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BMI Industry View

BMI View: *We have revised down our expectations for Iran's insurance sector over the course of 2015 and the forecast period. The is largely due to a weaker than expected economy, with continued international sanctions suppressing growth. Nonetheless, the sector should achieve strong single-digit growth in 2015.*

The Iranian insurance market is by regional standards developed. Taking into account the relative size of the non-life segment relative to its life counterpart; it will remain the key source of growth for the sector as a whole. Compulsory motorists' third party insurance (CMPTL) and health insurance remain by far the dominant lines. These will constitute the greatest driving forces behind the increase in premiums over 2015.The regulator, and leading insurers, continues to provide only limited data. However, recent information suggests that total premiums are growing strongly. Growth is largely due to the two basic lines of motor ad health, which together make up nearly 90% of non-life premiums. This demonstrates that the market is in many ways underdeveloped.

High inflation is likely to pose the greatest barrier to expansion in the life segment over 2015, by discouraging Iranians from utilising life products as a conduit for savings. Structural inflation is likely to remain an issue over the forecast period, with the government monetising its deficit rather than implement unpopular, sweeping subsidies cuts. In addition, sustained western sanctions will continue to hurt the country's macroeconomic performance.

Despite downgrading our expectations for the market over 2015 and beyond, in the long-run there exists considerable upside potential in Iran's insurance sector. **Bimeh Iran**, the large state-owned company, possesses significant scale. As one of the largest insures in the Middle East, it would rank as medium-large in most countries. It would benefit from greater access to international markets. However, heavy handed state involvement has given Bimeh Iran the substantial advantage of dominating the local reinsurance market, which in turn pushes up reinsurance premiums due to a lack of competition.

Long-term challenges aside from international sanctions will also continue to curtail growth, ensuring that the market operates below its capacity. An opaque regulatory system, heavy government intervention and a lack of public awareness of the benefits of many insurance solutions show little signs of improving over the forecast period. As such, we believe that growth will mainly be driven by an increase in the volume of policyholders for basic compulsory lines. It is unlikely that the market breakdown for each sub-sector will change greatly. The same can be said for the market's competitive landscape, with Bimeh Iran likely to maintain its dominant position, in part because the government views it as a strategic asset.

A lack of market consolidation or any meaningful change to the sector's competitive structure will hinder the sector's development. It will prevent many insurers acquiring scale, which would allow them to boost their profitability by absorbing some risk rather than seeking recourse ton outwards reinsurance. As such, the market will continue to be characterised by its fragmented nature, made up of many sub-scale players. These only operate across basic lines and compete almost exclusively in terms of price. This in turn discourages product innovation or investment in non-compulsory lines.

Recent developments

- Recent analysis shows that the economy is performing weaker than expected, with inflation set to remain stubbornly high.
- In mid-2014, the government announced plans to expand health coverage to five million lower-income Iranians.
- In October 2014, Western media reported that the European Union may seek to re impose sanctions on **Moallem Insurance Company** (MIC), a major domestic maritime insurer, and other Iranian entities.

Key BMI Forecasts for 2015

- We think that total premiums will rise by 14.4% to USD9.02bn.
- Life insurance premiums should grow by 17.1% to USD0.88bn in 2015.
- Non-life premiums should increase by 14.1% to USD8.14bn in 2015.
- Within the non-life segment, motor vehicle-related premiums should grow by 14.7% to USD4.9bn in 2015.
- Health insurance premiums should increase by 13.7% to USD1.93bn in 2015.

SWOT

Insurance

Iran Insurance SWOT Analysis

Strengths	▪ The industry has scale. The largest insurance company, state-owned Bimeh Iran, 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.
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. ▪ 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, provides 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.

SWOT

SWOT Analysis

Strengths	▪ Iran boasts high numbers of skilled graduates in technical fields such as engineering, construction and science. ▪ Investment in education has resulted in widespread access and increased enrolment rates. ▪ The outlook for Iran's economic and trade growth is improving due to the gradual lifting of sanctions, which began in 2013. ▪ The transport network offers good internal and cross-border connections, and is currently able to meet the country's supply chain needs. ▪ The banking sector is relatively well developed, allowing extension of finance and credit to citizens. ▪ Considerable natural resources, particularly hydrocarbons deposits, mean that Iran offers an attractive prospect for investment. ▪ Iran is one of the safest locations for foreign workers and businesses in the MENA region. ▪ A well established intelligence agency and robust counter-terrorist capabilities deter attacks in most areas of the country.
Weaknesses	▪ Costs of employment are increases because the Iranian Labour Code affords workers a high level of protection and generous benefits. ▪ The breadth and quality of the labour market is limited due to a very poor female labour force participation rate. ▪ The costs of inland transportation, as well as the risk of congestion and traffic accidents disrupting supply chains, is raised due to reliance on the road network as the dominant freight mode.

SWOT Analysis - Continued

- Trade bureaucracy is highly time consuming and places an onerous burden on importers and exporters.
- There is widespread corruption and heavy handed censorship, which will pose unforeseeable operational costs and limit business activities.
- Stringent regulations and bureaucratic mechanisms increase the costs and time required to set up a business.
- The expansion of IS in Iraq poses a significant risk to Iran's security.
- Iran has few global allies and remains isolated internationally, leaving it in a weaker strategic position.

Opportunities

- The literacy rate of the labour force is increasing as the benefits of investment in primary school education are filtering through.
- The outlook for the job market will be improved by the gradual alleviating of sanctions alleviating the oversupply of labour.
- The maritime and air trade as sectors have been specifically targeted by sanctions and are therefore set for strong growth as these are gradually removed.
- The development of road and rail connections with Iran's neighbours highlights the country's potential to develop into key transit point for East-West trade.
- Lack of external demand means that those who can invest in Iran are rewarded with cheap resources.
- Relaxing of sanctions is resulting in greater foreign direct investment inflows.
- The threat of IS may instigate swifter negotiations over Iran's nuclear programme, and lead to further reconciliation between Iran and the West.
- There is potential to combat the drug supply into Europe through programmes in Iran.

Threats

- The availability of highly skilled labour is restricted as the brain drain results in an exodus of technically qualified workers.

SWOT Analysis - Continued

- Iran is an unappealing location for labour intensive industries due to its relatively high minimum wage stipulations.
- The risk of electricity and water shortages will be enhanced due to growth in energy- and water-intensive agricultural, mining and manufacturing industries.
- Internet use is hindered due to poor penetration rates and heavy-handed government censorship.
- Lax intellectual property protection carries the threat of patent theft, fraud or infringement, leading to profit losses.
- The new Iranian government is enacting sweeping changes which threaten to disrupt previously stable industries and alter the balances of power and wealth in Iran.
- Porous borders allow illicit items to be smuggled into the country, which is a transit point for drugs from Asia to the West.
- There is a risk of domestic hostility towards Westerners, triggered by international political events.

Industry Forecast

Total Premiums Forecasts

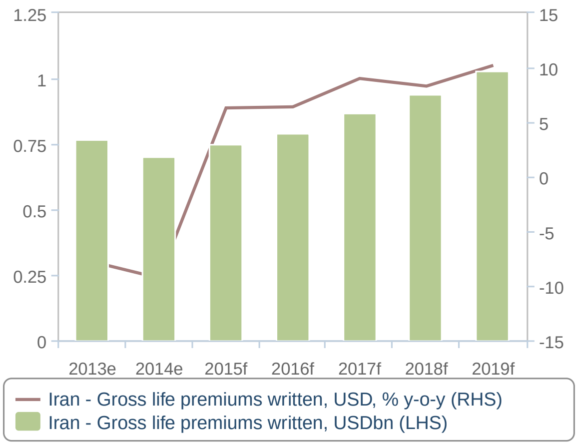
***BMI View:** Over the remainder of 2015 and beyond, Iran's overall insurance sector should achieve relatively stable growth. Steady demand, particularly for basic non-life lines, will continue to drive this growth. However, the slow pace of government reforms and the uncertainty over Iran's rapprochement with the West limit the scope for upside potential.*

Gross Premiums

Sanctions and structurally high inflation have impeded the development of Iran's insurance sector; nevertheless, with gross premiums of USD9bn in 2015, it rates as a substantial market opportunity in regional terms. Sanctions have limited local insurers' access to global reinsurance markets, in turn adversely affecting retention ratios and insurers' profitability levels. Moreover, high annual inflation is a huge disincentive for households that might otherwise enter into a long-term contract with a life insurance company.

Steady overall growth ahead

Total Gross Premiums (USD bn vs % growth)



Central Insurance of Iran/BMI

Stalled nuclear negotiations in recent months have increased the likelihood of continued Western sanctions, which in turn will contribute to a sustained period of macroeconomic instability in the Iranian economy as a whole. As a result, we have revised down our expectations for the insurance sector as a whole from 2016 until the end of the forecast period, with growth unlikely to exceed 8% in USD terms. The picture is somewhat more positive when considered in terms of the Iranian Riyal, where the data has been skewered by currency fluctuations .

Nonetheless, the wider economy should enjoy greater stability than it has done in recent years, which in turn should lead to more consistent rates of growth in the insurance sector. This greater macroeconomic stability should help mitigate fluctuations to the Iranian Riyal, which historically has prevented accurate readings of the insurance sector in terms of local currency.

Table: Total Gross Premiums Written (Iran 2011-2018)

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Total gross premiums written, IRRbn	86,092.04	131,096.72	155,695.86	194,766.74	222,786.49	254,643.68	284,365.54	315,313.20
Total gross premiums written, IRR, % y-o-y	45.5	52.3	18.8	25.1	14.4	14.3	11.7	10.9
Total gross premiums written, IRR per capita	1,141,436.7	1,715,376.9	2,010,349.2	2,482,046.5	2,803,181.1	3,164,840.9	3,492,460.5	3,828,477.0
Total gross premiums written, % of GDP	1.5	2.0	1.8	1.8	1.7	1.7	1.7	1.7
Total gross premiums written, USDbn	8.11	10.75	8.66	7.89	9.02	9.43	10.16	10.87
Total gross premiums written, USD, % y-o-y	39.6	32.5	-19.4	-8.9	14.4	4.6	7.7	7.1
Total gross premiums written, USD per capita	107.5	140.6	111.8	100.5	113.5	117.2	124.7	132.0

Central Insurance of Iran/BMI

Net premiums for the entire insurance sector should grow 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. The lack of access to global reinsurance markets due to international sanctions has stifled competition in the market, with most local insurers relying on the main state-backed domestic reinsurer. However, retention ratios are higher than in other, less mature regional markets.

