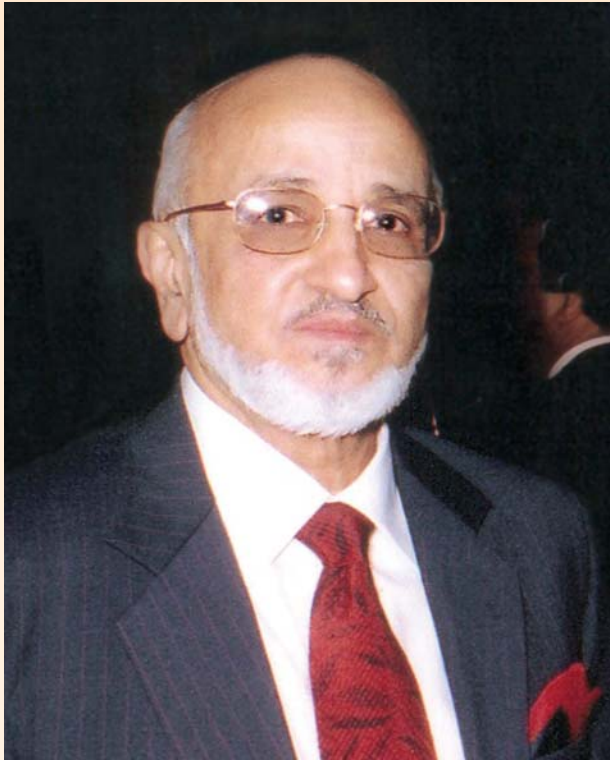


Inflation gives boom to insurance business



“The dismal security situation in Pakistan has motivated industrialists and owners of companies to buy insurance coverage

Mr. Saifuddin N. Zoomkawala
Chairman
EFU General Insurance Ltd.

AMID slow domestic economic activity the spike in prices of commodities, machinery and motor vehicles has given a boom to the business of insurance companies. The fact that inflation has played a key role in driving the business of insurance companies was disclosed by Chairman of EFU General Insurance Mr. Saifuddin N. Zoomkawala in an exclusive interview to Pakistan Today.

He said that the last two years were very tough for the economy, but the insurance sector has braved the crisis successfully because of a price hike. This is true globally and in Pakistan he added.

In last couple of years the prices of raw cotton, rice, wheat, machinery, etc., have increased substantially as a result the insurance companies have earned better rates of premium on providing insurance cover to companies, proprietors and individuals. He explained that two years ago a company or textile mill that was getting insurance cover for cotton/machinery, is now quoting 50 to 100 percent increase in

the prices of the same machinery. Similarly, the prices of cars have also increased in the last two years which has put extra burden on the buyers, but this trend proved beneficial for the insurance industry, he added.

ON LENDING RATES: Mr. Zoomkawala, who had spent more than four decades in the insurance business, said the prevailing high rate of interest was proving to be a major hurdle in the way of the growth of insurance industry.

The banks and other financial institutions are charging up to 20 percent mark on lending rates set by the Karachi Inter-bank Operations Rate (KIBOR). These days KIBOR is hovering around 14 percent and the overall lending rate would surge to 20 percent above this level which is not an affordable rate of lending for most people. From 2003-2006 the interest rate remained favourable for borrowers; around six percent for the individuals and 2-3 percent for the corporate sector. This was the ideal interest rate regime that gave an unprecedented boom to the consumer financing in Pakistan. However, the borrowers landed into trouble when this lending rate gradually shot up to 18 percent (and beyond this limit in some cases of consumer financing and personal loans). He said that the interest rate should be trimmed to an affordable level as it would help revive the economy and augment industrial and trade activities in the country. He also pointed out that growing terrorist attack in Pakistan have motivated industrialists and owners of companies to get insurance to protect their business from losses. Since 2010 insurance companies are seeing an increasing demand for insurance coverage against terrorism, he said. Mr. Zoomkawala said traditionally businessmen used to buy insurance against fire and theft, but the growing incidents of terrorism have compelled them to protect their business.

LAST YEAR'S FLOODS: In fact, we have convinced businessmen to buy insurance coverage against terrorism, he said, adding that any incident of a terrorist attack can ruin a business in and bankrupt a millionaire. Mr. Zoomkawala also said that the floods delivered a great blow to the insurance business in the latter half of 2010.

EFU General Insurance, however, suffered no losses in floods, as the company had got reinsurance cover from international insurance companies. Our company had made payments worth Rs. 1.70 billion on flood-related claims, but we got these claims reimbursed from the company with whom we have a reinsurance arrangement. Talking about international companies he said that they have suffered losses in recent floods and most global companies have now stopped offering reinsurance arrangement to Pakistani companies. The Chairman of EFU General Insurance predicted that 2011 would be a good year for the insurance companies in Pakistan because the economy is showing strong signs of improvement.