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IRAN

INSURANCE REPORT

INCLUDES 5-YEAR FORECASTS TO 2019

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Iran Insurance Report Q1 2016

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CONTENTS

BMI Industry View

***BMI View:** The short term outlook for Iran's insurance market is subdued, due both to limited domestic economic growth and to ongoing currency fluctuations against the US dollar. Iran does however offer significant long term growth potential, having a large population in which unemployment is expected to gradually decrease and household income is expected to increase, leading to higher levels of expenditure on insurable products and improved demand for various life savings or protections products. The market remains dominated by state-owned insurance firms, and government intervention in the sector is extensive. However the potential relaxation of restrictive sanctions could allow entry by major regional and global insurance firms, which would bring much needed expertise and capital to the market and allow for more substantial and sustained future growth rates.*

Table: Headline Insurance Forecasts (Iran 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Gross life premiums written, IRRbn	10,248.34	14,782.00	21,033.33	20,987.39	25,796.79	30,253.80	35,075.80	40,722.81
Gross life premiums written, IRR, % y-o-y	49.2	44.2	42.3	-0.2	22.9	17.3	15.9	16.1
Gross life premiums written, USDbn	0.84	0.82	0.81	0.68	0.72	0.80	0.88	0.97
Gross life premiums written, USD, % y-o-y	29.8	-2.2	-1.0	-16.9	5.8	11.1	10.1	10.6
Gross non-life premiums written, IRRbn	120,848.38	147,296.00	187,883.42	192,331.40	227,578.80	260,657.30	295,990.85	336,288.28
Gross non-life premiums written, IRR, % y-o-y	52.5	21.9	27.6	2.4	18.3	14.5	13.6	13.6
Gross non-life premiums written, USDbn	9.91	8.19	7.27	6.20	6.32	6.86	7.40	8.01

Headline Insurance Forecasts (Iran 2012-2019) - Continued								
	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Gross non-life premiums written, USD, % y-o-y	32.8	-17.3	-11.2	-14.7	1.9	8.5	7.9	8.2

BMI/Central Insurance of Iran

Key Updates And Forecasts

- Iran's insurance market continues to see steady increases in claims, with industry regulator **Central Insurance of Iran** reporting in October 2015 that claims paid had increased by 21.7% over the first five months of the year 1394 (March to July 2015).
- The potential relaxation of sanctions has led to a surge in interest from foreign insurance firms, with **Reuters** reporting that eight out 11 major insurers surveyed perceive the Iranian insurance market as an attractive one, with some planning entries as early as 2016, focusing on the energy and marine sectors.
- Currency fluctuations and a weak short-term economic outlook underpin our forecasts for contractions in both the life and non-life insurance markets over 2015, before seeing a return to solid growth rates from 2016 onwards. The more developed non-life sector will continue to dominate.

SWOT

Insurance

Iran Insurance SWOT Analysis

Strengths	▪ Regionally, the sector has considerable scale and the largest insurer, Bimeh Iran, is one of the most significant players in any Middle East market. ▪ While basic lines still dominate, there is considerable scope for smaller non-life lines to grow, including general liability. ▪ In the absence of access to global markets, the sector has displayed significant resilience. ▪ The local population is less adverse to non-compulsory insurance than other regional markets, where cultural factors have created a degree of hostility.
Weaknesses	▪ Despite a degree of diversification, basic motor and to a lesser extent, health lines still dominate the sector. ▪ The government continues to hesitate in enacting macroeconomic reforms, such as cutting subsidies, which would otherwise boost the sector. ▪ In some sub-sectors, claims appear to be rising at a greater rate than premiums. ▪ Heavy-handed government intervention in areas it deems 'strategic', has reduced competitiveness and bloated the main-state insurer.
Opportunities	▪ Government macroeconomic reforms would help stabilize inflation, which would drive the life insurance segment. ▪ Continued rapprochement with the West may facilitate greater access to global capital markets as sanctions are rolled back. ▪ Rising morbidity coupled with a growing middle class should give the health sub-sector considerable long-term upside potential.

