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INSURANCE REPORT

INCLUDES 5-YEAR FORECASTS TO 2018

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CONTENTS

BMI Industry View

BMI View: *As of early 2014, we remain of the view that the key factors driving growth in Iran's insurance sector have been higher (real) prices in just two lines - Compulsory Motorists Third Party Liability, and (especially) health insurance. We are not convinced, though, that this is evidence of a definitive change for the better in the non-life segment or in the insurance sector as a whole.*

BMI's new insurance report format provides forecasts of the life and non-life markets, including gross and net premiums, reinsurance premiums and assets. Moreover, it provides forecasts for key growth drivers such as vehicle fleet size, demographic factors and private health expenditure. The report also contains a comprehensive breakdown of the non-life insurance market, providing forecasts for motor and transport insurance, property, personal accident, health, general liability and credit insurance. Finally, the new report offers a detailed breakdown of the life and non-life competitive landscapes, covering the top companies present in each segment by premiums and market share.

The latest data published by Bimeh Markazi Iran, the insurance regulator, suggest that total premiums continued to develop strongly in Iranian year 1390, which ended in March 2012 (please note this year is shown as 2011 in the tables in this report). We think that the key factors have been higher (real) prices in just two lines - Compulsory Motorists Third Party Liability, and health insurance. We are not convinced, though, that this is evidence of a definitive change for the better in the non-life segment or in the insurance sector as a whole.

In spite of the strong growth in life premiums in the year to March 2012, we remain of the view that the segment is expanding from a very low base and is still in an embryonic stage of development. One of the defining characteristics of the economy is entrenched high inflation (and expectations) thanks to persistent monetisation of fiscal deficits. This produces an environment in which no prudent person would enter into a long-term savings contract. Unless economic policies in Iran change radically, the reality of the insurance sector will fall a long way short of its potential.

Iran's insurance sector has a number of strengths, including scale in terms of gross written premiums per annum. **Bimeh Iran**, the largest state-owned enterprise, is one of the largest underwriters in the Middle East and would rate as a reasonably large insurer in most countries. Non-life penetration has, as noted above, consistently remained slightly above 1% of GDP. Among other things, this suggests the regulatory regime is reasonably sound. Iran's insurers have managed to survive in the face of various challenges - not least of which is the almost complete lack of access to the global reinsurance markets. Unlike in other Middle

Eastern countries, Iran's insurance sector is dominated by a surprisingly large number of sub-scale non-life companies that are offshoots of local business interests that do not have a clear edge in the industry.

The sector is undergoing 'privatisation', via listings of companies on the Tehran Stock Exchange, and 'liberalisation', in that the decisions over products and pricing are moving from Bimeh Markazi Iran (the regulator and, to a certain extent, provider of reinsurance service) to the insurers themselves. However, in contrast to privatisation in other countries, the deals in Iran are not necessarily reducing government control and are certainly not increasing formerly state-owned companies' access to capital. The limited data available suggest the main impact of 'liberalisation' is to transfer resources from shareholders of private sector companies (including the recently 'privatised' **Bimeh Alborz**, **Bimeh Asia** and **Bimeh Dana**) to the still state-controlled Bimeh Iran, including employees and, to a certain extent, insurance customers. A new private sector insurer - **Arman** - opened its doors in March 2012.

Key BMI Forecasts:

- In 2014, total premiums will rise by 7.3% to US$8.1bn.
- Life premiums will grow by 9.8% to US$0.8bn.
- Non-Life premiums will increase by 6.6% to US$7.4bn.
- Within this sub-total, motor vehicle premiums will grow by 5.6% to US$4.4bn.

SWOT

Insurance

Iran Insurance SWOT Analysis

Strengths	▪ The industry has scale. Bimeh Iran, the largest, and still state-owned, insurance company, is one of the biggest groups in the Middle East. ▪ The industry is sophisticated and has evolved far beyond basic lines such as motor insurance. ▪ The regulatory regime is, in some respects, unusual. But it is one within which the protagonists can work effectively. ▪ Iranian insurers have shown that they can thrive, or at least survive, with limited access to the global reinsurance markets. ▪ Premiums surged in the year to March 2012 - in both segments.
Weaknesses	▪ Stagnation - in real terms, the non-life segment has not grown much over the long-term. ▪ 'Privatisation' and 'liberalisation' are not operating as they would in other countries. ▪ Costs appear to have been rising relative to revenues. ▪ Entrenched inflation means that the life segment hardly exists at all.
Opportunities	▪ A wildcard is major political change. Under different circumstances, total premiums could be 2-3 times as large as they are.
Threats	▪ 'Privatisation', the main aim of which is to entrench government control over insurance companies in order to run them 'for policy objectives rather than profit'. ▪ 'Liberalisation', the main aim of which appears to be to disadvantage shareholders of private sector (and, to some extent, recently privatised) companies and to benefit most other stakeholders. ▪ The squeeze on underwriting profits in the market for motor third-party liability cover.

Iran Insurance SWOT Analysis - Continued

- The distortion of the economy and financial markets through high inflation.

Political

Political SWOT Analysis

Strengths

- Since the overthrow of the Pahlavi family in 1979, there has been some reduction in the level of political corruption, while wealth distribution has improved marginally.
- The Revolutionary Guard and Basij militia are fiercely loyal to the supreme leader, helping to maintain social stability.

Weaknesses

- The country has one of the poorest human rights records in the region, and authorities do not hesitate to quell dissidents. A number of journalists and anti-government protesters are being held in custody.
- While decision-making ultimately rests with the supreme leader, the regime is heavily fragmented, and consensus is hard to reach.
- Widespread perceptions of electoral fraud during the course of June 2009's presidential elections have damaged the regime's legitimacy in the eyes of many Iranians.

Opportunities

- The Majlis (parliament) is more than just a rubber stamp; the move by 150 parliamentarians (out of 290) to hold former president Mahmoud Ahmadinejad accountable for his handling of the economy in March 2012 is a positive indication that checks exist.
- The victory of moderate cleric Hassan Rouhani in Presidential elections in June 2013 is leading to a significant improvement in relations with the West.

Threats

- Despite progress in nuclear talks, the prospect of further US and EU sanctions and the possibility of a military strike by the US or Israel cannot be dismissed entirely.
- Youth unemployment is high.
- The strong influence of the Revolutionary Guards within the political and economic arena may present a challenge to reform over the long term.

Economic

Economic SWOT Analysis

Strengths	▪ Iran has the world's second largest proven oil reserves after Saudi Arabia, and the world's second largest proven gas reserves after Russia. ▪ Oil and gas aside, Iran is rich in other resources and has a strong agricultural sector.
Weaknesses	▪ Local consumption of hydrocarbons is rising rapidly; this, coupled with ageing technology in the sector, will have a negative impact on its oil and gas exporting capacity. ▪ International sanctions discourage foreign oil companies from bringing much-needed technical knowledge and equipment to maintain oil output levels.
Opportunities	▪ The gas sector remains underdeveloped, and there is considerable room to maximise this source of revenue. ▪ A growing population, combined with a shortage of housing, provide opportunities for investment in residential construction.
Threats	▪ A decline in global oil prices would have a marked impact on the economy. Although an Oil Stabilisation Fund exists to protect the economy at times of weaker oil prices, it has increasingly been used to fund government overspending and could be close to empty. ▪ Capital flight could continue, particularly should negotiations on the nuclear programme fail.

Business Environment

Business Environment SWOT Analysis

Strengths	▪ The Foreign Investment Promotion and Protection Act gives some protection to foreign investors and now allows relatively good terms for the repatriation of profits. ▪ Although stifled in the years since the Islamic Revolution, Iranians have traditionally been renowned for their entrepreneurial skills - a factor that is potentially a strong pull for foreign investors.
Weaknesses	▪ Progress on the privatisation front remains slow despite some recent encouraging signs. ▪ Foreign firms are currently unable to own Iran's hydrocarbon resources. The resultant 'buy back' deals offer less advantageous terms than those elsewhere, limiting hopes of new investment.
Opportunities	▪ As part of the fourth five-year development plan 2005-2009, the government ended tax and customs concessions afforded to the country's quasi-statal bonyads, or foundations.
Threats	▪ UN, US and EU sanctions on Iran's banking and energy sectors are making it very difficult for foreign companies to undertake financial transactions with Iranian entities, and much riskier to invest in the hydrocarbon sector. ▪ Central bank supervision of charitable funds will be stepped up sharply after it emerged that a number of these funds had collapsed due to indiscriminate lending practices.

Industry Forecast

Total Premiums Forecasts

BMI View: *In spite of many challenges, Iran's insurance sector can be considered to be a reasonably large, and very rapidly growing market opportunity. Much is distorted by the structurally high inflation, which will remain a feature of the economy through the forecast period. In particular, this has constrained the development of the life segment, where premiums are rising from a very low base. However, real increases in prices and rates for motor vehicle insurance and health insurance, which account for over 80% of the activity in the non-life segment, should ensure that premiums achieve good growth.*

Premiums

Sanctions and structurally high inflation have impeded the development of Iran's insurance sector, notwithstanding that, with gross premiums of around US$8bn annually, it rates as a substantial market opportunity. Sanctions have limited the insurers' access to global reinsurance markets. Inflation of 20% (or more) annually is a huge disincentive for any household that might otherwise enter into a long-term contract with a life insurance company.

Nevertheless, premiums should rise strongly in the non-life segment. This matters, because it accounts for about 90% of all business written in the insurance sector. Higher prices/rates for motor vehicle and health insurance, along with an improved economic environment, will be the main drivers of the expansion. In the life segment, promotion of short-tail products should ensure that premiums grow rapidly, albeit from a very low base.

Table: Total Gross Premiums Written 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Total gross premiums written, IRRbn	86,092	131,097	155,154	200,646	240,465	283,600	324,794	368,792
Total gross premiums written, IRR, % change y-o-y	45.5	52.3	18.4	29.3	19.8	17.9	14.5	13.5
Total gross premiums written, IRR per capita	1,141,437	1,715,377	2,003,348	2,556,971	3,025,615	3,524,724	3,988,986	4,477,807
Total gross premiums written, % of GDP	1.5	2.0	1.7	1.7	1.7	1.7	1.7	1.7

Total Gross Premiums Written 2011-2018 - Continued	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Total gross premiums written, US$bn	8.1	10.7	7.6	8.1	10.9	11.8	14.8	16.8
Total gross premiums written, US$, % change y-o-y	39.6	32.5	-29.6	7.3	34.6	8.1	24.9	13.5
Total gross premiums written, US$ per capita	107.5	140.6	97.7	103.5	137.5	146.9	181.3	203.5

Source: Central Insurance of Iran/BMI

Net premiums for the entire insurance sector should grow rapidly, and in line with gross premiums, over the forecast period. Retention ratios are low in both major segments. In the non-life segment, this is probably because of the need to reinsure covered risks outside the important motor vehicle insurance and medical insurance sub-sectors. In the life segment, it is probably because of the insurers' need to achieve protection against the erosion by inflation of the real value of premiums.