An improvement in future retention ratios (i.e net premiums written relative to gross premiums) will depend on market liberalisation and the ability of local insurers to access global reinsurance markets, which in turn will require some alleviation of sanctions. However, stalled nuclear negotiations have suppressed our market forecasts for 2016 and beyond, with growth set to remain in the single digits. This will prevent insurers from maximising their levels of profit and ensure that growth across the sector remains steady rather than spectacular.

Table: Total Net Premiums Written (Iran 2011-2018)

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Total net premiums written, IRRbn	62,477.77	95,058.33	112,474.93	140,403.24	160,476.88	183,273.37	204,549.72	226,692.12
Total net premiums written, IRR, % y-o-y	46.0	52.1	18.3	24.8	14.3	14.2	11.6	10.8
Total net premiums written, IRR per capita	828,350.8	1,243,821.1	1,452,279.4	1,789,255.0	2,019,178.8	2,277,814.4	2,512,195.4	2,752,455.5
Total net premiums written, % of GDP	1.1	1.4	1.3	1.3	1.3	1.2	1.2	1.2
Total net premiums written, USDbn	5.88	7.79	6.26	5.68	6.50	6.79	7.31	7.82
Total net premiums written, USD, % y-o-y	40.1	32.4	-19.7	-9.1	14.3	4.5	7.6	7.0
Total net premiums written, USD per capita	78.0	102.0	80.8	72.4	81.7	84.4	89.7	94.9

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. Moreover, the heavy imbalance of claims towards the life segment can in part be explained by the market's embryonic stage of development and a lack of scale among the segment's insurers. Thus, if the life segment can suitably mature over the forecast period, we envisage claims growth will fall.

In 2016 and beyond, we anticipate year-on-year growth in claims to stabilise. Falling currency fluctuations and more stable economic growth than in previous years will contribute to this relative stability. Nonetheless, there remains a risk that claims will be subject to large fluctuations given the continued uncertainly of economic reforms in Iran and the staled nuclear negotiations. In addition, the market's competitive landscape should not alter significantly over the forecast period and will be continued to be characterised by many sub-scale players.. As such, claims will remain high, relative to overall premiums as local insurers struggle to significantly boost their overall profitability levels and achieve significant scale.

Table: Total Insurance Claims (Iran 2006-2013)

	2006	2007	2008	2009	2010	2011	2012	2013e
Total claims, IRRbn	16,466.65	20,823.50	24,752.64	30,753.35	39,223.25	53,698.26	78,379.67	92,607.16
Total claims, IRR, % y-o-y	13.3	26.5	18.9	24.2	27.5	36.9	46.0	18.2
Total insurance gross loss ratio	62.0	61.6	61.0	66.2	66.3	62.4	59.8	59.5
Total claims, USDbn	1.79	2.24	2.58	3.11	3.85	5.06	6.43	5.15
Total claims, USD, % y-o-y	11.2	25.3	14.8	20.5	24.0	31.4	27.0	-19.9

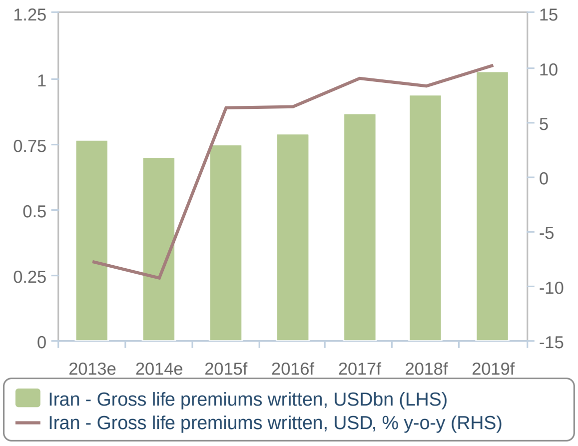
Source: Central Insurance of Iran/BMI

Life Premiums Forecasts

BMI View: *We are of the view that life premiums will continue to grow at a higher rate than the sector as a whole. In part it will be assisted by greater economic stability, including lower inflation rates. However, we caution that the market is still in an infant stage of development may be adversely affected by future volatility such as continued western sanctions.*

Less volatility; sustained growth

Life Gross Premiums (USDbn vs % Growth)



Central Insurance of Iran/BMI

High inflation, a structural and entrenched feature of Iran's economy, will remain a primary barrier to growth in the segment by discouraging Iranians from using life insurance solutions as a conduit for savings. Government involvement in the sector through the regulator will also hinder optimal growth in the segment, particularly by discouraging competition among local reinsurers. In addition, the historic lack of a significant life insurance market means that public awareness of its benefits have been, and should remain, low. As such, we envisage that the sector will remain in an embryonic stage of development over the forecast period.

In the absence of regulatory reform, market consolidation or an alteration in local perceptions of life insurance, we anticipate that growth in the market will come from a wider increase in overall premiums. As such, the life segment's share of overall premiums should not increase substantially. The market will benefit from a period of greater stability in terms of year-on-year growth, compared to the fluctuations before 2015. However, this will rely on greater financial stability, which in turn will depend on rapprochement with the West and the easing of sanctions, particularly those targeting financial institutions and reinsurance.

Premiums

At present, life insurance is in an embryonic stage of development. Life density (premiums per capita) is only slightly higher than USD10. In addition, life penetration will remain low over 2015, at around 0.2%. This is due to a number of factors including Iran's weak macroeconomic performance over the last few years. This has pushed up inflation so that the majority of the population do not see life insurance as a viable conduit for their savings. Continued high inflation and low output will suppress demand for life insurance premiums.

Looking ahead for the remainder of the forecast period, a more stable economic environment will facilitate steady growth. This is largely due to our expectation that inflation should steady over the coming years. However, it will remain high and any economic improvements are conditioned on government economic reforms and the lifting of sanctions, both of which are far from certain. As such, life premiums should grow at a rate slightly above the insurance sector as a whole; however, the segment will remain far smaller than the dominant non-life segment.

Beyond the forecast period, the segment's growth will rely on two factors. The first is an improvement in the Iranian public's awareness of the benefits of life insurance solutions. This will require a more diverse system of distribution on the part of local insurers as well as a stronger government role in order to promote life insurance. The second condition is a significant increase in the scale of individual lfie insures. This may be prompted by both government incentives to promote market consolidation as well as allowing foreign players to enter the market. Both of these factors would allow insurers to focus on product innovation. This is particularly important for non-compulsory lies such as life, which cannot rely solely on competitive pricing.

Table: Gross Life Premiums Written (Iran 2011-2018)

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Gross life premiums written, IRRbn	6,869.76	10,248.34	13,927.95	18,621.75	21,810.70	25,543.41	28,993.99	32,633.48
Gross life premiums written, IRR, % y-o-y	46.6	49.2	35.9	33.7	17.1	17.1	13.5	12.6
Gross life premiums written, IRR per capita	91,081.5	134,097.6	179,838.1	237,309.7	274,430.2	317,466.4	356,092.2	396,230.0
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	9.6	9.8	10.0	10.2	10.3
Gross life premiums written, USDbn	0.65	0.84	0.77	0.75	0.88	0.95	1.04	1.13
Gross life premiums written, USD, % y-o-y	40.7	29.8	-7.8	-2.7	17.1	7.1	9.5	8.7

Gross Life Premiums Written (Iran 2011-2018) - Continued	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Gross life premiums written, USD per capita	8.6	11.0	10.0	9.6	11.1	11.8	12.7	13.7

Central Insurance of Iran/BMI

Over 2015 Iran's retention ratios (net premiums as a percentage of gross premiums) will remain consistently low. The issue is that, as noted above, households are unwilling to enter long term life insurance contracts given the current economic volatility. As such, insurers are forced to forgo a substantial portion of their premiums in the form of outwards reinsurance. Given that highly inflation is set to continue, this disincentive to invest with life insurers will remain a barrier to growth through 2015.

Over the rest of the forecast period, the extent to which insures are able to absorb risk will largely depend on the government's ability to rein in inflation. This will depend on both rapprochement with the west and continuing its own domestic economic reforms. If inflation is curtailed demand for life insurance products should rise, and the greater revenue, and scale, should mean that insurers are not forced to use outward reinsurance solutions. As such, we may revise net life premiums down or up depending on Ira's macroeconomic performance over the coming years.

Beyond the forecast period, certain conditions may allow life net premiums to rise considerably. As discussed above, both government incentives and opening up the market to foreign companies would create greater market consolidation, which in turn would allow companies to absorb more risk internally. In addition, the government should open up the reinsurance segment to greater competition. Currently it is dominated by the state reinsurer, which is considered a national interest. This lack of competition has forced up reinsurance premiums and thus suppressed net premiums. However, while the government continues to view the major state reinsurance provider as a national interest it is likely that Iran's reinsurance market will remain uncompetitive and a major barrier to growth in the life segment.

Table: Net Life Premiums Written (Iran 2011-2018)	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Net life premiums written, IRRbn	3,436.01	5,114.63	6,948.14	9,288.97	10,879.54	12,741.44	14,462.63	16,278.07
Net life premiums written, IRR, % y-o-y	46.9	48.9	35.8	33.7	17.1	17.1	13.5	12.6

Net Life Premiums Written (Iran 2011-2018) - Continued

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Net life premiums written, IRR per capita	45,555.7	66,924.0	89,714.5	118,375.8	136,890.3	158,357.1	177,624.1	197,645.4
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, USDbn	0.32	0.42	0.39	0.38	0.44	0.47	0.52	0.56
Net life premiums written, USD, % y-o-y	41.0	29.6	-7.8	-2.7	17.1	7.1	9.5	8.7
Net life premiums written, USD per capita	4.3	5.5	5.0	4.8	5.5	5.9	6.3	6.8

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 in part to erratic fluctuations that come with growth off such a low base. Moreover, it may be the case that as the market expands, consumers become increasingly aware of their rights as policy holders. Nonetheless, in 2012, claims and payments by the life insurers were less than USD4 per capita.

Looking ahead over our forecast period, the growth in claims should remain somewhat erratic, in part due to persistently high inflation. Although this may be somewhat mitigated by greater macroeconomic stability. Nevertheless, we do not envisage significant changes in the market's competitive structure; as such claims are likely to remain high and act as a barrier to greater growth in the sub-sector.