Iran Insurance SWOT Analysis - Continued	
	▪ A period of market consolidation would significantly improve net premiums and boost profit levels across the sector.
Threats	▪ Nuclear talks with the West fail to bring about the removal of sanctions and the sector remains cut off from global markets. ▪ The government continues to prevent market liberalization, resulting in inefficient state insurers blocking innovation in the private sector. ▪ The market's competitive landscape remains fragmented. As such, the sector remains focused on price competitive, basic lines, yielding low profits. ▪ High inflation continues to distort the sector's financial metrics as well as suppressing the development of the life segment.

Industry Forecast

Life Premiums Forecast

BMI View: *Iran's life insurance sector is still in the very early stages of development and at present is significantly smaller than the country's non-life sector, a trend we expect to continue throughout the forecast period and over the longer term. While future growth in the nascent life insurance market is expected to be substantial, with annual percentage growth rates reaching double digits, structural weaknesses remain and the market is growing from a very low base. While the potential relaxation of sanctions would, therefore, suggest opportunities for foreign entrants, most global insurers are more likely to focus on the Iranian non-life sector.*

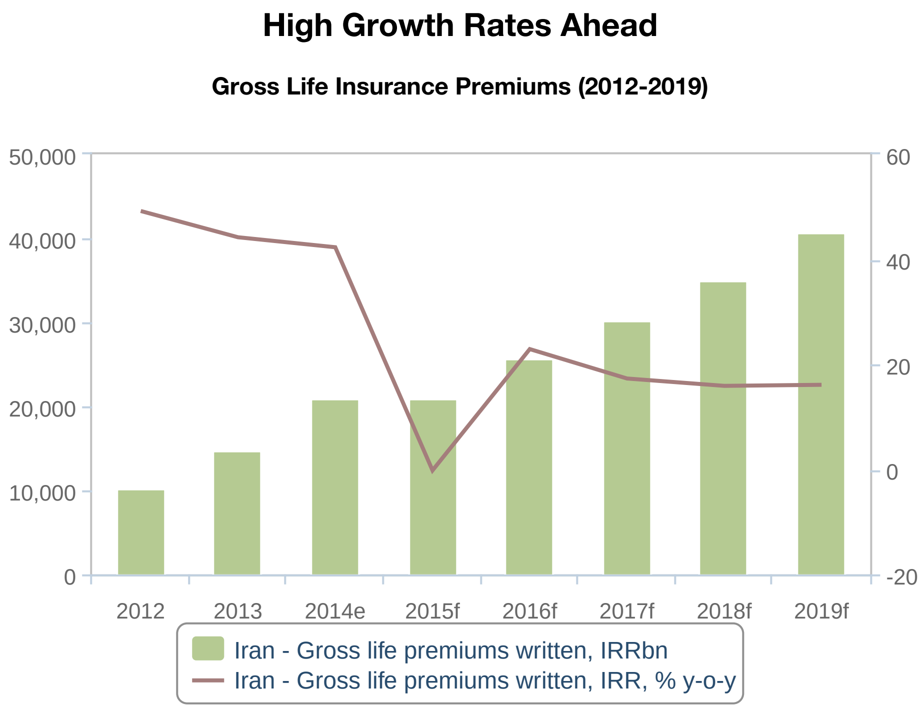
Latest Updates

- Updated industry statistics have led to a very slight revision to our forecasts for gross premiums written in the life sector in 2015;we now forecast a decline by 0.2% in local currency terms, and 16.9% when measured in US dollar terms, due to ongoing currency fluctuations.

Structural Trends

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 and the dominating state-owned insurance firm 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 longer term.

While the market will remain small in absolute terms, we expect to see significant annual growth rates in terms of gross premiums written in Iran's life insurance sector, outpacing much of the larger non-life sector. This growth is based upon the gradual improvement in awareness of insurance benefits via concentrated marketing campaigns on the part of leading domestic firms, and upon the changing demographics of Iran's population, which will increase demand for later in life savings and care products over the longer term.