Table: Total Net Premiums Written 2011-2018	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Total net premiums written, IRRbn	62,478	95,058	112,092	144,670	173,189	204,084	233,579	265,074
Total net premiums written, IRR, % change y-o-y	46.0	52.1	17.9	29.1	19.7	17.8	14.5	13.5
Total net premiums written, IRR per capita	828,351	1,243,821	1,447,334	1,843,624	2,179,125	2,536,457	2,868,723	3,218,482
Total net premiums written, % of GDP	1.1	1.4	1.3	1.3	1.3	1.3	1.3	1.2
Total net premiums written, US$bn	5.9	7.8	5.5	5.9	7.9	8.5	10.6	12.0
Total net premiums written, US$, % change y-o-y	40.1	32.4	-29.8	7.1	34.4	8.0	24.9	13.5
Total net premiums written, US$ per capita	78.0	102.0	70.6	74.6	99.1	105.7	130.4	146.3

Source: Central Insurance of Iran/BMI

Claims

Some 95% or so of the claims and payments of the entire Iranian insurance sector emanate from the non-life segment. The general trend has been one of rapid expansion, in part because of the structurally high inflation. Life claims were broadly unchanged until 2008, but have since grown rapidly: this is probably because of a focus by insurers on short-tail products.

Table: Total Insurance Claims 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
Total insurance claims, IRRbn	14,535.0	16,466.7	20,823.5	24,752.6	30,753.4	39,223.2	53,698.3	78,379.7
Total insurance claims, IRR, % change y-o-y	44.9	13.3	26.5	18.9	24.2	27.5	36.9	46.0
Total insurance claims, IRR per capita	207,191.5	232,001.2	289,983.7	340,659.8	418,168.6	526,753.0	711,949.2	1,025,583.9
Total insurance claims, % of GDP	0.8	0.7	0.7	0.7	0.9	0.9	1.0	1.2
Total insurance claims, US$bn	1.6	1.8	2.2	2.6	3.1	3.9	5.1	6.4
Total insurance claims, US$, % change y-o-y	40.1	11.2	25.3	14.8	20.5	24.0	31.4	27.0
Total insurance claims, US$ per capita	23.0	25.2	31.2	35.5	42.2	51.7	67.1	84.1

Source: Central Insurance of Iran/BMI

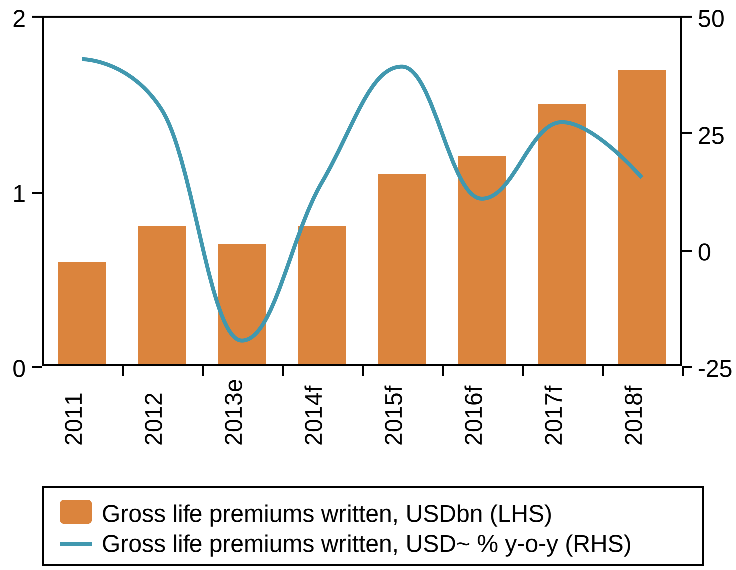
Life Premiums Forecasts

BMI View: *Structurally high inflation continues to hinder the evolution of Iran's life insurance segment, which remains at an embryonic state of development. Growth through the forecast period should be rapid. This will partly be due to growing sales of short-tail products. Life insurance premiums will likely rise more rapidly than non-life premiums over the next five years. However, in 2018, the life segment will account for barely more than 10% of total premiums written in Iran's insurance sector.*

Life premiums fell sharply in 2013 in US dollar terms thanks to the devaluation of the IRR. In general, though, the general trend has been for rapid growth in premiums - albeit from a low base. Some of the insurers have successfully expanded their business by concentrating on short-tail products.

Surging From A Low Base

Life Premiums (US$bn) And Y-o-Y Growth (%)



Notes: [1] "Central Insurance of Iran/BMI" [2] "Central Insurance of Iran/BMI"

Premiums

In terms of the premiums that are actually written, life insurance barely exists in Iran. The life segment accounts for less than 10% of all premiums written in the insurance sector. Life density (premiums per capita) is less than US$10. Life penetration (premiums as a percentage of GDP) is also low, at just 0.2%. For now, though, we anticipate that the life insurance companies will achieve real growth in premiums through the forecast period. The surge in claims in recent years suggests to us that the life insurers have been focusing on short-tail products.

Table: Gross Life Premiums Written 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Gross life premiums written, IRRbn	6,869.8	10,248.3	13,843.8	19,069.6	23,631.0	28,570.5	33,325.7	38,438.1
Gross life premiums written, IRR, % change y-o-y	46.6	49.2	35.1	37.7	23.9	20.9	16.6	15.3
Gross life premiums written, IRR per capita	91,081.5	134,097.6	178,751.9	243,017.5	297,333.7	355,089.2	409,293.0	466,708.1
Gross life premiums written, % of GDP	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross life premiums written, % of gross premiums written	8.0	7.8	8.9	9.5	9.8	10.1	10.3	10.4
Gross life premiums written, US$bn	0.6	0.8	0.7	0.8	1.1	1.2	1.5	1.7
Gross life premiums written, US$, % change y-o-y	40.7	29.8	-19.6	14.3	39.1	10.8	27.2	15.3
Gross life premiums written, US$ per capita	8.6	11.0	8.7	9.8	13.5	14.8	18.6	21.2

Source: Central Insurance of Iran/BMI

In Iran's life segment, retention ratios (net premiums as a percentage of gross premiums) have consistently been low, at around 50%. In essence, around half of the business written is ceded as outwards reinsurance. As noted above, a challenge that the insurers face is that households will always be unwilling to enter into long-term contracts with insurers in Iran, because of the persistently high inflation, which erodes the real value of benefits. It may be that many of the insurers who offer life products are concerned that claims and payments grow too rapidly in relation to premium income: if this is the case, a logical response would be to lay the risks off using outwards reinsurance. Given the sanctions that are imposed on Iran by foreign countries, the reinsurance must be purchased from Iranian companies.

Table: Net Life Premiums Written 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Net life premiums written, IRRbn	3,436.0	5,114.6	6,906.2	9,512.4	11,787.5	14,251.4	16,623.4	19,173.5
Net life premiums written, IRR, % change y-o-y	46.9	48.9	35.0	37.7	23.9	20.9	16.6	15.3
Net life premiums written, IRR per capita	45,555.7	66,924.0	89,172.7	121,222.9	148,315.0	177,123.9	204,161.5	232,801.0
Net life premiums written, % of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net life premiums written, % of net premiums written	5.5	5.4	6.2	6.6	6.8	7.0	7.1	7.2
Net life premiums written, US$bn	0.3	0.4	0.3	0.4	0.5	0.6	0.8	0.9
Net life premiums written, US$, % change y-o-y	41.0	29.6	-19.7	14.3	39.1	10.8	27.2	15.3
Net life premiums written, US$ per capita	4.3	5.5	4.3	4.9	6.7	7.4	9.3	10.6

Source: Central Insurance of Iran/BMI

Claims And Payments

Claims and payments in Iran's extremely underdeveloped life segment were broadly unchanged in 2005-2007. They then surged by 25-35% annually. We suspect that this is due to increasing orientation of life insurers towards short-tail products. In 2012, claims and payments by the life insurers were less than US $4 per capita.

Table: Life Insurance Claims 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
Life insurance claims, IRRbn	680.8	724.4	732.9	953.6	1,347.8	1,698.2	2,330.3	3,547.0
Life insurance claims, IRR, % change y-o-y	11.5	6.4	1.2	30.1	41.3	26.0	37.2	52.2
Life insurance claims, IRR per capita	9,704.5	10,206.6	10,205.8	13,124.6	18,326.7	22,806.8	30,895.6	46,412.2
Life insurance claims life, % of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Life insurance claims, % of total claims	4.7	4.4	3.5	3.9	4.4	4.3	4.3	4.5

Life Insurance Claims 2005-2012 - Continued								
	2005	2006	2007	2008	2009	2010	2011	2012
Life insurance claims, US$bn	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
Life insurance claims, US$, % change y-o-y	7.9	4.4	0.3	25.7	37.1	22.5	31.7	32.5
Life insurance claims, US$ per capita	1.1	1.1	1.1	1.4	1.9	2.2	2.9	3.8

Source: Central Insurance of Iran/BMI

Key Drivers

At 3.5-4.0% of GDP, private healthcare spending is large for a country of Iran's per capita income levels. The general trend has been for healthcare spending to rise rapidly, but in an erratic way. Costs and expenditure have been distorted by the structurally high inflation in Iran. As we explain below, they have also been boosted by rising morbidity, a trend that should remain intact through the forecast period.

Healthcare insurance is seen as a part of the non-life segment, in which it is an important sub-sector. Rising prices and rates in the sub-sector should contribute to the rapid growth of the non-life segment through the forecast period.