Table: Life Insurance Claims (Iran 2006-2013)

	2006	2007	2008	2009	2010	2011	2012	2013e
Claims life, IRRbn	724.43	732.87	953.64	1,347.80	1,698.25	2,330.28	3,547.03	4,820.57
Claims life, IRR, % y-o-y	6.4	1.2	30.1	41.3	26.0	37.2	52.2	35.9
Life insurance gross loss ratio	44.5	38.7	45.1	42.0	36.2	33.9	34.6	34.6
Claims life, USDbn	0.08	0.08	0.10	0.14	0.17	0.22	0.29	0.27
Claims life, USD, % y-o-y	4.4	0.3	25.7	37.1	22.5	31.7	32.5	-7.8

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. However, compared to other countries in the region, Iran ranks highly by many health metrics. Infant mortality, sanitation and nutritional levels in Iran exceed many comparable nations.

Long-term, the precedence of significant government spending on health care should help curtail engrained health issues. Healthcare is increasingly targeting wider segments of society, especially rural areas, which have historically been neglected by the central government. Moreover, given its high levels of investment and relatively low costs, due to a weak currency, health tourism is becoming an increasingly large contributor to overall private health expenditure.

Looking ahead, the growth in private health expenditure should stabilise somewhat as key segments of the population look to supplement their access to public healthcare. Insurers should note an expect fall in health expenditure as a percentage of GDP from 3.2% in 2015 to 2.2% in 2018. This may suggest a potential fall in claims from health insurers. However, it may also indicate that relatively less of the wealth generated by economic growth is being channelled into health insurance. Over time this may pose a risk to growth in premiums for the health insurance sub-sector.

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 growth in the non-life segment through the forecast period.

Table: Insurance Key Drivers, Private Health Expenditure (Iran 2011-2018)

	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
Private health expenditure, IRRbn	217,978.0	269,070.0	326,605.9	374,690.4	415,224.5	452,971.2	464,426.9	465,802.2
Private health expenditure, IRRbn, % y-o-y	13.3	23.4	21.4	14.7	10.8	9.1	2.5	0.3
Private health expenditure, USDbn	20.5	22.1	9.9	12.5	13.8	16.2	17.2	18.2
Private health expenditure, USDbn, % y-o-y	8.8	7.4	-55.1	26.2	10.8	16.9	6.3	5.6
Private health expenditure, USD per capita	272.2	288.6	127.8	159.2	174.2	201.1	211.3	220.5
Private health expenditure, % of GDP	3.9	4.0	3.6	3.2	2.9	2.7	2.4	2.2

World Health Organization (WHO)/ BMI

As is the case for countries across the region, overall morbidity is increasing in Iran. 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.

Over our forecast period, the increase in morbidity among older age cohorts should pose challenges for insurers in terms of managing claims levels. Looking further ahead, the market will be shaped by the lower age cohort, among whom morbidity is slowly falling. If this remains the case in the future, it may represent a long-term growth opportunity. This is especially the case when one considers Iran's overall young demographic.

Table: Insurance Key Drivers, Disease Adjusted Life Years (Iran 2011-2018)

	2011e	2012e	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	1,671,091	1,647,211	1,623,116	1,598,805	1,574,279	1,549,537

Insurance Key Drivers, Disease Adjusted Life Years (Iran 2011-2018) - Continued

	2011e	2012e	2013e	2014f	2015f	2016f	2017f	2018f
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, 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, 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
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, 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

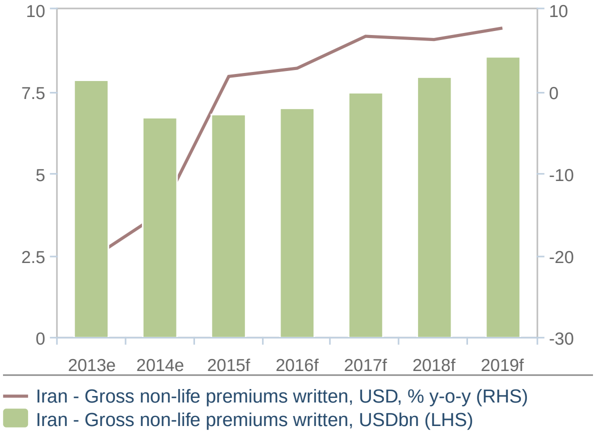
National Sources/BMI

Non-Life Premiums Forecasts

BMI View: *Greater macroeconomic stability should lead to more consistent growth rates across the non-life segment. Basic motor and health lines will continue to constitute the bulk of non-life premiums. Looking ahead, growth will be limited by low retention ratios and a lack of demand for non-compulsory lines.*

Steady Though Unspectacular Growth

Gross Non-Life Premiums (USDbn vs % Growth)



Central Insurance of Iran/BMI

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. Looking ahead, health and motor related lines should continue to benefit from higher prices and rates and, probably, increases in the number of policies. However, both penetration levels and retention ratios will remain low as a result of heavy reliance on outward reinsurance, rising claims and a static market. These engrained and widespread market issues mean that growth will fall below its potential.

Historically the sub-sector has suffered from high inflation, a fluctuating currency and weak economy. As economic growth continues to pick up, the segment should achieve stronger and more consistent growth in premiums. However, like the sector as a whole, non-life premiums remain vulnerable to economic uncertainties, which may be provoked by stalling nuclear negotiations. Nonetheless, we are looking for economic performance to improve in 2015, which should contribute to a rapid recovery in overall non-life premiums. This is particularly true across basic lines such as health and motor.

Premiums

In the recent past, premiums have been depressed by the impact of the economic slow-down across the non-life sub-sectors. Over 2015, the economy will improve slightly; however, overall we have revised down our expectations for Iran's macroeconomic outlook. As such, year-on-year growth in USD will increase from -9.5% in 2014 to 14.1% in 2015; however, the market will still be operating belowits capacity.

Over 2016-2019 we retain a cautiously optimistic outlook. Year-on-year growth in USD should remain consistently in the single digits. We believe that this will largely be caused by continued uncertainty over Iran's nuclear negotiations with the west, and thus lingering sanctions. In addition, the government own economic reforms, including the removal of costly subsidies are moving slowly. The importance of macroeconomic factors for Iran's non-life segment is all the more significant given that the dominant sub-sectors are basic lines such as motor. These tend fto be susceptible to economic fluctuations where, for example, less demand for cars will affect the growth in premiums for compulsory motor insurance.

Beyond 2019, it is likely that premiums will continue to grow at a steady rate, with basic lines constituting the dominant driving force of the segment. Product innovation, the opening of the market to foreign insures and government legislation to prompt market consolidation would all help to facilitate growth above solid single digits. However, such policies seem unlikely while the market is still un**d**erdeveloped and heavily reliant on basic lines, which are largely competed over on the basis of price.

Table: Gross Non-Life Premiums Written (Iran 2011-2018)

	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
Gross non-life premiums written, IRRbn	79,222.29	120,848.38	141,767.90	176,145.00	200,975.79	229,100.28	255,371.55	282,679.72
Gross non-life premiums written, IRR, % y-o-y	45.4	52.5	17.3	24.2	14.1	14.0	11.5	10.7
Gross non-life premiums written, IRR per capita	1,050,355.2	1,581,279.3	1,830,511.1	2,244,736.8	2,528,751.0	2,847,374.5	3,136,368.3	3,432,247.0
Gross non-life premiums written, % of GDP	1.4	1.8	1.6	1.6	1.6	1.6	1.5	1.5
Gross non-life premiums written, % of gross premiums written	92.0	92.2	91.1	90.4	90.2	90.0	89.8	89.7
Gross non-life premiums	7.46	9.91	7.88	7.13	8.14	8.49	9.12	9.75

Gross Non-Life Premiums Written (Iran 2011-2018) - Continued								
	2011	2012	2013e	2014f	2015f	2016f	2017f	2018f
written, USDbn								
Gross non-life premiums written, USD, % y-o-y	39.6	32.8	-20.4	-9.5	14.1	4.3	7.5	6.9
Gross non-life premiums written, USD per capita	98.9	129.6	101.8	90.9	102.4	105.5	112.0	118.4

Central Insurance of Iran/BMI

Retention ratios in Iran (net premiums as a percentage of gross premiums) are high compared to other regional markets. 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. The main issue is that many of the sub-sectors are dominated by sub-scale players that operate only in basic lines. These small insurers lack the scale to internally absorb risk and so are forced to use outwards reinsurance. Moreover, they compete in these sub-sectors on the basis of price which further squeezes their net premiums.

Over the medium term we anticipate that net premiums will largely grow in line with gross premiums. This reflects our belief that there will be very little change to how individual insurers deal with risk. The market is likely to remain fragmented. Thus, lacking scale and competing on price, the market will remain characterised by sub-scale operators. A period of market consolidation, which would boost scale in the segment, is unlikely. We note little evidence that the regulator will implement measures to promote consolidation. In addition, the market will remain heavily dependent on basic compulsory lines, which as noted above will further suppress profitability.

Looking beyond the forecast period, foreign investment and regulatory reform would prompt a period of market consolidation. In addition, the market would benefit from greater awareness among the Iranian population of the benefits of non-compulsory lines, which would not be so prone to price competition. However, we see little evidence to suggest that these conditions will come about even in the long-term. As such, low retention levels, and thus low profitability, is likely to continue to hinder the non-life segment over the long-term.

Table: Net Non-Life Premiums Written (Iran 2011-2018)								
	2011	**2012**	**2013e**	**2014f**	**2015f**	**2016f**	**2017f**	**2018f**
Net non-life premiums written, IRRbn	59,041.76	89,943.70	105,526.79	131,114.27	149,597.34	170,531.92	190,087.08	210,414.05
Net non-life premiums written, IRR, % y-o-y	45.9	52.3	17.3	24.2	14.1	14.0	11.5	10.7
Net non-life premiums written, IRR per capita	782,795.1	1,176,897.1	1,362,564.8	1,670,879.2	1,882,288.5	2,119,457.3	2,334,571.3	2,554,810.1
Net non-life premiums written, % of GDP	1.1	1.3	1.2	1.2	1.2	1.2	1.1	1.1
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, USDbn	5.56	7.37	5.87	5.31	6.06	6.32	6.79	7.26
Net non-life premiums written, USD, % y-o-y	40.0	32.6	-20.4	-9.6	14.1	4.3	7.5	6.9
Net non-life premiums written, USD per capita	73.7	96.5	75.8	67.6	76.2	78.5	83.4	88.1

Central Insurance of Iran/BMI

Reinsurance

The nature of the Iranian insurance market means that most insurers are heavy users of outwards reinsurance. As stated above, the dominant sub-sectors in the non-life segment, and thus the sector as a whole, are basic, compulsory lines. The majority of insurers in these markets tend to be sub-scale operators, who compete largely on the basis of price. As such, they lack the scale to absorb risk and so must outwardly lay off risk in the form of reinsurance solutions. Over 2015, reinsurance premiums will rise steadily. As demand for insurance premiums increases, in turn so will the demand for reinsurance solutions.