BMI/Central Insurance of Iran

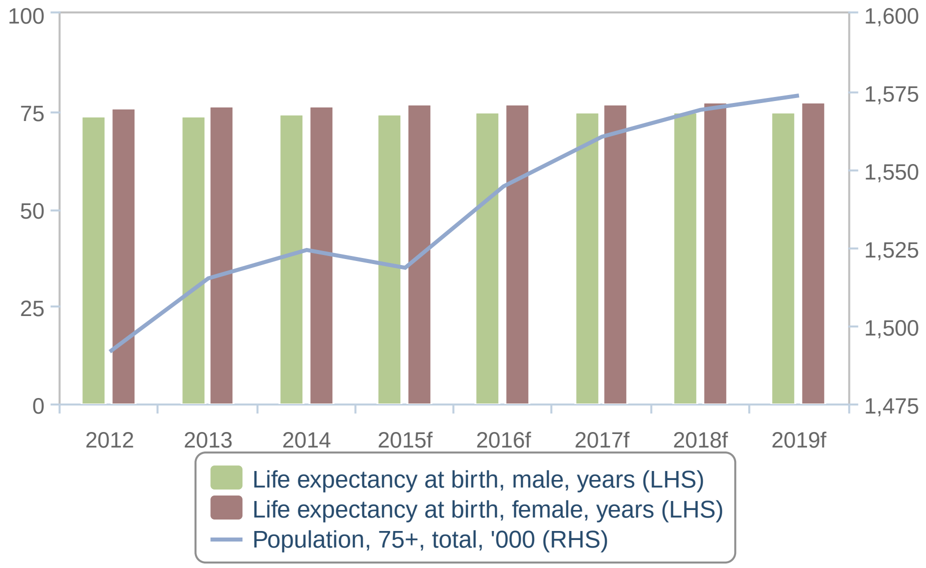
Life Insurance Premiums: Growing From Low Base

At present, life insurance is in an embryonic stage of development. Life density (premiums per capita) is slightly below USD10; in addition, life penetration will remain low over 2015, at around 0.2% (premiums against GDP). This is due to a number of factors, including Iran's weak macroeconomic performance over the last few years. In the short term we expect to see an overall contraction in life premiums due, primarily, to economic uncertainty in Iran, including continued high inflation and low output which will suppress demand for life insurance premiums. Looking ahead for the remainder of the forecast period, a more stable economic environment will facilitate substantial growth in premiums. 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.

In terms of demographics, the long term scenario for Iran's burgeoning life insurance market is favourable. Both male and female life expectancy will rise over the forecast period due to continuing investment in healthcare on the part of the Iranian government. This will help boost demand for life insurers as a greater portion of the Iranian population look for more security as they grow older. We anticipate that both the male and female over 65 populations will increase over the forecast period, from 1.98mn to 2.5mn and from 2.01mn to 2.8mn respectively. This should help drive demand for life insurance products among a key age cohort, which traditionally is more likely to purchase life solutions due to their age (and in most cases increases in income). In addition, the promotion of the benefits of life insurance and a diversification of the channels of distribution should also lead to an increase in premiums.

Life Expectancy And Old-Age Demographics

Life Expectancy And Population Aged 75+ (2012-2019)



National Sources/BMI

The major upside risk to our current forecasts is the impact of the potential relaxation of sanctions against Iran which would open up the market to foreign insurance companies, resulting in more innovative products and distribution channels which could be used to attract more of Iran's older age cohort. Moreover, access to global capital markets would facilitate lower costs by decreasing reinsurance premiums as a result of greater competition from foreign reinsurers, which in turn would offset the anticipated rise in healthcare costs. Furthermore, a period of macroeconomic stability and reduced currency fluctuations would improve the attractiveness of life insurance solutions for Iranian savers, who may not necessarily be part of the older age cohort. Lower inflation would help drive the demand for life insurance as a viable savings tool, whereas at present, high inflation quickly erodes any savings investments.

Table: Life Premiums (Iran 2012-2019)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Gross life premiums written, IRRbn	10,248.34	14,782.00	21,033.33	20,987.39	25,796.79	30,253.80	35,075.80	40,722.81
Gross life premiums written, IRR, % y-o-y	49.2	44.2	42.3	-0.2	22.9	17.3	15.9	16.1
Gross life premiums written, USDbn	0.84	0.82	0.81	0.68	0.72	0.80	0.88	0.97
Gross life premiums written, USD, % y-o-y	29.8	-2.2	-1.0	-16.9	5.8	11.1	10.1	10.6
Gross life premiums written, % of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross life premiums written, % of gross premiums written	7.8	9.1	10.1	9.8	10.2	10.4	10.6	10.8

