunity for Pakistani insurers to win over more customers after the crisis period.

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