It is unlikely that the relationship between Iran's reinsures and regular insurers will change over the medium term. Most sub-sectors will continue to lack scale and demand will remain strongest for basic lines. As such the demand for reinsurance will grow in line with the sector as a whole. Thus, year-on-year growth should peak in 2015 at slightly over 14% before steadying to single digit growth over the rest of the forecast period. We may revise our expectations for reinsurance premiums if a significant development, such as the alleviation of sanctions, causes regular premiums to grow at a greater rate.

Beyond 2019 the reinsurance market is likely to remain dominated by the sate reinsurer. The state views this segment as a national interest and so is unlikely to allow greater domestic private sector involvement. In addition, even with the alleviation of sanctions, it is likely that the government will seek to implement protectionist policies in areas that it feels are part of the state's interests. Therefore, we are of the view that even over the long-term, the reinsurance market should stay relatively uncompetitive. Growth in the segment will remain dependent on growth in regular segments, which will retain a high demand for outward reinsurance.

Table: Reinsurance Non-Life Premiums Written (Iran 2011-2018)	2011	2012e	2013e	2014f	2015f	2016f	2017f	2018f
Reinsurance non-life premiums written, IRRbn	20,180.53	30,904.68	36,241.11	45,030.73	51,378.45	58,568.35	65,284.47	72,265.67
Reinsurance non-life premiums written, IRR, % y-o-y	44.0	53.1	17.3	24.3	14.1	14.0	11.5	10.7
Reinsurance non-life premiums written, IRR per capita	267,560.1	404,382.1	467,946.3	573,857.5	646,462.5	727,917.2	801,797.0	877,436.9
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, % reinsurance premiums	85.5	85.8	83.9	82.8	82.5	82.1	81.8	81.5
Reinsurance non-life premiums written, USDbn	1.90	2.53	2.02	1.82	2.08	2.17	2.33	2.49
Reinsurance non-life premiums written, USD, % y-o-y	38.1	33.3	-20.5	-9.5	14.1	4.3	7.5	6.9
Reinsurance non-life premiums written, USD per capita	25.2	33.2	26.0	23.2	26.2	27.0	28.6	30.3

Central Insurance of Iran/BMI

Non-Life 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. We anticipate that this will remain the case throughout 2015, with recent data from many of the market's largest players indicating that the growth in premiums is outstripping rising claims.

We expect that claims will continue to grow rapidly through the forecast period, though a partial levelling off of currency fluctuations may mean that the annual growth rate stabilises to some extent. As such, looking ahead, claims levels will in large part depend on macroeconomic stability and thus the mitigation of volatile currency fluctuations, as has been the case over recent years.

Table: Non-Life Insurance Claims (Iran 2006-2013)

	2006	2007	2008	2009	2010	2011	2012	2013e
Claims non-life, IRRbn	15,742.23	20,090.63	23,799.00	29,405.55	37,525.00	51,367.97	74,832.64	87,786.59
Claims non-life, IRR, % y-o-y	13.6	27.6	18.5	23.6	27.6	36.9	45.7	17.3
Non-life insurance gross loss ratio	63.1	62.9	61.9	68.0	68.9	64.8	61.9	61.9
Claims non-life, USDbn	1.71	2.17	2.48	2.97	3.68	4.84	6.14	4.88
Claims non-life, USD, % y-o-y	11.5	26.5	14.4	19.9	24.0	31.4	26.8	-20.4

Source: Central Insurance of Iran/BMI

Historically, motor claims have constituted the dominant portion of non-life claims. This is to be expected, given that motor lines represent a significant portion of total non-life premiums. However, this does not fully explain the magnitude of motor claims. For instance, in 2007 motor claims represented 80% of total claims, a figure far higher than the motor sub-sector's relative share of premiums. This is in part caused by Iran's high levels of road accidents, which drive up claims levels. In addition, policyholders are likely to be more aware of their claims rights with key compulsory lines such as motor insurance, which almost all households would have. In the recent past, motor claims as a portion of total non-life claims has decreased significantly, and we expect this to continue over the forecast period. However, this is mostly due to rising claims in other sub-sectors rather than any meaningful slowdown in motor claims. Indeed, in absolute terms motor claims rose consistently from 2007 to 2011 and will continue to do so. Luckily the rise in premiums should offset the increasing cost of claims for most motor insurers, which equates to a substantial portion of all non-life insurers. Nonetheless, high claims will continue to suppress profitability, particularly in the most common, basic motor lines, which are already squeezed by price competition.

Looking to the other non-life sub-sectors, health lines will continue to make up the second largest claims market, which reflects its position as the second biggest non-life sub-sector. The rise in health claims as a portion of total non-life claims goes some way to explaining the relative fall in motor claims. In part we attribute this to rising health premiums, which is likely to continue over the forecast period. Furthermore, we believe that key factors such as rising morbidity among Iran's middle class, who are most likely to purchase private health insurance, will cause a greater than proportional increase in health claims. Increasing costs in specific medical treatments are likely to add to the health sub-sector's rosining claims. Thus as the sub-sector is forecast to enjoy solid growth in premiums, insurers should be wary of the downside potential of a substantial rise in claims.

In Iran's underdeveloped non-life segment, all other sub-sectors constitute only a fraction of total premiums. We expect this to remain the case over the forecast period, as the population continues to primarily seek basic lines such as health and motor. As such, the smaller sub-sectors are likely to see a proportional increase in their claims. Moreover, claims in each of these sub-sectors will come off very small bases. Therefore, it is unlikely that their respective portion of non-life claims will change dramatically.

Table: Non-Life Insurance Claims by Line (Iran 2007-2011)

	2007	2008	2009	2010	2011
Motor vehicle claims, USDmn	1,731.0	1,839.3	2,066.8	2,315.4	2,916.4
Motor vehicle claims, % of non-life claims	80.0	74.2	69.6	62.9	60.3
Property claims, USDmn	48.2	98.1	76.8	81.9	89.1
Property claims, % of non-life claims	2.2	4.0	2.6	2.2	1.8
Transport claims, USDmn	33.7	47.1	61.2	40.1	64.1
Transport claims, % of non-life claims	1.6	1.9	2.1	1.1	1.3
Personal accident claims, USDmn	59.9	66.5	71.5	74.4	104.3
Personal accident claims, % of non-life claims	2.8	2.7	2.4	2.0	2.2
Health claims, USDmn	206.8	302.0	501.2	960.2	1,406.9
Health claims, % of non-life claims	9.6	12.2	16.9	26.1	29.1
General liability claims, USDmn	65.2	99.5	114.9	134.2	170.7
General liability claims, % of non-life claims	3.0	4.0	3.9	3.6	3.5
Credit/financial guarantee claims, USDmn	3.2	2.3	5.4	3.2	8.9
Credit/financial guarantee claims, % of non-life claims	0.1	0.1	0.2	0.1	0.2
Other non-life claims, USDmn	17.1	22.7	71.9	74.0	78.1
Other non-life claims, % of non-life claims	0.8	0.9	2.4	2.0	1.6

Source: Central Insurance of Iran/BMI

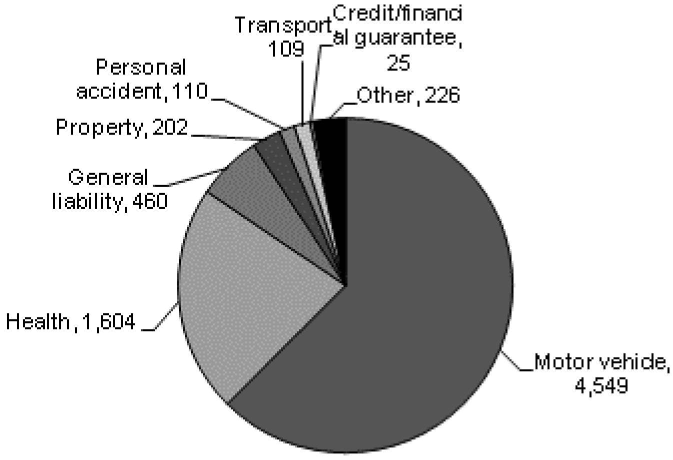
Non-Life Sub-Sector Forecasts

BMI View: *The non-life sub-sector breakdown will remain largely constant over 2015. All sub- sectors will benefit from the recent period of relative economic stability. However, there remains the threat of greater economic uncertainty in the future, which would curtail growth across the sector. In addition structural issues such as a fragmented market will help to suppress growth in premiums.*

In broad terms, we do not expect 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. If the economy can maintain a positive economic outlook, then each sub-sectors should benefit from the greater spending capacity of Iran's middle class. However, any changes to the non-life segment sector breakdown will be minor, with premiums still dominated by compulsory basic lines.

Motor Remain Dominant

Non-Life Insurance Line Breakdown (USDmn)



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 regional terms; however, restricted access to international capital markets continues to hinder the development of these lines and the segment as a whole. As is the case with the overall sector currency fluctuations distort the segment's financial metrics, hindering long-term market projections. As with the sector as a whole, Iran's non-life segment is dominated by sub-scale players focusing on compulsory, basic lines. This has hindered product innovation and prevented the market diversifying into more specialised lines. The dominance of basic lines is reinforced by the local population's lack of awareness of the benefits of non-compulsory lines.

Table: Non-Life % Breakdown (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Motor vehicle insurance, % of non-life insurance	61.5	60.1	61.8	62.5	62.9	63.2	63.5	63.8
Property insurance, % of non-life insurance	4.0	3.8	3.0	2.8	2.6	2.4	2.3	2.1
Transport insurance, % of non-life insurance	2.7	2.3	1.7	1.5	1.3	1.2	1.1	1.0
Personal accident insurance, % of non-life insurance	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Health insurance, % of non-life insurance	22.0	22.8	22.3	22.0	21.9	21.7	21.7	21.6
General liability insurance, % of non-life insurance	5.6	6.2	6.3	6.3	6.3	6.3	6.3	6.4
Credit/financial guarantee insurance, % of non-life insurance	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Other insurance, % of non-life insurance	2.7	3.1	3.1	3.1	3.1	3.1	3.1	3.1

e/f= BMI estimate/forecast, Source: Central Insurance of Iran/BMI

Of the various smaller sub-sectors, most have been constrained in the recent past by Iran's patchy economic performance, as well as price competition. General liability insurance is surprisingly well established and may in part be related to Iran's historically well developed energy sector. We expect that the non-life market breakdown will remain largely static, with growth likely to come from an increase in the volume of overall policies. Motor and health lines should continue to dominate and possibly expand their respective market shares over the forecast period, given their resilience in recent years to economic volatility. Growth in the non-life segment as a whole, will depend on a stable future macroeconomic performance. As such, it is possible that recent forecasts will be revised down give the stall in Iran's rapprochement with the west, which has diminished the prospect of an alleviation of international sanctions.