BMI/Central Insurance of Iran

Claims: Rising Alongside Premium Growth

Claims and payments in Iran's extremely underdeveloped life segment have risen sharply since 2007, increasing from IRR732.87bn in 2007 to IRR4,679bn in 2013. We believe that this is due, in part, to the erratic fluctuations that come with growth off such a low base. Moreover, as the market expands, consumers may become increasingly aware of their rights as policy holders. Looking ahead over our forecast period, the growth in claims should remain somewhat erratic, partly 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 2007-2013)

	2007	2008	2009	2010	2011	2012	2013e
Claims life, IRRbn	732.87	953.64	1,347.80	1,698.25	2,330.28	3,547.03	4,679.00
Claims life, IRR, % y-o-y	1.2	30.1	41.3	26.0	37.2	52.2	31.9
Life insurance gross loss ratio	38.7	45.1	42.0	36.2	33.9	34.6	31.7
Claims life, USDbn	0.08	0.10	0.14	0.17	0.22	0.29	0.26
Claims life, USD, % y-o-y	0.3	25.7	37.1	22.5	31.7	32.5	-10.5

BMI/Central Insurance of Iran

Non-Life Premiums Forecast

BMI View: *Iran's non-life insurance market is considerably more developed than the life sector, with a penetration rate (premiums valued against GDP) of 1.5%, compared to 0.2% in the life sector. As a more mature market, the non-life sector benefits from the presence of well-established domestic firms, with a strong brand presence and wide product offering. It is therefore relatively well placed to take advantage of the expected growth over the forecast period, although we note that the industry remains hampered by limited access to international capital and a lack of demand for non-compulsory lines.*

Latest Updates

- Updated industry figures have resulted in a slight change to our forecasts for gross non-life premiums written in 2015, which we now expect will reach IRR192.33bn in 2015 (as opposed to a previous figure of IRR192.25bn). Our growth forecasts for the year have been maintained at 2.4% in local currency terms and -14.7% in US dollar terms.

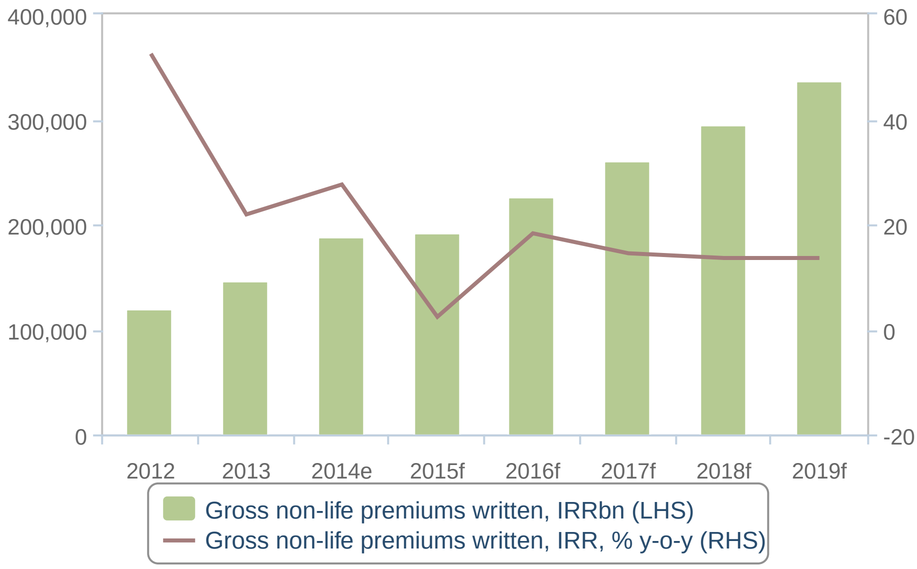
Structural Trends

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 likely 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 over the longer term.

Historically, the sub-sector has suffered from high inflation, a fluctuating currency and weak economy. Over the longer term, as economic growth continues to pick up, the segment should achieve stronger and more consistent growth in premiums. The **BMI** Country Risk team expects to see annual real GDP growth of, on average, 3.9% between 2016 and 2024, with similar growth forecast in terms of private final consumption - both of which bodes well for the non-life insurance sector, as it indicates more potential spending on insurance products.