Table: INSURANCE KEY DRIVERS, PRIVATE HEALTH EXPENDITURE 2011-2018

	2011	2012f	2013e	2014f	2015f	2016f	2017f	2018f
Private health expenditure, IRRbn	165,735.2	271,480.8	368,100.3	457,756.5	521,589.4	563,073.6	606,494.1	650,056.3
Private health expenditure, IRR, % change y-o-y	21.0	63.8	35.6	24.4	13.9	8.0	7.7	7.2
Private health expenditure, US$bn	15.6	22.3	18.0	18.5	23.7	23.5	27.6	29.5
Private health expenditure, US$bn, % change y-o-y	16.1	42.6	-19.3	3.2	27.9	-1.0	17.5	7.2
Private health expenditure, US$ per capita	207.0	291.2	231.8	236.2	298.3	291.6	338.6	358.8
Private health expenditure, % of GDP	3.0	4.0	4.1	4.0	3.8	3.5	3.2	3.1

Source: World Health Organization (WHO)/BMI

Relative to other countries whose insurance sectors are monitored by BMI, Iran is unusual in that overall morbidity is increasing. We are looking for total disease adjusted life years (DALYs - a widely used measure of morbidity) to grow from 12.5mn in 2013 to nearly 13.3mn in 2018. Morbidity is falling (slowly) for very young children and for people aged between 15 and 29. However, it is rising in all other age cohorts. This is one of the fundamental reasons why healthcare spending is rising.

Table: INSURANCE KEY DRIVERS, DISEASE ADJUSTED LIFE YEARS 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
All Causes, DALYs	12,234,678	12,381,243	12,527,618	12,673,803	12,819,798	12,965,602	13,111,216	13,256,639
Communicable, maternal, perinatal and nutritional conditions, DALYs	1,718,204	1,694,755	1,671,090	1,647,211	1,623,116	1,598,805	1,574,279	1,549,537
Noncommunicable diseases, DALYs	7,169,150	7,287,198	7,405,615	7,524,400	7,643,554	7,763,078	7,882,971	8,003,234
All diseases and injuries, 0-4 yrs, total, DALYs	2,071,977	2,071,061	2,066,960	2,059,728	2,049,420	2,036,093	2,019,823	2,000,707
All diseases and injuries, 15-29 yrs, total, DALYs	3,218,692	3,168,384	3,116,629	3,065,601	3,017,215	2,973,172	2,934,978	2,903,954

INSURANCE KEY DRIVERS, DISEASE ADJUSTED LIFE YEARS 2011-2018 - Continued								
	2011	**2012**	**2013e**	**2014f**	**2015f**	**2016f**	**2017f**	**2018f**
All diseases and injuries, 30-44 yrs, total, DALYs	2,501,081	2,618,537	2,733,962	2,844,715	2,948,596	3,043,769	3,128,699	3,202,110
All diseases and injuries, 45-59 yrs, total, DALYs	1,931,486	1,983,409	2,036,008	2,089,886	2,145,560	2,203,490	2,264,100	2,327,813
All diseases and injuries, 5-14 yrs, total, DALYs	1,009,638	1,018,295	1,029,822	1,043,927	1,060,242	1,078,336	1,097,714	1,117,835
All diseases and injuries, 60-69 yrs, total, DALYs	810,894	829,978	851,316	874,745	900,089	927,162	955,777	985,739
All diseases and injuries, 70+ yrs, total, DALYs	690,909	691,580	692,922	695,201	698,675	703,580	710,124	718,482

Source: WHO/World Bank/IMF/BMI

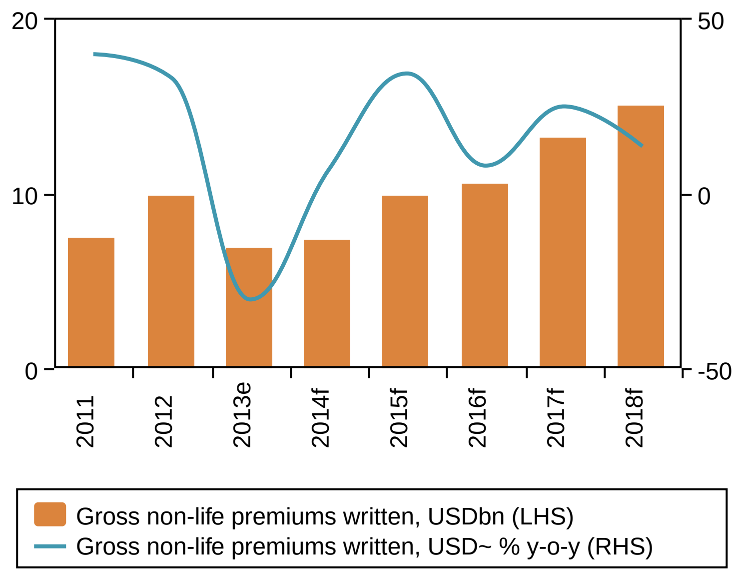
Non-Life Premiums Forecasts

BMI View: *Growth in the non-life segment will be driven by higher real prices and rates in the motor vehicle and health insurance sub-sectors. Smaller sub-sectors should benefit from an improvement in the economy. Relative to its peers in other countries (and, in particular, in the Middle East and North Africa), Iran's non-life segment is both large and rapidly growing.*

Iran's non-life segment has traditionally accounted for over 90% of all premiums written in the insurance sector. Generally, the segment has achieved good real growth. Thanks to the distortions that exist in any economy where, for structural reasons, there is entrenched inflation of over 20%, the leading insurers have been able to achieve real increases in premiums.

Rapid Recovery

Gross Non-Life Premiums (US$bn) And Y-o-Y Growth (%)



Notes: [1] *"Central Insurance of Iran/BMI"* [2] *"Central Insurance of Iran/BMI"*

The fortunes of the non-life segment took a turn for the worse in 2013. In US dollar terms, premiums contracted sharply as a result of the devaluation of the IRR. However, premiums in many of the smaller sub-sectors suffered as a consequence of the general softness of the economy. We are looking for economic performance to improve in the forecast period: this should contribute to a rapid recovery in overall non-life premiums.

Premiums

Non-Life penetration (premiums as a percentage of GDP) is quite low, at about 1.6%. Although we are looking for strong real growth in non-life premiums through the forecast period, this will not be sufficient to boost penetration. In the recent past, premiums have been depressed by the impact of the economic slow-down on a number of sub-sectors. We envisage that the growth of the segment will be driven significantly by higher rates and prices in the two largest sub-sectors, motor vehicle insurance and health insurance. Some of the smaller sub-sectors should, however, benefit from a general improvement in the economic environment.

Table: Gross Non-Life Premiums 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Gross non-life premiums written, IRRbn	79,222.3	120,848.4	141,309.8	181,576.5	216,833.7	255,029.4	291,468.2	330,353.9
Gross non-life premiums written, IRR, % change y-o-y	45.4	52.5	16.9	28.5	19.4	17.6	14.3	13.3
Gross non-life premiums written, IRR per capita	1,050,355	1,581,279	1,824,596	2,313,954	2,728,282	3,169,635	3,579,693	4,011,099
Gross non-life premiums written, % of GDP	1.4	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Gross non-life premiums written, % of gross premiums written	92.0	92.2	91.1	90.5	90.2	89.9	89.7	89.6
Gross non-life premiums written, US $bn	7.5	9.9	6.9	7.4	9.9	10.6	13.2	15.0
Gross non-life premiums written, US $, % change y-o-y	39.6	32.8	-30.4	6.6	34.1	7.8	24.7	13.3
Gross non-life premiums written, US $ per capita	98.9	129.6	89.0	93.7	124.0	132.1	162.7	182.3

Source: Central Insurance of Iran/BMI

Retention ratios (net premiums as a percentage of gross premiums) are fairly high, at 75%. However, this figure is inflated by the motor vehicle insurance sub-sector, which accounts for over 60% of all premiums written in the non-life segment. In essence, the retention ratios are (much) lower in most other sub-sectors. We envisage that net premiums will rise through the forecast period, broadly in line with gross premiums.

Table: Net Non-Life Premiums 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Net non-life premiums written, IRRbn	59,041.8	89,943.7	105,185.8	135,157.2	161,401.3	189,832.4	216,955.8	245,900.6
Net non-life premiums written, IRR, % change y-o-y	45.9	52.3	16.9	28.5	19.4	17.6	14.3	13.3
Net non-life premiums written, IRR per capita	782,795	1,176,897	1,358,162	1,722,401	2,030,810	2,359,333	2,664,562	2,985,681
Net non-life premiums written, % of GDP	1.1	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Net non-life premiums written, % of net premiums written	94.5	94.6	93.8	93.4	93.2	93.0	92.9	92.8
Net non-life premiums written, US$bn	5.6	7.4	5.1	5.5	7.3	7.9	9.9	11.2
Net non-life premiums written, US$, % change y-o-y	40.0	32.6	-30.4	6.6	34.1	7.8	24.7	13.3
Net non-life premiums written, US$ per capita	73.7	96.5	66.3	69.7	92.3	98.3	121.1	135.7

Source: Central Insurance of Iran/BMI

Reinsurance

In Iran, reinsurance is a device which reapportions underwritten risks across the national insurance sector (which, in practice, means the non-life segment). One impact of international economic sanctions against Iran is that the insurers have limited access to global reinsurance markets. Outwards reinsurance premiums are substantial in absolute terms, substantial relative to the direct insurance premiums that are written in Iran and rapidly growing.

Table: Reinsurance Non-Life Premiums 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Reinsurance non-life premiums written, IRRbn	20,180.5	30,904.7	36,124.0	46,419.3	55,432.5	65,197.0	74,512.4	84,453.3
Reinsurance non-life premiums written, IRR, % change y-o-y	44.0	53.1	16.9	28.5	19.4	17.6	14.3	13.3
Reinsurance non-life premiums written, IRR per capita	267,560.1	404,382.1	466,434.1	591,552.6	697,471.4	810,301.4	915,130.6	1,025,417.4
Reinsurance non-life premiums written, % of GDP	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Reinsurance non-life premiums written, % of reinsurance premiums	85.5	85.8	83.9	82.9	82.4	82.0	81.7	81.4
Reinsurance non-life premiums written, US$bn	1.9	2.5	1.8	1.9	2.5	2.7	3.4	3.8
Reinsurance non-life premiums written, US$, % change y-o-y	38.1	33.3	-30.5	6.6	34.1	7.8	24.7	13.3
Reinsurance non-life premiums written, US$ per capita	25.2	33.2	22.8	23.9	31.7	33.8	41.6	46.6

Source: Central Insurance of Iran/BMI

Claims

Because of the embryonic stage of development of Iran's life segment, non-life claims are virtually the same as total claims and payments. In part because of the structurally high rate of inflation, claims expenses rose consistently and rapidly through the seven years to the end of 2012. Fortunately for the insurers, premiums kept up. In 2012, gross claims amounted to around 62% of gross premiums. We expect that claims will continue to grow rapidly through the forecast period. However, the variation in anticipated rises in premiums from year to year may mean that technical results swing quite wildly.