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 should reach nearly USD5bn in 2015, although this figure is diminished by the past devaluation of the IRR.

Due to a more stable economic outlook, we do not envisage the same levels of fluctuating growth that has characterised the sub-sector over the recent past, which should give insurers a period of relative stability. However, we do not anticipate any significant c wave of market consolidation, which might otherwise generate higher growth through greater scale. As such, an overall increase in the volume of policies will continue to drive the sub-sector.

Table: Motor Vehicle Insurance (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Motor vehicle insurance, IRRmn	74,334,430	84,126,672	116,543,355	136,469,604	157,414,428	174,930,301	193,649,246	216,204,738
Motor vehicle insurance, IRR, % y-o-y	54.3	13.2	38.5	17.1	15.3	11.1	10.7	11.6
Motor vehicle insurance, % of non-life insurance	61.5	60.1	61.8	62.5	62.9	63.2	63.5	63.8
Motor vehicle insurance, USDmn	6,094.2	4,678.6	4,517.2	4,549.0	4,629.8	4,859.2	5,096.0	5,405.1
Motor vehicle insurance, USD, % y-o-y	34.3	-23.2	-3.5	0.7	1.8	5.0	4.9	6.1

e/f= BMI estimate/forecast, 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. We attribute this downturn to a historically sluggish economy, which weakened demand for freight as commercial activities tail off. It is for this reason that the sub-sector accounts for about 1.6% of all premiums written in the non-life segment in 2015, versus nearly 3% in 2011.

Looking forward, premiums should receive a boost from growth in the volumes of freight carried on Iran's roads. Railway freight could certainly receive a boost from government investment. However, for the moment we only anticipate moderate growth in Iran's rail freight industry. Moreover, the rate of increase of premiums will almost certainly be constrained by price competition and a lack of scale, forcing heavy dependence on outward reinsurance. We do not envisage any long-term solution for these challenges, with sub-scale insurers likely to characterise the market throughout the forecast period. As such, the sub-sector will be marked by sluggish growth thought the forecast period and a sustained contraction in its relative share of non-life premiums.

Table: Transport Insurance (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Transport insurance, IRRmn	3,244,064.1	3,223,275.2	3,239,653.6	3,262,410.1	3,288,543.8	3,319,305.8	3,353,752.8	3,392,243.8
Transport insurance, IRR, % y-o-y	46.5	-0.6	0.5	0.7	0.8	0.9	1.0	1.1
Transport insurance, % of non-life insurance	2.7	2.3	1.7	1.5	1.3	1.2	1.1	1.0
Transport insurance, USDmn	266.0	179.3	125.6	108.7	96.7	92.2	88.3	84.8
Transport insurance, USD, % y-o-y	27.5	-32.6	-30.0	-13.4	-11.1	-4.7	-4.3	-3.9

e/f= BMI estimate/forecast, Source: Central Insurance of Iran/BMI

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, primarily due to a lacklustre economy, which in turn suppresses commercial activity and thus the demand for freight.

However, we anticipate real growth in overall activity, and volumes of freight carried by all modes, from 2015. This should come as a welcome boost to sub-sector insurers, for whom the increase in volume of policies should constitute the most significant boost to the market over the forecast period. However, growth in freight levels will be sensitive to wider macroeconomic volatility over the forecast period, which may dampen demand in the sub-sector.

Table: Insurance Key Drivers, Freight Tonnage (Iran 2011-2018)

	2011e	2012e	2013e	2014f	2015f	2016f	2017f	2018f
Air freight tonnes , '000	214.3	201.0	197.3	199.5	201.7	204.1	206.8	209.9
Air freight tonnes, % y-o-y	0.3	-6.2	-1.8	1.1	1.1	1.2	1.3	1.5
Rail freight tonnes , '000	33,886.3	33,208.5	32,378.3	32,864.0	33,455.6	34,124.7	34,943.7	35,887.1
Rail freight tonnes, % y-o-y	1.3	-2.0	-2.5	1.5	1.8	2.0	2.4	2.7
Road freight tonnes , '000	108,943.2	106,764.3	103,561.4	106,254.0	110,079.2	114,482.3	119,634.0	125,376.5
Road freight tonnes, % y-o-y	2.1	-2.0	-3.0	2.6	3.6	4.0	4.5	4.8

BMI calculation/National Statistic Agency

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 USD1.9bn in 2015 to USD2.3bn in 2018. As with the other sub-sectors, this forecast represents a significant downgrade on earlier market expectations, and reflects how macroeconomic instability and entrenched market issues are suppressing growth in premiums.

This is, and will remain, the second largest of the various sub-sectors of the non-life segment. In part, we attribute this growth to the rise in morbidity among older age groups. As DALYs (Disease Adjusted Life Years) rise in these age cohorts, overall volumes of policies should rise. Thanks in part to a greater sense of macroeconomic stability and less volatile currency fluctuations, premiums should grow at a steady single-digit rate over the remainder of the forecast period.

Table: Health Insurance (Iran 2012-2019)								
	2012	**2013e**	**2014e**	**2015f**	**2016f**	**2017f**	**2018f**	**2019f**
Health insurance, IRRmn	26,526,899	31,858,102	41,956,770	48,118,143	54,673,765	60,159,182	66,052,332	73,118,715
Health insurance, IRR, % y-o-y	74.8	20.1	31.7	14.7	13.6	10.0	9.8	10.7
Health insurance, % of non-life insurance	22.0	22.8	22.3	22.0	21.9	21.7	21.7	21.6
Health insurance, USDmn	2,174.8	1,771.8	1,626.2	1,603.9	1,608.1	1,671.1	1,738.2	1,828.0
Health insurance, USD, % y-o-y	52.1	-18.5	-8.2	-1.4	0.3	3.9	4.0	5.2

e/f= BMI estimate/forecast, 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 though it will remain significantly higher than other non-life sub-sectors, in part because it is growing off a low base.

Part of the long-term issue for this sub-sector lies in promoting the benefits of insurance to the wider population. Historically, a lack of public awareness has caused limited growth, looking forward we expect this to be a significant cause of sub-optimal increases.

Table: Personal Accident Insurance (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Personal accident insurance, IRRmn	1,544,080.3	2,025,298.2	2,807,197.0	3,287,823.2	3,793,017.7	4,215,505.0	4,667,010.8	5,211,055.1
Personal accident insurance, IRR, % y-o-y	19.3	31.2	38.6	17.1	15.4	11.1	10.7	11.7
Personal accident insurance, % of non-life insurance	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Personal accident insurance, USDmn	126.6	112.6	108.8	109.6	111.6	117.1	122.8	130.3
Personal accident insurance, USD, % y-o-y	3.8	-11.0	-3.4	0.7	1.8	5.0	4.9	6.1

e/f= BMI estimate/forecast, 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.

Macroeconomic issues such as high inflation will continue to prevent the sub-sector from achieving its potential growth. As such, we anticipate low double-digit growth in 2015 and beyond. It is likely that we will have to downgrade future forecasts for the sub-sector if a more pessimistic wider economic outlook develops. In such an instance it is likely that smaller, non-compulsory lines such as General Liability would suffer a greater than proportional contraction in premium growth.

Table: General Liability Insurance (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
General liability insurance, IRRmn	6,778,331.3	8,712,430.0	11,855,017.3	13,786,738.0	15,817,202.8	17,515,253.2	19,329,933.6	21,516,542.3
General liability insurance, IRR, % y-o-y	47.5	28.5	36.1	16.3	14.7	10.7	10.4	11.3
General liability insurance, % of non-life insurance	5.6	6.2	6.3	6.3	6.3	6.3	6.3	6.4
General liability insurance, USDmn	555.7	484.5	459.5	459.6	465.2	486.5	508.7	537.9
General liability insurance, USD, % y-o-y	28.4	-12.8	-5.2	0.0	1.2	4.6	4.6	5.7

e/f= BMI estimate/forecast, 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. Moreover, large sections of the population lack the financial capacity to purchase non-compulsory solutions such as property.

Despite the possibility of the partial alleviation of sanctions, high inflation and a restriction of access to global markets should continue to hinder the sector. Thus, we expect the sub-sector to grow at high to mid-single digit rates in 2015.

Table: Property Insurance (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Property insurance, IRRmn	4,810,043		5,655,879	6,062,268	6,394,823	6,732,038	6,982,833	7,231,941
Property insurance, IRR, % y-o-y	17.8	9.4	7.5	7.2	5.5	5.3	3.7	3.6
Property insurance, % of non-life insurance	4.0	3.8	3.0	2.8	2.6	2.4	2.3	2.1
Property insurance, USDmn	394.3	292.6	219.2	202.1	188.1	187.0	183.8	180.8
Property insurance, USD, % y-o-y	2.5	-25.8	-25.1	-7.8	-6.9	-0.6	-1.7	-1.6

e/f= BMI estimate/forecast, Source: Central Insurance of Iran/BMI

Industry Risk Reward Ratings

MEA Insurance Risk/Reward Index - Q2 2015

BMI View: *In the MENA region, Middle Eastern countries dominate the higher end of the Insurance Risk/Reward Index's spectrum. The top ten countries by ranking are all Middle Eastern scoring over 35.0 (100 is the best), with the exception of Morocco in sixth place (*37.76*). The predominance of North African countries placing at the lower end of the ratings can be attributed to periods of domestic instability. Throughout the region, we note key sources of growth in the insurance sector, to be health insurance and expatriate workers. Health insurance remains a key source of growth, mainly due to official compulsion. In addition, 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 Index 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 Index - Q2 2015