Table: Non-Life Insurance Claims 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
Non-life insurance claims, IRRbn	13,854.2	15,742.2	20,090.6	23,799.0	29,405.6	37,525.0	51,368.0	74,832.6
Non-life insurance claims, IRR, % change y-o-y	47.0	13.6	27.6	18.5	23.6	27.6	36.9	45.7
Non-life insurance claims, IRR per capita	197,487.0	221,794.6	279,777.9	327,535.2	399,841.9	503,946.2	681,053.5	979,171.6
Non-life insurance claims, % of GDP	0.8	0.7	0.7	0.7	0.8	0.9	0.9	1.1
Non-life insurance claims, % of total claims	95.3	95.6	96.5	96.1	95.6	95.7	95.7	95.5
Non-life insurance claims, US$bn	1.5	1.7	2.2	2.5	3.0	3.7	4.8	6.1
Non-life insurance claims, US$, % change y-o-y	42.2	11.5	26.5	14.4	19.9	24.0	31.4	26.8
Non-life insurance claims, US$ per capita	21.9	24.1	30.1	34.1	40.4	49.5	64.1	80.3

Source: Central Insurance of Iran/BMI

Non-Life Sub-Sector Forecasts

BMI View: *Growth of the non-life segment has been, to a large extent, been driven by higher prices and rates in the two major sub-sectors, motor vehicle insurance and health insurance. Distortions arising from the structurally high rate of inflation in Iran have enabled insurers to achieve real increases in prices. We expect that this will remain the case during the forecast period. Several of the smaller sub-sectors (and, most notably, transport insurance) have suffered as a result of the softness in Iran's economy over recent years. We think that economic conditions will improve in the coming years and that this will be reflected in the premiums that are written in the smaller sub-sectors.*

In broad terms, we do not expect that the relative sizes of the various sub-sectors of Iran's non-life segment to change much over the coming years. Motor vehicle insurance, which has been relatively immune to a difficult economic environment, has consistently accounted for 60-61% of all premiums written in the segment. Although it should continue to grow through the forecast period, the rate of expansion should be greater in other sub-sectors. Health insurance, the second largest of the sub-sectors, is rising relatively quickly.

Table: Non-Life % Breakdown 2011-2018

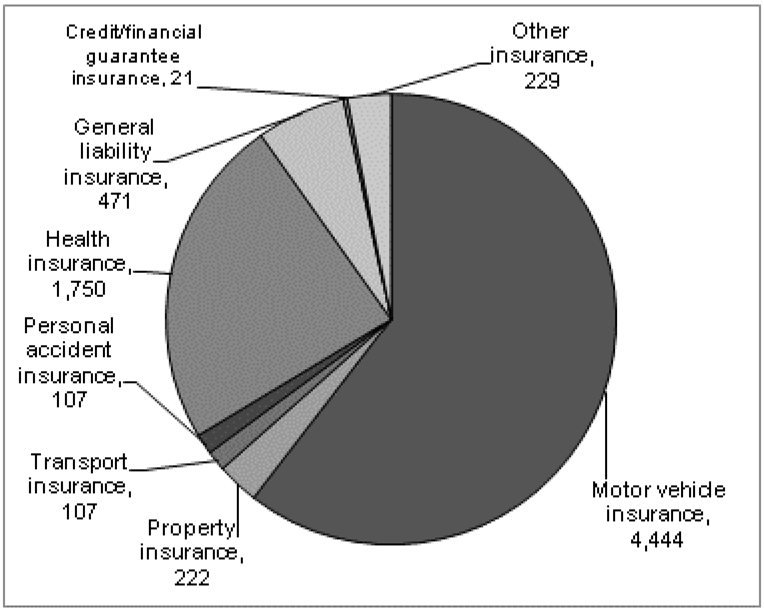
	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Motor vehicle insurance	60.8	61.5	61.0	60.5	60.2	59.9	59.8	59.7
Property insurance	5.2	4.0	3.6	3.0	2.7	2.5	2.3	2.1
Transport insurance	2.8	2.7	1.9	1.5	1.2	1.1	1.0	0.9
Personal accident insurance	1.6	1.3	1.4	1.5	1.5	1.5	1.5	1.5
Health insurance	19.2	22.0	22.3	23.8	24.5	25.2	25.7	26.1
General liability insurance	5.8	5.6	6.4	6.4	6.4	6.4	6.5	6.5
Credit/financial guarantee insurance	0.7	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Other insurance	3.9	2.7	3.1	3.1	3.1	3.1	3.1	3.1

Source: Central Insurance of Iran/BMI

Motor vehicle insurance and health insurance are by far the largest and most important sub-sectors of Iran's non-life segment, accounting for around 80% of total premiums. Both rate as substantial sub-sectors in international terms. Both are growing, if not at steady rates. Unusually, price competition does not appear to be restraining the development of the motor vehicle insurance sub-sector.

Overwhelmingly Two Lines

Non-Life Premiums (US$mn), 2012 - Source: BMI/Central Insurance of Iran



Of the various smaller sub-sectors, most have been constrained in the recent past by Iran's patchy economic performance and/or price competition. General liability insurance is surprisingly well established.

Motor Vehicle And Transport Insurance

Accounting for around 60% of all premiums written in the non-life segment, motor vehicle insurance (including compulsory motorists' third party liability - CMTPL- covers and motor hull - CASCO - insurance) is by far the largest sub-sector. On its own, the motor vehicle insurance sub-sector rates as substantial in global terms. Annual premiums are currently running at around US$4.5bn - although this figure is diminished by the past devaluation of the IRR. By the end of the forecast period, we are looking for annual premiums of nearly US$9bn. Growth should be erratic, but well into double-digits in most years. The increase will be driven far more by prices/rates than volumes.

Table: Motor Vehicle Insurance 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Motor vehicle insurance, IRRmn	48,186,453	74,334,430	86,248,082	109,769,979	130,579,173	152,854,083	174,335,365	197,190,132
Motor vehicle insurance, IRR, % change y-o-y	53.8	54.3	16.0	27.3	19.0	17.1	14.1	13.1
Motor vehicle insurance, US$mn	4,538.7	6,094.2	4,207.2	4,444.1	5,935.4	6,368.9	7,924.3	8,963.2
Motor vehicle insurance, US$, % change y-o-y	47.6	34.3	-31.0	5.6	33.6	7.3	24.4	13.1
Motor vehicle insurance, % of non-life insurance	60.8	61.5	61.0	60.5	60.2	59.9	59.8	59.7

Source: Central Insurance of Iran/BMI

Transport insurance is neither a substantial nor a growing commercial opportunity in Iran. Thanks in part to a brutal downturn in activity in the country's freight transport industry, premiums have contracted. This sub-sector now accounts for about 1.5% of all premiums written in the non-life segment, versus nearly 3% in 2011. Looking forward, premiums should receive a boost from growth in the volumes of freight carried on Iran's roads (especially) and railways. However, the rate of increase of premiums will almost certainly be constrained by price competition.

Table: Transport Insurance, 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Transport insurance, IRRmn	2,215,035	3,244,064	2,621,083	2,650,064	2,694,962	2,748,988	2,804,679	2,863,918
Transport insurance, IRR, % change y-o-y	22.2	46.5	-19.2	1.1	1.7	2.0	2.0	2.1
Transport insurance, US $mn	208.6	266.0	127.9	107.3	122.5	114.5	127.5	130.2
Transport insurance, US $, % change y-o-y	17.2	27.5	-51.9	-16.1	14.2	-6.5	11.3	2.1
Transport insurance, % of non-life insurance	2.8	2.7	1.9	1.5	1.2	1.1	1.0	0.9

Source: BMI/Central Insurance of Iran

Many of the metrics which define Iran's economic performance are distorted by the structurally high rate of inflation in the country, as the government continuously monetises a substantial fiscal deficit. This is not the case with freight tonnage, which highlights the lacklustre real growth of activity in recent years. Total road freight tonnage has fallen by around one fifth relative to 2011. However, we anticipate that real growth in overall activity, and volumes of freight carried by all modes, will grow steadily from 2015.

Table: Insurance Key Drivers, Freight Tonnage 2011-2018

	2011	2012f	2013e	2014f	2015f	2016f	2017f	2018f
Air Freight Tonnes (000)	640.4	600.6	589.6	595.9	602.5	609.8	618.0	627.1
Air Freight Tonnes (000), % change y-o-y	0.3	-6.2	-1.8	1.1	1.1	1.2	1.3	1.5
Rail Freight Tonnes (000)	34,133.8	32,389.7	31,362.4	31,970.5	32,809.3	33,777.4	34,766.7	35,818.9
Rail Freight Tonnes (000), % change y-o-y	1.3	-5.1	-3.2	1.9	2.6	3.0	2.9	3.0
Road Freight Tonnes (000)	95,083.1	82,730.5	75,454.8	78,950.3	84,472.2	91,158.5	98,058.9	105,398.6
Road Freight Tonnes (000), % change y-o-y	2.1	-13.0	-8.8	4.6	7.0	7.9	7.6	7.5

Source: BMI/Central Insurance of Iran

Health And Personal Accident Insurance

Iran's insurers play a key role in the country's healthcare sector. We are looking for insurance premiums to rise from US$1.5bn in 2013 to US$3.9bn in 2018. Growth rates will vary from year to year during the forecast period, but should be well into double digits. In US dollar terms, premiums have fallen in just one year in the recent past: this was entirely due to the sharp devaluation of the IRR. This is, and will remain, the second largest of the various sub-sectors of the non-life segment. Currently health insurance premiums are about 23% of the total that are written in the segment. This percentage should rise to over 26% in 2018.

Table: Health Insurance 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Health insurance, IRRmn	15,179,516	26,526,899	31,457,198	43,217,903	53,168,069	64,382,509	74,774,424	86,063,347
Health insurance, IRR, % change y-o-y	35.9	74.8	18.6	37.4	23.0	21.1	16.1	15.1
Health insurance, US$mn	1,429.8	2,174.8	1,534.5	1,749.7	2,416.7	2,682.6	3,398.8	3,912.0
Health insurance, US$, % change y-o-y	30.4	52.1	-29.4	14.0	38.1	11.0	26.7	15.1
Health insurance, % of non-life insurance	19.2	22.0	22.3	23.8	24.5	25.2	25.7	26.1

Source: Central Insurance of Iran/BMI

Personal accident insurance accounts for about 1.5% of all premiums written in the non-life segment. It is, therefore, one of the smaller sub-sectors. Growth has been well into double-digits in the last few years. For now, we are looking for the rate of increase to slow.

Table: Personal Accident Insurance 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Personal accident insurance, IRRmn	1,294,368	1,544,080	2,046,451	2,639,051	3,163,308	3,724,493	4,265,682	4,841,475
Personal accident insurance, IRR, % change y-o-y	38.3	19.3	32.5	29.0	19.9	17.7	14.5	13.5
Personal accident insurance, US$mn	121.9	126.6	99.8	106.8	143.8	155.2	193.9	220.1
Personal accident insurance, US$, % change y-o-y	32.7	3.8	-21.1	7.0	34.6	7.9	24.9	13.5
Personal accident insurance, % of non-life insurance	1.6	1.3	1.4	1.5	1.5	1.5	1.5	1.5

Source: Central Insurance of Iran/BMI

General Liability Insurance And Property Insurance

General liability insurance has been gradually increasing in relative importance, and accounts for around 6.5% of all premiums written in the non-life segment. Although there is an element of compulsion in the line (as professionals purchase cover), the absolute size of the sub-sector points to sophistication and hints that Iran's non-life segment could achieve tremendous growth in the absence of sanctions and inflation.

Table: General Liability Insurance 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
General liability insurance, IRRmn	4,594,296.2	6,778,331.3	9,006,387.9	11,634,622.1	13,959,750.7	16,448,652.1	18,848,877.0	21,402,569.1
General liability insurance, IRR, % change y-o-y	43.1	47.5	32.9	29.2	20.0	17.8	14.6	13.5
General liability insurance, US$mn	432.7	555.7	439.3	471.0	634.5	685.4	856.8	972.8
General liability insurance, US$, % change y-o-y	37.3	28.4	-20.9	7.2	34.7	8.0	25.0	13.5
General liability insurance, % of non-life insurance	5.8	5.6	6.4	6.4	6.4	6.4	6.5	6.5

Source: Central Insurance of Iran/BMI

Accounting for about 3% of total premiums written in the non-life segment, property insurance is one of the smaller sub-sectors in Iran. Growth has been extremely erratic and will likely continue to be so. We expect that the relative importance of the sub-sector will progressively decrease through the forecast period. We think that two issues have held back the development of the sub-sector. One is the lack of access to global property & casualty reinsurance, because of the sanctions that have been imposed on Iran. The other is brutal price competition.

Table: Property Insurance 2011-2018

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Property insurance, IRRmn	4,083,281.6	4,810,043.4	5,065,107.4	5,491,240.1	5,929,933.9	6,288,924.0	6,652,945.4	6,923,677.1
Property insurance, IRR, % change y-o-y	21.8	17.8	5.3	8.4	8.0	6.1	5.8	4.1
Property insurance, US$mn	384.6	394.3	247.1	222.3	269.5	262.0	302.4	314.7
Property insurance, US$, % change y-o-y	16.9	2.5	-37.3	-10.0	21.2	-2.8	15.4	4.1
Property insurance, % of non-life insurance	5.2	4.0	3.6	3.0	2.7	2.5	2.3	2.1

Source: Central Insurance of Iran/BMI

Industry Risk Reward Ratings

MENA Insurance Risk/Reward Ratings

BMI View: *As of late 2013, many regional markets remain underdeveloped by some metrics. In particular countries, health insurance remains a key source of growth - thanks in part to official compulsion. Expatriate workers remain a crucial source of business for the (predominantly multi-national) companies that are operating throughout the GCC countries.*

Since 2008, we have been taking a much more systematic approach to assessing the current and potential conditions of the insurance sectors in each of the countries surveyed by **BMI**. We have calculated the Insurance Risk/Reward Ratings, which take into account objective measures of the current state and long-term potential of both the non-life and the life segments. It also takes into account an assessment of the openness of each segment to new entrants, and economic conditions. Collectively, these measures enable an objective assessment of the limits to potential returns across all countries and over a period of time. The ratings also incorporate objective assessment of the risks to the realisation of returns, based on **BMI**'s Country Risk ratings. It embodies a subjective assessment of the impact of the regulatory regime on the development and the competitive landscape of the insurance sector.

Table: MENA Insurance Risk/Reward Ratings

	Industry Rewards	Industry Rewards - Non-Life	Industry Rewards - Life	Country Rewards	Rewards	Regulatory Framework	Country Risks	Risks	Insurance Risk Reward Rating	Rank
South Africa	68.8	65.0	72.5	73.6	70.7	65.0	73.6	67.9	69.9	1
Israel	57.5	55.0	60.0	73.5	63.9	80.0	73.5	77.0	67.8	2
Mauritius	33.8	30.0	37.5	77.2	51.1	60.0	77.2	68.1	56.2	3
United Arab Emirates	38.8	47.5	30.0	69.6	51.1	70.0	69.6	65.1	55.3	4
Bahrain	28.8	35.0	22.5	66.6	43.9	85.0	66.6	70.9	52.0	5
Oman	25.0	32.5	17.5	73.6	44.5	65.0	73.6	62.8	50.0	6
Saudi Arabia	28.8	45.0	12.5	69.4	45.0	60.0	69.4	61.4	49.9	7
Morocco	33.8	40.0	27.5	59.0	43.9	70.0	59.0	57.7	48.0	8
Jordan	22.5	30.0	15.0	70.0	41.5	70.0	70.0	56.9	46.1	9
Qatar	18.1	31.3	5.0	70.2	39.0	55.0	70.2	60.4	45.4	10
Egypt	32.5	32.5	32.5	58.2	42.8	60.0	58.2	49.6	44.8	11
Kuwait	15.0	20.0	10.0	70.7	37.3	50.0	70.7	61.9	44.7	12
Namibia	32.5	25.0	40.0	42.4	36.5	40.0	42.4	49.3	40.3	13
Kenya	21.3	30.0	12.5	52.8	33.9	55.0	52.8	45.2	37.3	14
Tunisia	27.5	32.5	22.5	47.9	35.7	45.0	47.9	41.4	37.4	15
Algeria	20.0	30.0	10.0	44.5	29.8	50.0	44.5	46.3	34.7	16
Nigeria	25.0	35.0	15.0	47.7	34.1	20.0	47.7	30.3	32.9	17
Iran	22.5	27.5	17.5	42.8	30.6	25.0	42.8	39.8	33.4	18
Angola	21.3	35.0	7.5	36.1	27.2	40.0	36.1	37.2	30.2	19
Libya	11.3	20.0	2.5	44.0	24.4	30.0	44.0	30.6	26.2	20

Scores out of 100, with 100 the best. Source: BMI

Market Overview

Life Market Overview

***BMI View**: Iran's life segment has been constrained by a number of challenges, of which structurally high inflation is by far the most important. During the forecast period, we do not envisage that this will cease to be a problem.*

Iran's insurance sector is shaped by three influences. One is the impact of foreign sanctions against the country. The sanctions complicate the purchase of outwards reinsurance by the major companies, in a country which is noted for natural catastrophe risk. The sanctions also prevent foreign insurance companies from establishing a presence. Some markets are strengthened by the competition that is delivered by world-class multinationals. This is not the case in Iran, although we recognise that the major local companies are resilient and, in the case of **Bimeh Iran** and the three partially state-owned companies - **Bimeh Asia, Bimeh Dana** and **Bimeh Alborz** - have the benefit of scale.

The second factor is the state's attitude towards the sector. Bimeh Iran is seen as a strategic national asset. A major trend since the partial liberalisation of the insurance sector began has been an increase in claims and costs of private insurers (the last three companies mentioned above plus various truly private sector operations) which has exceeded the growth in premiums. **Bimeh Markazi Iran** (sometimes named as **Central Insurance of Iran**) is an activist regulator.

For the life insurers, though, it is the third factor influence which is most importance. Although the government benefits from royalties and taxes paid by the country's massive energy industry, its outgoings, which are in part related to social programs, are even higher. The deficit is monetised. The result is structurally high inflation and periodic devaluations of the IRR. One result of this is that inflation expectations are elevated. Households are unwilling to enter into long-term contracts in a country where the real value of any benefits that will be received years in the future will be dramatically reduced by high inflation. Venezuela is the only other country in the world where life insurance remains at an embryonic level of development for broadly the same reason. Iran's position is different to that of, say, the oil rich countries of the Gulf Cooperation Council (GCC), where life insurance has been retarded by the generosity of social benefits to which local nationals are entitled, but where budgets are balanced (or in surplus) for much of the time, currencies are stable and inflationary pressures are low.

For now, we do not see an obvious catalyst for Iran to move towards low inflation. Additional constraints on the segment include large numbers of households who are too poor to save by buying life insurance and/ or who do not properly understand the concept.

Non-Life Market Overview

BMI View: *Privatisation and liberalisation have occurred in a hesitant way. The positions of Bimeh Iran and the formerly state owned (and overwhelmingly non-life) insurance companies remain entrenched.*

Major Players In Iran's Insurance Sector

The insurance sector in Iran is regulated by Bimeh Markazi Iran, which is also sometimes known as Central Insurance Iran, which was established in 1971. Until two years ago, it set the premium rates that could be charged by Iran's insurers. However, the rate setting process is gradually being 'liberalised'. Bimeh Markazi Iran has also traditionally acted as a reinsurer for the industry in relation to situations where the regulations stipulate that the insurers actually take out reinsurance.