	Industry Rewards	Industry Rewards - Non-Life	Industry Rewards - Life	Country Rewards	Rewards	Industry Risk	Country Risks	Risks	Insurance Risk/ Reward Rating	Rank
Israel	55.00	50.00	60.00	59.76	56.90	80.00	28.32	48.99	54.53	1
UAE	42.50	52.50	32.50	64.27	51.21	70.00	19.46	39.67	47.75	2
Bahrain	30.00	37.50	22.50	69.80	45.92	85.00	20.60	46.36	46.05	3
Saudi Arabia	30.00	47.50	12.50	65.09	44.04	60.00	13.96	32.37	40.54	4
Oman	26.25	32.50	20.00	64.64	41.61	65.00	19.00	37.40	40.35	5
Morocco	32.50	37.50	27.50	44.40	37.26	70.00	18.23	38.94	37.76	6
Qatar	18.13	31.25	5.00	70.21	38.96	55.00	21.00	34.60	37.65	7
Kuwait	17.50	22.50	12.50	69.33	38.23	50.00	24.18	34.51	37.12	8
Jordan	21.25	27.50	15.00	54.59	34.59	70.00	21.57	40.94	36.49	9
Lebanon	23.75	27.50	20.00	54.69	36.13	65.00	12.72	33.63	35.38	10
Egypt	25.00	27.50	22.50	44.89	32.96	60.00	12.83	31.70	32.58	11
Tunisia	21.25	30.00	12.50	44.63	30.60	55.00	13.97	30.38	30.54	12
Yemen	15.00	17.50	12.50	37.52	24.01	60.00	6.06	27.64	25.10	13
Iran	25.00	35.00	15.00	37.79	30.12	20.00	6.10	11.66	24.58	14
Algeria	17.50	27.50	7.50	27.92	21.67	50.00	9.11	25.47	22.81	15
Libya	5.00	7.50	2.50	41.55	19.62	15.00	0.94	6.56	15.70	16

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

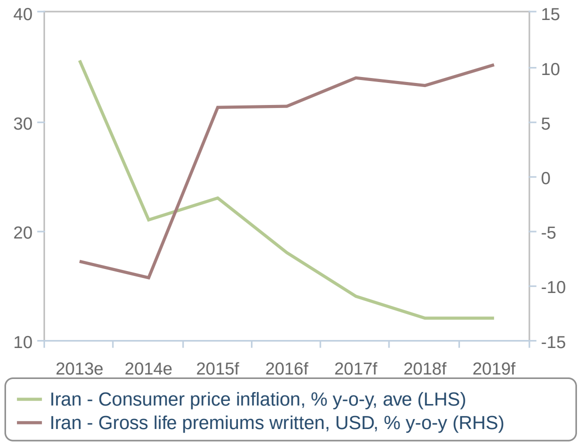
Market Overview

Life Market Overview

***BMI View**: The life segment will remain a small part of Iran's wider insurance sector over 2015. Life insurers are benefitting from a fall in inflation, which is driving up demand for premiums. However, we expect the fall in inflation to decrease over the remainder of the forecast period, which will undermine long term growth in the segment.*

Steadying inflation lowers prospect of exponential growth in life segment

CPI % Growth vs Gross Life Premiums



National Sources/BMI

Bimeh Markazi, the Iranian regulator continues to provide only limited data on Iran's life segment, as well as the insurance sector as a whole. The regulator states in its yearly report for the Iranian year 1391, which corresponds roughly to march 2012 to March 2013 that life premiums grew by 49.2%. This compares to Life premiums written in the first half of Iranian year 1391 (i.e. the six months to 20 August 2012), which amounted to IRR4,957bn, or 45.1% more than in the previous corresponding period. There were fewer than 2mn policies in force. Over the half year, total premiums had grown by 62% to IRR60,207bn. However, these figures were recorded in Iranian Riyals, which has fluctuated greatly in recent years and thus distorts the data.

The fundamental problem continues to be the structurally high level of inflation. This makes life insurance a less attractive conduit for savings, and so is a major disincentive for people and businesses to enter into long-term contracts with life insurers. The Central Bank of Iran (CBI) reported an inflation rate of around 25% for the first quarter of the Iranian calendar year of 1392 (i.e. ending June 21). Unconfirmed reports in the local Iranian media suggest that this figure may have dropped to 23.2% by September this year, a substantial decrease from 40.3% in the corresponding period in 2013.

Current reports in the Iranian media suggest that inflation has continued to fall and as of late December 2014 stands at around 17%. However, **BMI**'s own forecasts suggest that inflation is falling at a lower rate than previously thought. Having stated that inflation should fall below 20% at some point in 2015, we have now revised up that figure to 23% for the full fiscal year running from March 2015 to March 2016. We base this primarily on the stalling nuclear negotiations, which has dampened consumer confidence, and ensured that oil revenue and foreign direct investment will remain low. These factors will place a major restraint on growth in the life premiums and mean that although inflation should stabilise, and possibly fall slightly, it will remain relatively high. As a result, the rate of growth in life premiums should level off at the high single digit mark for the rest of the forecast period. Thus there is little scope for the segment achieving growth significantly above the wider sector average.

Market Shares etc

The infancy of Iran's life insurance sector, coupled by the lack of data from leading companies, creates substantial difficulties in assessing the market's competitive landscape and how each insurer is operating. Nonetheless, we identify three, interlocking influences that will shape the segment over the forecast period. 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 dependence on local reinsurers reduces competition in the reinsurance market and helps to suppress already low retention levels. The sanctions also prevent foreign insurance companies from establishing a presence in the country. Many markets are strengthened by the competition that is delivered by world-class multinationals and the product innovation they bring to customers. As such, the Iranian life segment is weakened in a number of ways by its isolation. 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. However, these companies are largely operating in the non-life segment. Moreover, a lack of competition combined with heavy handed state intervention has inflated reinsurance premiums. Without access to global capital markets, life insurers will continue to lack the capacity to achieve growth beyond moderate increases in the volume of policyholders

The second factor is the state's attitude towards the sector. State involvement and an opaque regulatory framework stifle the market. Moreover Bimeh Iran is seen as a strategic national asset and enjoys substantial benefits, giving it an unfair competitive edge and negating market forces. **Bimeh Markazi Iran** (sometimes referred to as **Central Insurance of Iran**) is an activist regulator and in conjunction with the state, will disrupt the market to achieve what it sees as strategic goals. Often these goals work against local insurers.

For the life insurers, though, it is the third factor influence which is of 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. Looking ahead to 2015 and beyond we still anticipate Iran's inflation to fall. However, the extent of this drop in inflation has been severely curtailed by stalling nuclear negotiations, aimed at removing, at least partially, some of the western sanctions on Iran. In addition, the government has slowed its measures to cut high expenditure, which is the second major factor affecting the country's high inflation rates.

On top of a fall in inflation we believe that measures such as improving the sector's regulatory framework and encouraging access to foreign markets would also help boost the life segment. However, such policies are less likely given the repeated stalling of nuclear negotiations with the West. As mentioned above, we remain of the view that inflation will remain stubbornly high over the forecast period, acting as a significant barrier to optimal growth in the life segment, as well as the wider insurance sector. However, a fall in inflation, albeit a tentative one, offers the most realistic chance of sustained growth over the forecast period.

Non-Life Market Overview

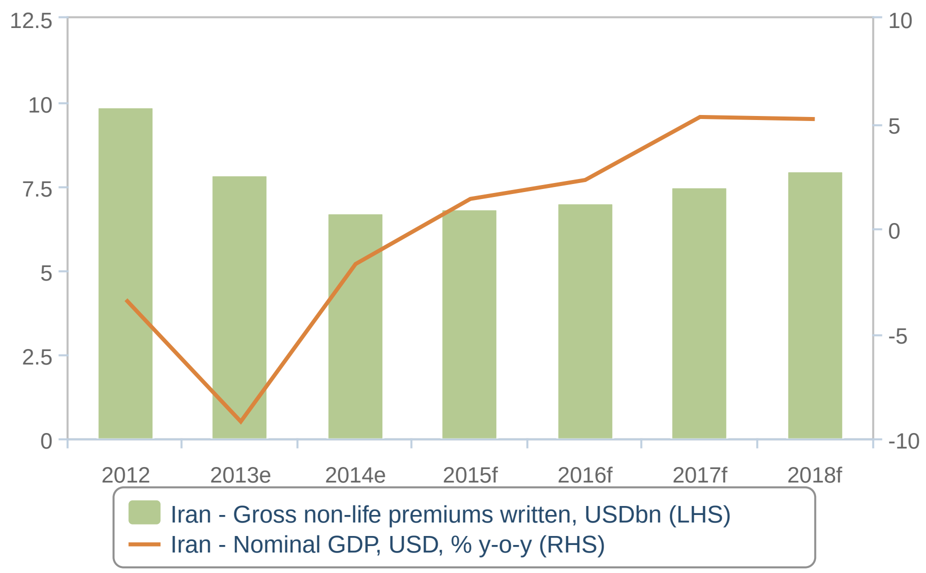
BMI View: *Iran's non-life segment will grow steadily over 2015, with motor and health lines continuing to dominate. We anticipate that premiums will grow slower than expected over the coming years due, in part, to a sluggish economy.*

Despite the recent strong performance of the insurance sector, it remains to be seen whether Iran and the West will achieve a full agreement on Iran's nuclear programme and the effect such an agreement would have on Iran's insurance sector. In March 2014, Bimeh Markazi said that two European companies had been given permission to open representative offices in Iran. More recently, local Iranian media has reported that as of July 2014, the European Union has removed sanctions on **Moallen Insurance Company** (MIC), for its risk coverage of Iranian oil tankers. However, as of October 2014, Western media outlets had reported that the EU intends to relist the MIC, as well as other Iranian entities, as sanctioned entities. Although the measure has yet to be confirmed, it does illustrate the continued volatility of Iranian-Western rapprochement. We remain of a cautious outlook, with regards to the alleviation of sanctions, and their effect on the Iranian insurance sector..

Despite these barriers to opportunities in the sector, some foreign insurance companies are takig a long-term view to the market's upside potential. In November 2014, in an article by the Islamic Republic News Agency (IRNA), it was reported that the French insurer Nasco had opened an office in Tehran. Nasco's Managing Director of its brokerage operations, Gabriel Bejjani, voiced optimism that increased competition among Iran's insurers should enable the sector to perform well in the international market. Such views, however, are conditioned upo a breakthrough in Iran's nuclear negotiations with the major world powers.