There were 22 companies active in the market at the end of March 2012 (for when the latest official data are available). These are: one fully state owned company, **Bimeh Iran**; three formerly state-owned companies (classified as private sector insurers), **Bimeh Dana, Bimeh Alborz** and **Bimeh Asia**; and 18 private sector insurers. The other private sector players include: **Parsian, Karafarin**, **Razi**, **Tose'e**, **Sina**, **Mellat**, **Hafez**, **Omid**, **Dey**, **Saman**, **Novin**, **Pasargad**, **Moallem** and **IranMoeen**. Also present are two private sector reinsurance companies, **Amin Re** and **Iranian Re**. In March 2012, the regulator indicated that a new private sector company - **Arman Insurance** - had been inaugurated.

In accordance with the constitutional requirement that it cut its holding in state-owned enterprises to 20%, and the commercial desire to ensure visibility of the value of the companies in question, the government sold 80% of **Alborz** in late 2009. Ten per cent of the stock was listed on the Tehran Stock Exchange. The government undertook a similar transaction with Bimeh Asia in December 2010. In late 2010, the government sold down its holding in Bimeh Dana, which had been 63%, and arranged for 5% of the stock to be listed. We note that, as is the case with other state-owned enterprises that have been privatised, some of the new shareholders are entities that are linked with or controlled by the government. In addition, the government has indicated that some of the shares that it is disposing of will be transferred to funds that will effectively hold the shares in trust for lower income households: over time these funds will channel dividends to the households and thereby, at least in theory, provide many of the benefits of equity ownership to a large number of Iranians.

In other words, the privatisations are, in a number of important respects, different from privatisations in other countries. Significantly, the government has indicated that Bimeh Iran is a strategic asset and that there are no plans to undertake a privatisation for the foreseeable future. The figures available from Bimeh Markazi Iran provide a possible explanation. There is no evidence that the private sector companies that were established prior to March 2006, nor the three formerly state-owned insurers in which the government has sold down its stake, have benefited from the partial liberalisation of Iran's insurance market.

In fact, the reverse is true. In an industry that has hardly grown at all in real terms, the private companies' share of direct losses has increased more dramatically than their share of direct premiums. The number of employees has more or less doubled since early 2006, while the industry has also had to bear the additional costs associated with substantial rises in the numbers of branches, agents and brokers. Bimeh Iran continues to benefit from economies of scale and established infrastructure. Customers have benefited from lower real premiums (and nominal premiums, in some cases). Employees have benefited from new job opportunities or greater job security. However, the shareholders of the private sector insurers have not gained.

Parsian, a private sector insurer that was established in 2003, became the fourth listed insurer in early 2011.

Iran is the only substantial insurance sector in the world from which foreign insurers are completely absent - a result of the trade and commercial embargoes against the country. The lack of easy access to global reinsurance markets for Iranian insurers therefore provides a commercial advantage to Bimeh Markazi Iran and the private sector reinsurers.

Company Profile

Bimeh Alborz

Strengths	▪ Third largest insurance company in Iran in terms of gross written premiums. ▪ A composite insurer, with a broad range of both corporate and personal lines. ▪ A strong brand and national branch network. ▪ Gaining market share in terms of premiums. ▪ Loss ratio improved last year and is now well below the industry norm. • Although privatised, still backed by the government and/or institutions over which it has influence.
Weaknesses	▪ Writing premiums of a little over US$430mn annually, Bimeh Alborz would rank as no more than a medium-sized company in most countries. ▪ Management of claims and other costs is complicated by the endemic inflation in Iran. ▪ Investment policy is complicated by lack of access to global capital markets. ▪ Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers. ▪ The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana, mean that corporate policies and initiatives may not be driven by purely commercial objectives. ▪ Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.
Opportunities	▪ Continued growth in medical insurance. ▪ Wholesale political change.
Threats	▪ Government policies and decisions that are inimical to the development of insurance.

- Escalation in claims or other costs.
- A hostile macro-economic environment.

Company Overview

Bimeh Alborz is one of the three partially privatised (and formerly wholly state-owned) insurance companies in Iran. It was established in 1959 and nationalised in 1979.

Bimeh Alborz's website indicates that it offers a wide range of personal and corporate non-life lines, including insurance for cars, fire, personal accident, shipping, liability and engineering risks. It also offers long-term savings products for personal customers, as well as travel insurance and group health products.

Distribution is through agents, brokers and a nationwide branch network. There are about 450 branches, 1,250 agents and 270 brokers.

Bimeh Alborz highlights the awards that it has received in the past for customer service and satisfaction.

(Source: www.alborzinsurance.ir and www.centinsur.ir as at August 29 2012.)

Recent Developments

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (i.e. the year to March 2012 which is shown in the tables of this report as 2011) indicate that Bimeh Alborz is the country's third largest insurer, with a market share of 6.1%. During the year, its gross written premium amounted to IRR5,297,625mn, having risen by 55.7%. The number of policies in force rose by 23.6% during the year to 2,269,323. By this measure, the company's market share is 6.4%. The amount of claim losses paid increased by 35.8% to IRR2,839,536mn. The number of losses rose by 32.6% to 273,217. Over the year, the loss ratio improved by 7.9 percentage points.

(Source: www.centinsur.ir as at August 29 2012.)

Bimeh Asia

Strengths

- Second largest insurance company in Iran by most measures.
- A composite insurer, with a broad range of both corporate and personal lines.
- A strong brand and national branch network.
- Gaining market share in terms of premiums.
- Loss ratio improved last year and is now in line with the industry norm.
- Although privatised, still backed by the government and/or institutions over which it has influence.

Weaknesses

- Writing premiums of a little over US$800mn annually, Bimeh Asia would rank as no more than a medium-sized company in most countries.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana, mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Wholesale political change.

Threats

- Government policies and decisions that are inimical to the development of insurance.
- Escalation in claims or other costs.

- A hostile macro-economic environment.

Company Overview

Bimeh Asia is one of the three partially privatised (and formerly wholly state-owned) insurance companies in Iran. It was established in 1959 and nationalised in 1980.

Bimeh Asia's website indicates that it offers a wide range of personal and corporate non-life lines, including insurance for cars, fire, personal accident, shipping, liability and engineering risks. It also offers long-term savings products for personal customers, as well as travel insurance and group health products. The website also indicates that Bimeh Asia provides reinsurance to other insurers.

Distribution is through agents, brokers and a nationwide branch network. There are 83 branches and 1,500 agencies covering 380 cities.

(Source: www.bimehasia.com and www.centinsur.ir as at August 29 2012.)

Recent Developments

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (i.e. the year to March 2012 which is shown in the tables of this report as 2011) indicate that Bimeh Asia is the country's second largest insurer, with a market share of 11.6%. During the year, its gross written premiums amounted to IRR10,094,598mn, having risen by 53.4%. The number of policies in force rose by 10.4% during the year to 5,305,403. By this measure, the company's market share is 15.1%. The amount of claim losses paid increased by 31.6% to IRR5,963,118mn. The number of losses rose by 17.5% to 489,085. Over the year, the loss ratio improved by 9.8 percentage points.

(Source: www.centinsur.ir as at August 29 2012.)

Bimeh Dana

Strengths

- Fifth largest insurance company in Iran in terms of premiums.
- A composite insurer, with a broad range of both corporate and personal lines.
- Although privatised, still backed by the government and/or institutions over which it has influence.

Weaknesses

- Writing premiums of a little over US$370mn annually, Bimeh Dana would rank as no more than a medium-sized company in most countries.
- Clearly losing market share and, indeed, is shrinking in terms of premium income.
- But for the high inflation in Iran, the contraction of business would have been well into double-digits.
- Loss ratio deteriorated last year and, at 75.7% is considerably higher than those of the other large insurance companies.
- Claims losses have fallen broadly in line with gross written premiums, which suggests that the contraction in Bimeh Dana's business was not driven by management actions to improve profitability.
- Double digit growth in the number of policies, at a time that premium income is falling in nominal terms (and in double-digits in real terms) suggests that the company has been competing to boost the number of customers by slashing prices and rates, possibly to uneconomic levels.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.

- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Wholesale political change.

Threats

- Government policies and decisions that are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macro-economic environment.

Company Overview

Dana Insurance is one of the three partially privatised (and formerly wholly state-owned) insurance companies in Iran. In the wake of the Revolution, it was liquidated. Its portfolio was managed by two other insurance companies that had been nationalised, Bimeh Asia and Bimeh Alborz. Its business was amalgamated with those of a number of other companies. It began operations again in 1990, originally as a specialist life insurance company. By the mid-1990s, though, it was permitted to expand into non-life insurance.

Bimeh Dana's website indicates that it offers a wide range of personal and corporate non-life lines, including insurance for cars, fire, personal accident, shipping, liability and engineering risks. It also offers long-term savings products for personal customers, as well as travel insurance and group health products.

Distribution is through agents, brokers and a nationwide branch network.

(Source: www.dana-insurance.com and as at August 29 2012.)

Recent Developments

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (i.e. the year to March 2012 which is shown in the tables of this report as 2011) indicate that Bimeh Dana is the country's fifth largest insurer, with a market share of 5.3%. During the year, its gross written premiums amounted to IRR4,632,579mn, having fallen by 9.1%. The number of policies in force rose by 16.4% during the year to 1,265,104. By this measure, the company's market share is just 3.6%. The amount of claim losses paid fell by 7.6% to IRR3,505,908mn. The number of losses fell by 25.9% to 1,259,368. Over the year, the loss ratio remained high at 75.7%, rising by 1.3 percentage points.

(Source: www.centinsur.ir as at August 29 2012.)

Bimeh Iran

Strengths

- A state owned titan, which accounted for nearly half of all premiums written in the year to March 2012.
- Writing gross premiums of around US$3,300mn, Bimeh Iran ranks as one of the largest insurance companies in the Middle East. It would rank as a medium-sized insurer (at least) in most developing countries.
- A composite insurer, with a broad range of both corporate and personal lines.
- A strong brand and national branch network.
- Holding market share, in spite of competition from recently established private sector insurers.
- Loss ratio improved last year and is now a little higher than the industry norm.
- Bimeh Iran is a fully state-owned enterprise, with all the advantages that that confers.

Weaknesses

- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Wholesale political change.

- Development of, and through, branches in the Gulf Cooperation Council (GCC) countries.

Threats

- Government policies and decisions that are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macro-economic environment.

Company Overview

Bimeh Iran was established in 1935. It remains a fully-owned state-owned composite insurer and is, by any measure, the largest player in the Iranian insurance sector.

Bimeh Iran offers a wide range of personal and corporate non-life lines, including insurance for cars, fire, personal accident, shipping, liability and engineering risks. It also offers long-term savings products for personal customers, as well as travel insurance. It also provides reinsurance to other insurers. There are about 250 branches and 1,272 agencies nationwide. Outside Iran, Bimeh Iran has 12 branches in the Gulf Cooperation Council (GCC) countries, with a presence in Saudi Arabia, the UAE, Bahrain and Oman.

(Source: www.iraninsurance.ir and www.centinsur.ir as at August 29 2012.)

Recent Developments

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (i.e. the year to March 2012 which is shown in the tables of this report as 2011) indicate that Bimeh Iran is by far the country's largest insurer by most measures. In terms of gross written premium, its market share is 45.8%. During the year, its gross written premiums amounted to IRR40,017,526mn. The number of policies in force rose by 5.0% during the year to 16,532,301. By this measure, the company's market share is 46.9%. The amount of claim losses paid increased by 26.1% to IRR25,560,990mn. The number of losses rose by 11.5% to 3,246,303. Over the year, the loss ratio improved by 10.0 percentage points.

(Source: www.centinsur.ir as at August 29 2012.)

Parsian Insurance

Strengths

- Fourth largest insurance company in Iran in terms of gross written premiums.
- The leading private sector insurer, which has established a significant position from scratch in about nine years.
- A composite insurer, with a broad range of both corporate and personal lines.
- A leader in distribution through the branches of Parsian Bank, its largest shareholder.
- Close links to important government-linked companies.
- Gaining market share in terms of premiums.
- Loss ratio improved last year and is now lower than the industry norm.

Weaknesses

- Writing premiums of a little over US$400mn annually, Parsian Insurance would rank as no more than a medium-sized company in most countries.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana mean that corporate policies and initiatives of major rivals may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Leverage of bancassurance relationship with Parsian Bank.

- Wholesale political change.

Threats

- Government policies and decisions that are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macro-economic environment.

Company Overview

Parsian Insurance is the largest private sector insurer in Iran and, in terms of gross premiums written, (just) in fourth place overall, after Bimeh Iran, Bimeh Asia and Bimeh Alborz. It is a listed company that began operations in late 2003.

It is a composite insurer, offering individual and corporate lines, in both major segments, to customers in the private and the public sectors. It also provides reinsurance to other Iranian insurers. Its main underwriting departments include: personal life, health, engineering, liability, car insurance, cargo insurance and fire insurance.

The main shareholders are Parsian Bank (20%), Iran Khodro Investment Development Co. (15.11%) and the Oil Industry Retirement Fund Investment Co. (15.11%).

Distribution is through a nationwide network of about 1,500 agents, 25% Bank Parsian branches and 28 branches. There are about 700 employees.

(Source: www.parsianinsurance.ir as at August 29 2012 and Annual Report for year to March 2011.)

Recent Developments

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (the year to March 2012 which is shown in the tables of this report as 2011) indicate that Parsian Insurance is the country's fourth largest insurer, with a market share of 5.8% in terms of gross written premiums. During the year, its gross written premium amounted to IRR5,021,191mn, having risen by 47.7%. The number of policies in force rose by 9.9% during the year to 1,520,917. By this measure, the company's market share is 4.3%. The amount of claim losses paid increased by 35.8% to IRR2,839,536mn. The number of losses rose by 32.6% to 273,217. Over the year, the loss ratio improved by 7.9 percentage points to 53.6%, the lowest of the larger insurance companies.

(Source: www.centinsur.ir as at August 29 2012.)

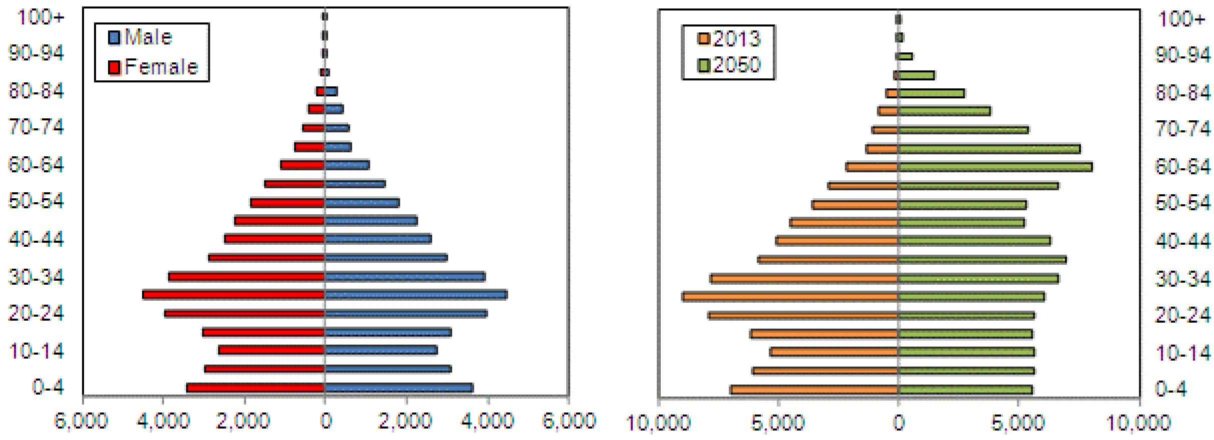
Demographic Forecast

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is key to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail Iran's population pyramid for 2013, the change in the structure of the population between 2013 and 2050 and the total population between 1990 and 2050, as well as life expectancy. The tables show key datapoints from all of these charts, in addition to important metrics including the dependency ratio and the urban/rural split.

Population Pyramid

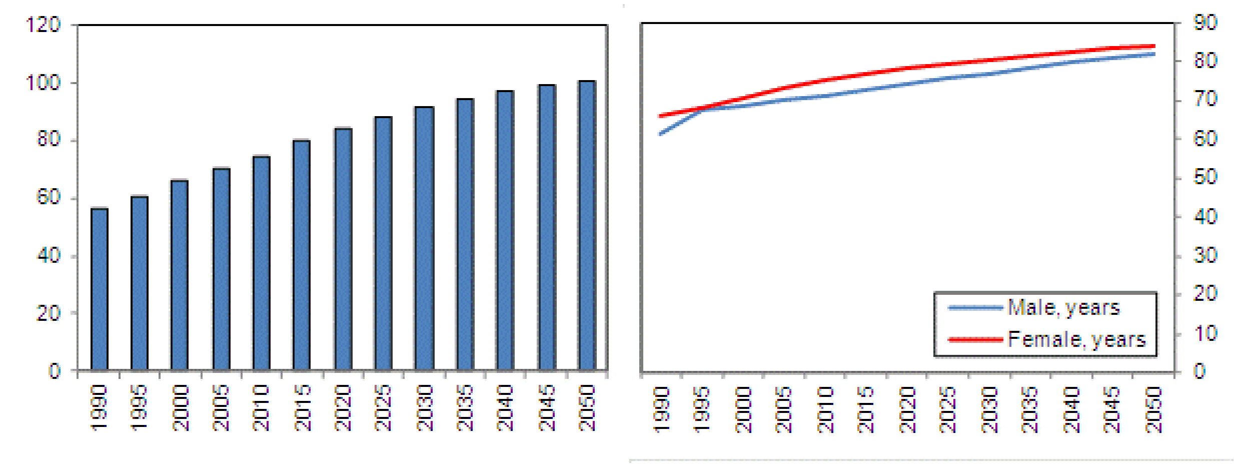
2013 (LHS) And 2013 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Population Indicators

Population (mn, LHS) And Life Expectancy (years, RHS), 1990-2050



Source: World Bank, UN, BMI

Table: Iran's Population By Age Group, 1990-2020 ('000)	1990	1995	2000	2005	2010	2013e	2015f	2020f
Total	56,362	60,468	65,911	70,152	74,462	77,447	79,476	84,149
0-4 years	9,313	7,568	6,317	5,484	6,556	7,034	7,146	6,751
5-9 years	8,906	8,983	7,552	5,477	5,416	6,046	6,507	7,117
10-14 years	7,325	8,837	8,981	7,155	5,613	5,357	5,488	6,494
15-19 years	5,823	6,885	8,801	9,248	7,216	6,124	5,644	5,467
20-24 years	4,698	5,222	6,932	9,143	8,994	7,904	7,068	5,596
25-29 years	4,054	4,429	5,316	6,859	8,705	8,978	8,727	6,998
30-34 years	3,536	3,901	4,443	5,202	6,521	7,789	8,485	8,650
35-39 years	3,031	3,393	3,886	4,693	5,210	5,858	6,497	8,410
40-44 years	2,123	2,888	3,372	4,113	4,833	5,057	5,263	6,431
45-49 years	1,621	1,956	2,857	3,421	4,033	4,495	4,758	5,193
50-54 years	1,527	1,469	1,930	2,801	3,245	3,605	3,896	4,665
55-59 years	1,393	1,396	1,431	1,767	2,638	2,933	3,110	3,788
60-64 years	1,140	1,265	1,322	1,336	1,640	2,159	2,500	2,986
65-69 years	899	995	1,146	1,258	1,279	1,379	1,551	2,340
70-74 years	507	717	826	1,056	1,130	1,129	1,143	1,369

Iran's Population By Age Group, 1990-2020 ('000) - Continued

	1990	1995	2000	2005	2010	2013e	2015f	2020f
75-79 years	269	344	509	654	803	858	877	902
80-84 years	136	147	203	347	413	482	528	598
85-89 years	49	56	66	113	173	198	217	290
90-94 years	11	14	17	22	39	54	64	85
95-99 years	2	2	3	3	5	7	9	16
100+ years	0	0	0	0	0	1	1	1

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

Table: Iran's Population By Age Group, 1990-2020 (% of total)