Non-life premiums dependant on economic growth

GDP (USDbn) vs. Non-life Premiums (USDbn)



National Sources/BMI

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 three 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 27 companies active in the market as of January 2014 (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**. The number of insurers in the Iranian market has gradually risen over the last few years and during 2012, two more companies, Asmari and QITA P&I Club (Qeshm), joined the private sector. In recent years, the government has been reducing its holding of state-owned enterprises to 20%, in line with constitutional requirements. However, we note that 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. Moreover, there is no evidence that private sector companies have benefited from the partial liberalisation of Iran's insurance market. As such, state influence will continue to hinder individual insurers and the wider market until a more robust system of liberalisation is put in place. Although the new government has made some steps towards wider economic reforms, including reducing large state subsidies, at present we do not envisage that large-scale liberalisation will occur within the forecast period. In addition, we do not anticipate any meaningful reform of the opaque regulatory framework. These two factors will continue to hinder growth going forward.

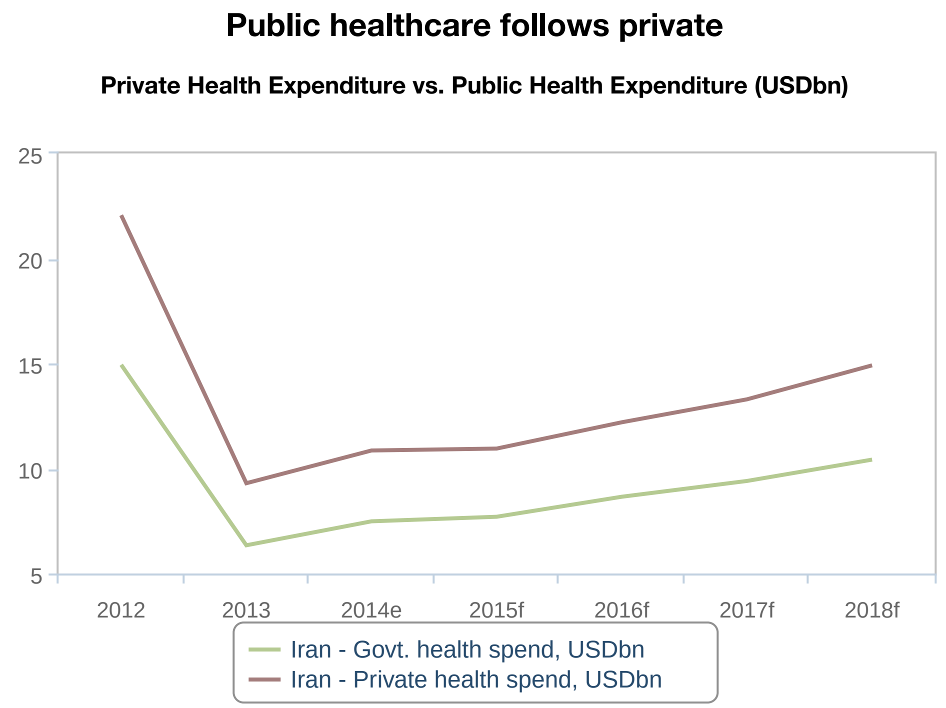
Despite continued challenges to the non-life segment, both domestic and foreign, many of the larger companies have posted positive financial results in recent years as the economy continue to grow, albeit at a sub-optimal rate. Bimeh Alborz posted a 44% growth in premiums in 1391, the Iranian year ending in March 2012. While Bimeh Asia posted a growth in premiums of 53.4% over the same period. In addition, many of Iran's larger insurers have been utilising a diverse range of channels of distribution, including agents, brokers and branches nationwide. Parsian Insurance operates a bancassurance strategy with **Parsian Bank**, which owns a 20% stake in the insurer. These factors suggest that the non-life sector is relatively developed, by regional standards, and would be able to capitalise on a more favourable business environment, driven by an alleviation of sanctions and domestic reform. However, any analysis of the market's competitive structure is hindered by the fact that Bimeh Markazi has yet to release its figures for the full year 1392, which ended late 2013. These may help provide a fuller picture of the current capabilities and market position of the major local insurers.

For the rest of 2015 and beyond, we believe that the extent to which western sanction are relaxed will be a primary driving factor behind growth in the non-life segment, and indeed the overall insurance sector. The entrance of foreign insurers into the market would allow for increased competition and product innovation. Access to foreign reinsurance firms, would allow local insurers to move away from the local market, which is dominated by Bimeh Markazi. As such, retention ratios would rise due to lower costs and thus increased profitability. This would be of particular benefit to insurers in the non-motor sub-sectors, who lack scale and so forgo substantial portions of their gross premiums in outwards reinsurance. The market would also be aided by government liberalisation reforms. However, they may be reluctant to relinquish their dominant stake in certain areas of the sector, such as reinsurance, by allowing in foreign competition. We anticipate that the sector would benefit from a wider upturn in the economy. This should increase the demand for overall policies, as illustrated by the chart below. However, the chart does indicate that non-life premiums are only partially sensitive to GDP fluctuations. As such, subsequent increases, or indeed decreases, in economic output should have a similar, though less than proportional, effect on premiums. In part we attribute this to the dominance of basic lies such as motor ad health, which are viewed as essential by much of the population and so not subject to volatile swings. Smaller, non-compulsory sub-sectors; however, will have a closer relationship to GDP levels. As such, insurers operating in these lines may experience a sharp increase, or decrease, in premium growth depending on the wider macroeconomic environment. Overall this growth should stimulate an increased demand in all sub-sectors, which in turn should increase in the volume of policies rather than a re-adjustment of the competitive landscape. We do not anticipate a wave of mergers and acquisitions nor substantial regulatory reform, both of which would have the potential to drive growth closer to capacity levels. As such, the market will continue to operate below its potential, with structural challenges remaining.

In addition, we believe that economic growth rates, which have been high over 2013 and 2014, will decrease from 2016 onwards. Although the economy will continue to grow, it will do so at a much slower rate. This will be caused by a slowing of government economic and regulatory reforms over fears that they may lead to unrest. Moreover, stalling negotiations with western powers over the lifting of sanctions will further suppress growth. Both of these factors will contribute to a decreasing rise in premiums, as diminishing growth limits the demand for new policies.

Health Insurance

In early 2014, President Rouhani announced that the Iranian government will move to ensure that the entire population are covered by a nationwide, state-sponsored health insurance scheme. Initially, around 5 million lower-income citizens will be targeted by the scheme. The increased costs to the government are expected to be covered by the lowering of subsidies for staple products. In a report by the **Economist** it was estimated that at present 73% of Iranians are insured through the public health ministry.



World Health Organization (WHO)/ BMI

Health expenditure in Iran has increased dramatically since 2000, when spending was around $65 per capita. Throughout that period government health spending has accounted for around half or less of total spending. The government has recently announced plans to reduce private health expenditure to 30% of the total by 2015, however this is seen as unrealistic. Moreover, in recent years sanctions have caused a shortage of basic medical supplies. Long-term the government faces the added challenge of spiralling costs, which have driven many of the country's 555 hospitals to a state of near bankruptcy. Against this back-drop, demand for private health insurance plans may rise over the forecast period as middle-income families look for a higher quality of care and greater security. A rise in morbidity among older age groups may compound this demand.

The World Health Organisation provides details of several public insurance schemes. The Social Security Organization (SSO) provides insurance for formal sector employees as well as-employed labourers and their dependents through mandatory insurance schemes. It also and provides pensions for retired pensioners in. The Armed Forces Medical Services Organization provides insurance for almost 2.5 million members of the military and their dependents. The Medical Service Insurance Organization (MSIO) provides insurance for government employees, rural households, self-employed and others such as students.

Private health insurance operates alongside government provisions. As our chart above indicates, we anticipate that the private sector will continue to account for slightly over 50% of total health expenditure. We believe that a lack of product innovation, barriers to global capital markets and government intervention, often to the detriment of market forces, will hinder the private sector. Moreover, the rise in morbidity and high levels of road accidents have been cited by the regulator as worrying trend, which will pose a significant challenge to insurers. Nonetheless, private healthcare is rising, in part due to demand from wealthier Iranians due to issues in the public sector, including long waiting times and poor facilities. Moreover, Iran is increasingly positioning itself as a regional hub for medical tourism. This sub-sector brought in USD1.5bn in 2012, double as much as 2011. Similar increases are expected in the coming years, on account of both the country's relatively high level of investment in the medical sector, and low costs due to a weak Iranian Riyal. Given that private healthcare is very much in its infancy in Iran, there is substantial room for growth.

Overall, growth in private healthcare will be driven by an overall increase in the volume of policies. Although this certainly represents a barrier to the potential growth of local insurers, we do anticipate the demand for health insurance solutions to rise rapidly in 2015 and beyond, achieving double-digit figures throughout the period. Therefore, the sub-sector will comprise a significant opportunity for investors, albeit one below its optimal capacity.

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 USD430mn 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. ▪ Alleviation of inflationary pressures as a result of potential lifting of western sanctions.

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 around 49 branches and 4 sub branches, 1250 agents and 267 brokers.

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

Recent Developments

Financial Data

Bimeh Alborz has released its financial data for the Iranian year of 1391 (i.e. March 2013).

- Gross premiums were up 44% to 7,636,887mn IRR.
- Net Premiums were 5,616,619mn IRR up from 3,838,072mn IRR.
- Total Claims were up from 2,892,619mn IRR to 4,179,303mn IRR.
- Total Assets were 9,585,972mn IRR.

For the year 1391, the company claimed that its total market share was 5.8%

Company Details

- Alborz Insurance
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  Tehran

  1913777151

  Postcode

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- Info@alborzins.com
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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 USD800mn 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.

Financial Data

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 ending March 2013:,

- 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.)

Company Details

- Bimeh Asia
- 299 Taleghani St
- www.Bimehasia.com

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/institutions over which it has influence.

Weaknesses

- Writing premiums of a little over USD370mn annually, Bimeh Dana would rank as no more than a medium-sized company in most countries.
- Clearly losing market share and 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.

Financial Data

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 ending March 2012:,

- 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 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 Iranian inflation stays high.

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-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.

Financial Data

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.)

Financial Data

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 ending March 2012, 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.