	1990	1995	2000	2005	2010	2013e	2015f	2020f
0-4 years	16.52	12.52	9.58	7.82	8.80	9.08	8.99	8.02
5-9 years	15.80	14.86	11.46	7.81	7.27	7.81	8.19	8.46
10-14 years	13.00	14.61	13.63	10.20	7.54	6.92	6.90	7.72
15-19 years	10.33	11.39	13.35	13.18	9.69	7.91	7.10	6.50
20-24 years	8.34	8.64	10.52	13.03	12.08	10.21	8.89	6.65
25-29 years	7.19	7.32	8.06	9.78	11.69	11.59	10.98	8.32
30-34 years	6.27	6.45	6.74	7.42	8.76	10.06	10.68	10.28
35-39 years	5.38	5.61	5.90	6.69	7.00	7.56	8.18	9.99
40-44 years	3.77	4.78	5.12	5.86	6.49	6.53	6.62	7.64
45-49 years	2.88	3.23	4.33	4.88	5.42	5.80	5.99	6.17
50-54 years	2.71	2.43	2.93	3.99	4.36	4.65	4.90	5.54
55-59 years	2.47	2.31	2.17	2.52	3.54	3.79	3.91	4.50
60-64 years	2.02	2.09	2.01	1.90	2.20	2.79	3.15	3.55
65-69 years	1.59	1.65	1.74	1.79	1.72	1.78	1.95	2.78
70-74 years	0.90	1.19	1.25	1.50	1.52	1.46	1.44	1.63
75-79 years	0.48	0.57	0.77	0.93	1.08	1.11	1.10	1.07
80-84 years	0.24	0.24	0.31	0.50	0.55	0.62	0.66	0.71
85-89 years	0.09	0.09	0.10	0.16	0.23	0.26	0.27	0.34
90-94 years	0.02	0.02	0.03	0.03	0.05	0.07	0.08	0.10
95-99 years	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.02

Iran's Population By Age Group, 1990-2020 (% of total) - Continued

	1990	1995	2000	2005	2010	2013e	2015f	2020f
100+ years	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

Table: Iran's Key Population Ratios, 1990-2020

	1990	1995	2000	2005	2010	2013e	2015f	2020f
Dependent ratio, % of total working age	94.7	84.3	63.6	44.4	40.4	41.1	42.1	44.6
Dependent population, total, '000	27,416	27,664	25,621	21,569	21,427	22,544	23,530	25,965
Active population, % of total	51.4	54.3	61.1	69.3	71.2	70.9	70.4	69.1
Active population, total, '000	28,946	32,805	40,290	48,583	53,035	54,903	55,946	58,184
Youth population, % of total working age	88.2	77.4	56.7	37.3	33.2	33.6	34.2	35.0
Youth population, total, '000	25,543	25,388	22,850	18,116	17,586	18,436	19,141	20,363
Pensionable population, % of total working age	6.5	6.9	6.9	7.1	7.2	7.5	7.8	9.6
Pensionable population, total, '000	1,872	2,276	2,770	3,454	3,842	4,108	4,390	5,602

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

Table: Iran's Rural And Urban Population, 1990-2020

	1990	1995	2000	2005	2010	2013e	2015f	2020f
Urban population, % of total	56.3	60.2	64.0	67.6	68.9	69.4	69.7	70.6
Rural population, % of total	43.7	39.8	36.0	32.4	31.1	30.6	30.3	29.4
Urban population, total, '000	31,749	36,424	42,211	47,394	51,333	53,726	55,362	59,374
Rural population, total, '000	24,613	24,045	23,700	22,759	23,129	23,722	24,114	24,774

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

Methodology

Industry Forecast Methodology

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry, is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

BMI mainly uses OLS estimators and, in order to avoid relying on subjective views and encourage the use of objective views, **BMI** uses a 'general-to-specific' method. **BMI** mainly uses a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. BMI selects the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-co linearity.

Sector-Specific Methodology

BMI's insurance reports provide detailed insight into insurance markets globally, examining both the present conditions in and prospects for each market. Incorporating the most up-to-date information available from sources such as industry regulators, trade associations, comparable information from other countries and **BMI's** own economic and risk data, our analysts provide a comprehensive picture of the insurance sector. The principal focus of the reports is on gross written premiums, to which 'premiums' refers unless otherwise stated.

The following are considered in our reporting of the sector:

- **BMI** considers health insurance to be included in the non-life sector. As such, in instances where sources report health insurance as part of the life sector, the required adjustments are made to conform to our standardised definitions.
- Where a market contains a significant inward reinsurance sector, these accepted premiums are considered as part of the non-life sector and are classed within the 'Other' category of our non-life breakdown.
- Life insurance contains all long-term savings products that are legally structured as insurance products and therefore do not contain pension plan contributions and other long-term saving schemes that are not legally constituted as being within the insurance sector

Life

In projecting life insurance premiums, the following are considered:

- The likely development of population
- The likely development of life density (life premiums per capita)
- Wider macroeconomic trends

In some instances, further factors are considered, including:

- Maturity of the life insurance sector
- Competitive and regulatory environments
- Life density in nearby markets at similar levels of development

Non-Life

In projecting non-life insurance premiums on a line-by-line basis, the following are considered:

- The likely development of nominal GDP

- The likely development of non-life penetration (non-life premiums as a percentage of GDP)
- Autos sector data, typically passenger car fleet size
- Banking sector data, typically Client Loans figures
- Shipping/Freight data, typically freight tonnage
- Household stratification data, typically number of permanent properties
- Healthcare data, typically private health expenditure

In some instances, further factors are considered, including:

- Maturity of the non-life insurance sector
- Competitive and regulatory environments
- Non-life penetration in nearby markets at similar levels of development

Reinsurance and Net Premiums

When forecasting the size of reinsurance markets, the following are considered:

- Historic levels of reinsurance coverage in both life and non-life sectors
- Projected development of the life and non-life sectors
- Prevalence of reinsurance in similar markets

Where applicable, 'net premiums' refers to net written premiums and is considered as gross written premiums, less the cost of reinsurance. In some instances, source data is reported according to different definitions of 'net premiums'. In these cases, this data is used and forecasts for net premiums and reinsurance are made separately.

When forecasting net premiums independently of the reinsurance market, the following are considered:

- Historic levels of net premiums in both life and non-life sectors
- Projected development of the life and non-life sectors

At a general level we approach our forecasting from both a micro and macro perspective, taking into account the expansion plans of relevant domestic and international firms, as well as wider economic outlook. In this regard, **BMI** macro variable projections, such as output, consumption, investment, policy, and GDP growth are employed.

Burden of Disease

The 'burden of disease' in a country is forecasted in disability-adjusted life years (DALYs) using **BMI's** Burden of Disease Database, which is based on the World Health Organization's burden of disease projections and incorporates World Bank and IMF data.

Risk/Reward Rating Methodology

BMI's Risk/Reward Ratings (RRR) provide a comparative regional ranking system evaluating the ease of doing business and the industry-specific opportunities and limitations for potential investors in a given market.

The RRR system divides into two distinct areas:

Rewards: Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development. This is further broken down into two sub categories:

- Industry Rewards (this is an industry specific category taking into account current industry size and growth forecasts, the openness of market to new entrants and foreign investors, to provide an overall score for potential returns for investors).
- Industry Rewards (this is a country specific category, and the score factors in favourable political and economic conditions for the industry).

Risks: Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. This is further broken down into two sub categories:

- Industry Risks (this is an industry specific category whose score covers potential operational risks to investors, regulatory issues inhibiting the industry, and the relative maturity of a market).
- Industry Risks (this is a country specific category in which political and economic instability, unfavourable legislation and a poor overall business environment are evaluated to provide an overall score).

We take a weighted average, combining market and country risks, or market and country rewards. These two results in turn provide an overall risk/reward rating, which is used to create our regional ranking system for the risks and rewards of involvement in a specific industry in a particular country.

For each category and sub-category, each state is scored out of 100 (100 being the best), with the overall risk/reward rating a weighted average of the total score. Importantly, as most of the countries and territories evaluated are considered by BMI to be 'emerging markets', our rating is revised on a quarterly basis. This ensures that the rating draws on the latest information and data across our broad range of sources, and the expertise of our analysts.

BMI's approach in assessing the risk/reward balance for infrastructure industry investors globally is

fourfold:

- First, we identify factors (in terms of current industry/country trends and forecast industry/country growth) that represent opportunities to would-be investors.
- Second, we identify country and industry-specific traits that pose or could pose operational risks to would-be investors.
- Third, we attempt, where possible, to identify objective indicators that may serve as proxies for issues/ trends to avoid subjectivity.
- Finally, we use **BMI's** proprietary Country Risk Ratings (CRR) in a nuanced manner to ensure that only the aspects most relevant to the infrastructure industry are incorporated. Overall, the system offers an industry-leading, comparative insight into the opportunities/risks for companies across the globe.

Sector-Specific Methodology

In constructing these ratings, the following indicators have been used. Almost all indicators are objectively based.

Table: Indicators

Rewards

Insurance market rewards	Rationale
Non-life premiums, 2014 (US$mn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to end-2018 (US$mn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Non-life penetration, %	Premiums expressed as % of GDP. An indicator of actual and (to an extent) potential development of non-life insurance. The greater the penetration the better.
Non-life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Life premiums, 2014 (US$mn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2018 (US$mn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Life penetration, %	Premiums as % of GDP. An indicator of actual and (to a certain extent) potential development of life insurance. The greater the penetration the better.

Indicators - Continued	
Rewards	
Life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Country rewards	
GDP per capita (US$)	A proxy for wealth. High-income states receive better scores than low-income states.
Active population	Those aged 16-64 in each state, as a % of total population. A high proportion suggests that market is comparatively more attractive.
Corporate tax	A measure of the general fiscal drag on profits.
GDP volatility	Standard deviation of growth over 7-year economic cycle. A proxy for economic stability.
Financial infrastructure	Measure of financial sector's development, a crucial structural characteristic given the insurance industry's reliance on risk calculation.
Risks	
Regulatory framework	
Regulatory framework and development	Subjectively evaluates de facto/de jure regulations on development of insurance sector.
Regulatory framework and competitive landscape	Subjectively evaluates impact of regulatory environment on the competitive landscape.
Country risk (from BMI's Country Risk Ratings)	
Long-term financial risk	Evaluates currency volatility.
Long-term external risk	State's vulnerability to externally induced economic shock, which tend to be principal triggers of economic crises.
Policy continuity	Evaluates the risk of sharp change in broad direction of government policy.
Legal framework	Strength of legal institutions. Security of investment key risk in some emerging markets.
Bureaucracy	Denotes ease of conducting business in a state.

Source: BMI

Weighting

Given the number of indicators/datasets used, it would be inappropriate to give all sub-components equal weight. Consequently, the following weighting has been adopted:

Table: Weighting of Indicators

Component	Weighting, %
Rewards	70, of which
- Industry rewards	65
- Country rewards	35
Risks	30, of which
- Industry risks	40
- Country risks	60

Source: BMI