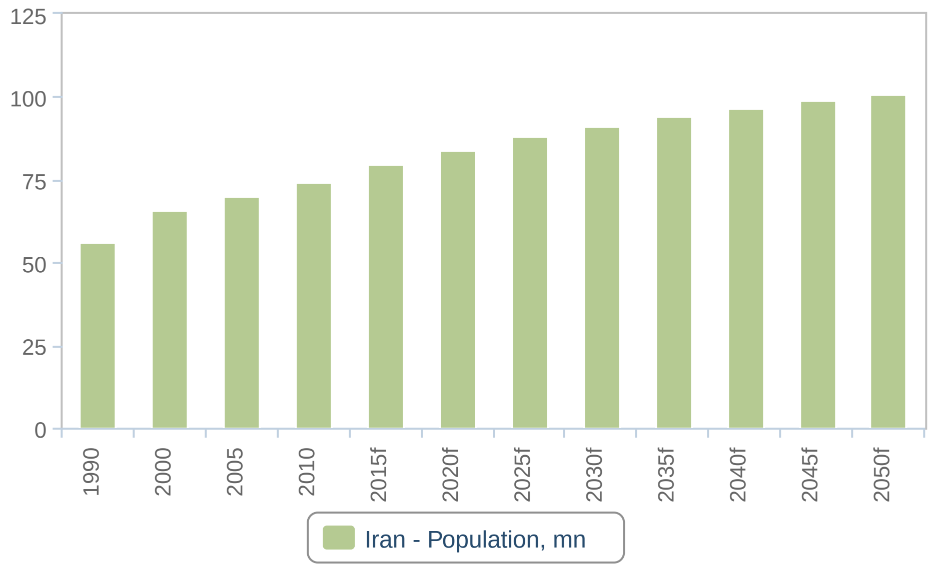
Demographic Forecast

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 essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail the population pyramid for 2015, the change in the structure of the population between 2015 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population

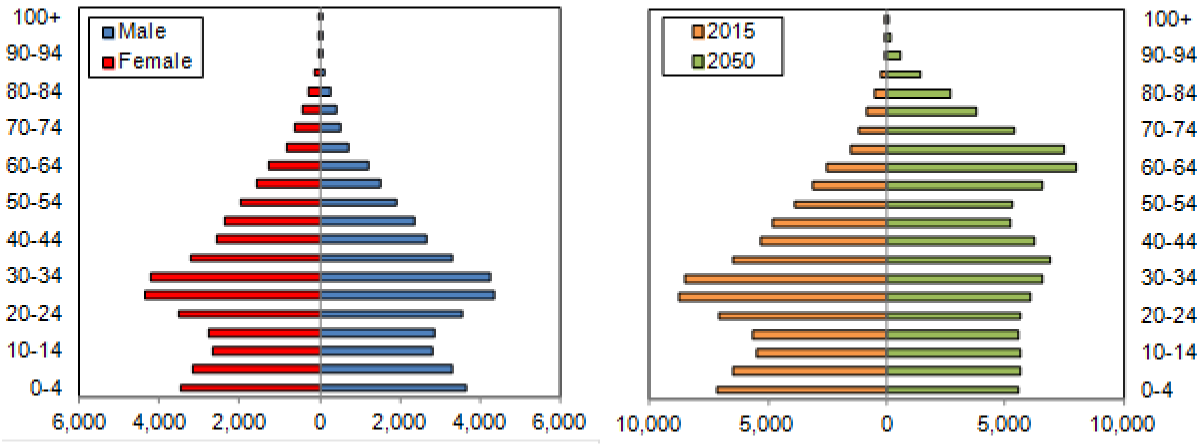
(1990-2050)



f = BMI forecast. Source: World Bank, UN, BMI

Iran Population Pyramid

2015 (LHS) & 2015 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Table: Population Headline Indicators (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, total, '000	56,361	65,911	70,152	74,462	79,476	84,148	88,064
Population, % change y-o-y	na	1.6	1.2	1.3	1.3	1.1	0.8
Population, total, male, '000	28,807	33,504	35,917	37,656	39,915	42,307	44,213
Population, total, female, '000	27,554	32,406	34,235	36,805	39,560	41,840	43,850
Population ratio, male/female	1.05	1.03	1.05	1.02	1.01	1.01	1.01

na = not available; f = BMI forecast. Source: World Bank, UN, BMI

Table: Key Population Ratios (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Active population, total, '000	28,945	40,290	48,583	53,034	55,945	58,184	60,945
Active population, % of total population	51.4	61.1	69.3	71.2	70.4	69.1	69.2
Dependent population, total, '000	27,415	25,620	21,569	21,427	23,530	25,964	27,118
Dependent ratio, % of total working age	94.7	63.6	44.4	40.4	42.1	44.6	44.5

Key Population Ratios (Iran 1990-2025) - Continued

	1990	2000	2005	2010	2015f	2020f	2025f
Youth population, total, '000	25,543	22,850	18,115	17,585	19,140	20,362	19,984
Youth population, % of total working age	88.2	56.7	37.3	33.2	34.2	35.0	32.8
Pensionable population, '000	1,872	2,770	3,453	3,841	4,389	5,601	7,134
Pensionable population, % of total working age	6.5	6.9	7.1	7.2	7.8	9.6	11.7

f = BMI forecast. Source: World Bank, UN, BMI

Table: Urban/Rural Population And Life Expectancy (Iran 1990-2025)

	1990	2000	2005	2010e	2015f	2020f	2025f
Urban population, '000	31,748.6	42,210.8	47,393.5	51,332.8	55,362.4	59,374.4	63,078.7
Urban population, % of total	56.3	64.0	67.6	68.9	69.7	70.6	71.6
Rural population, '000	24,613.2	23,700.3	22,758.8	23,129.5	24,113.9	24,774.2	24,985.6
Rural population, % of total	43.7	36.0	32.4	31.1	30.3	29.4	28.4
Life expectancy at birth, male, years	61.2	68.7	70.0	71.3	72.8	74.2	75.5
Life expectancy at birth, female, years	65.8	70.6	73.1	75.1	76.6	78.0	79.2
Life expectancy at birth, average, years	63.4	69.6	71.5	73.1	74.6	76.0	77.3

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

Table: Population By Age Group (Iran 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, total, '000	9,312	6,316	5,483	6,555	7,146	6,751	6,148
Population, 5-9 yrs, total, '000	8,905	7,552	5,476	5,416	6,507	7,116	6,729
Population, 10-14 yrs, total, '000	7,324	8,981	7,154	5,613	5,487	6,494	7,105
Population, 15-19 yrs, total, '000	5,822	8,800	9,247	7,215	5,643	5,466	6,474
Population, 20-24 yrs, total, '000	4,697	6,932	9,143	8,993	7,067	5,595	5,424
Population, 25-29 yrs, total, '000	4,054	5,315	6,859	8,704	8,726	6,997	5,541
Population, 30-34 yrs, total, '000	3,535	4,442	5,202	6,521	8,484	8,649	6,937
Population, 35-39 yrs, total, '000	3,030	3,886	4,693	5,210	6,497	8,410	8,579
Population, 40-44 yrs, total, '000	2,123	3,372	4,112	4,833	5,262	6,431	8,333
Population, 45-49 yrs, total, '000	1,620	2,857	3,421	4,032	4,757	5,193	6,353

Population By Age Group (Iran 1990-2025) - Continued							
	1990	**2000**	**2005**	**2010**	**2015f**	**2020f**	**2025f**
Population, 50-54 yrs, total, '000	1,526	1,929	2,800	3,244	3,895	4,665	5,101
Population, 55-59 yrs, total, '000	1,393	1,431	1,766	2,637	3,109	3,788	4,548
Population, 60-64 yrs, total, '000	1,140	1,322	1,336	1,639	2,500	2,985	3,652
Population, 65-69 yrs, total, '000	898	1,145	1,257	1,279	1,550	2,340	2,813
Population, 70-74 yrs, total, '000	507	825	1,055	1,129	1,143	1,369	2,090
Population, 75-79 yrs, total, '000	269	508	654	802	876	902	1,105
Population, 80-84 yrs, total, '000	135	203	347	413	528	598	637
Population, 85-89 yrs, total, '000	48	66	112	172	216	290	343
Population, 90-94 yrs, total, '000	10	17	21	38	63	84	119
Population, 95-99 yrs, total, '000	1	2	3	4	8	15	22
Population, 100+ yrs, total, '000	0	0	0	0	0	1	2

f = BMI forecast. Source: World Bank, UN, BMI

Table: Population By Age Group % (Iran 1990-2025)							
	1990	**2000**	**2005**	**2010**	**2015f**	**2020f**	**2025f**
Population, 0-4 yrs, % total	16.52	9.58	7.82	8.80	8.99	8.02	6.98
Population, 5-9 yrs, % total	15.80	11.46	7.81	7.27	8.19	8.46	7.64
Population, 10-14 yrs, % total	13.00	13.63	10.20	7.54	6.90	7.72	8.07
Population, 15-19 yrs, % total	10.33	13.35	13.18	9.69	7.10	6.50	7.35
Population, 20-24 yrs, % total	8.34	10.52	13.03	12.08	8.89	6.65	6.16
Population, 25-29 yrs, % total	7.19	8.06	9.78	11.69	10.98	8.32	6.29
Population, 30-34 yrs, % total	6.27	6.74	7.42	8.76	10.68	10.28	7.88
Population, 35-39 yrs, % total	5.38	5.90	6.69	7.00	8.18	9.99	9.74
Population, 40-44 yrs, % total	3.77	5.12	5.86	6.49	6.62	7.64	9.46
Population, 45-49 yrs, % total	2.88	4.33	4.88	5.42	5.99	6.17	7.22
Population, 50-54 yrs, % total	2.71	2.93	3.99	4.36	4.90	5.54	5.79
Population, 55-59 yrs, % total	2.47	2.17	2.52	3.54	3.91	4.50	5.17
Population, 60-64 yrs, % total	2.02	2.01	1.90	2.20	3.15	3.55	4.15
Population, 65-69 yrs, % total	1.59	1.74	1.79	1.72	1.95	2.78	3.19
Population, 70-74 yrs, % total	0.90	1.25	1.50	1.52	1.44	1.63	2.37
Population, 75-79 yrs, % total	0.48	0.77	0.93	1.08	1.10	1.07	1.26
Population, 80-84 yrs, % total	0.24	0.31	0.50	0.55	0.66	0.71	0.72

Population By Age Group % (Iran 1990-2025) - Continued

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 85-89 yrs, % total	0.09	0.10	0.16	0.23	0.27	0.34	0.39
Population, 90-94 yrs, % total	0.02	0.03	0.03	0.05	0.08	0.10	0.14
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.01	0.01	0.02	0.03
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

f = BMI 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 Index Methodology

BMI's Risk/Reward Index (RRI) provides 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 RRI 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 index 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 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to end-2018 (USDmn)	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 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2018 (USDmn)	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.
Life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Country rewards	
GDP per capita (USD)	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.

Indicators - Continued

Rewards	
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