Market Expected To Grow

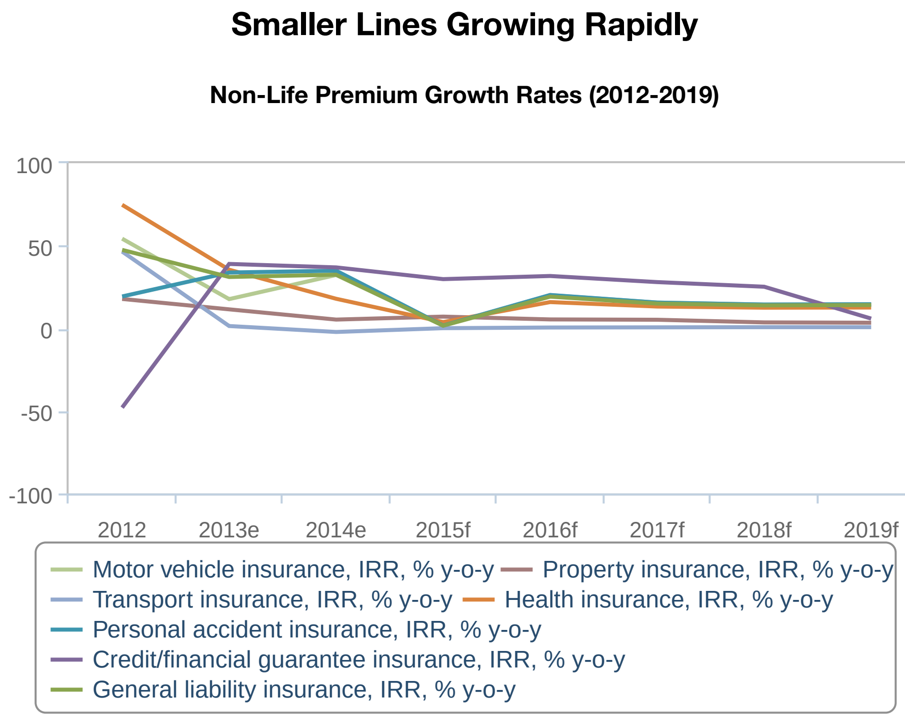
Gross Non-Life Premiums (2012-2019)



BMI/Central Insurance of Iran

Non-Life Premiums: Economic Growth Supports Increase In Premiums Written

In the recent past, premiums in Iran's non life sector when measured in US dollar terms have been depressed by the impact of inflation and the ongoing strengthening of the US dollar; a trend we expect to continue in 2015 when gross non-life premiums written are forecast to decrease by 14.7%, to reach USD6.2bn. In local currency terms growth will be minimal, at 2.4%, due to a slowdown in economic growth projections, with GDP expected to increase by just 1.0% in 2015; down from previous forecasts of 2.1%. Over 2016-2019 we retain a cautiously optimistic outlook. Y-o-y growth in USD should remain consistently in the high single digits, with stronger growth seen in local currency terms. We believe that this will largely be driven by the potential for continued rapprochement between Iran and Western nations. However, there will be other barriers to growth, for instance, the government's 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 to be susceptible to economic fluctuations where, for example, less demand for cars will affect the growth in premiums for compulsory motor insurance.



BMI/Central Insurance of Iran

As with the life sector, the primary potential risk to our current forecasts is the expected relaxation of the sanctions being imposed on Iran, which would open the market to foreign firms. Interest is already gathering from various non life insurance providers, particularly those which previously had a presence in Iran. Product innovation, the opening of the market to foreign insurers and government legislation to prompt market consolidation would all help to facilitate growth above solid single digits and lead to an upwards revision of our growth forecasts. Conversely, should sanctions fail to be lifted, or economic growth fail to materialise, we would expect to see lower growth rates in the non-life sector.

Table: Non-Life Premiums (Iran 2012-2019)								
	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Gross non-life premiums written, IRRbn	120,848.38	147,296.00	187,883.42	192,331.40	227,578.80	260,657.30	295,990.85	336,288.28
Gross non-life premiums written, IRR, % y-o-y	52.5	21.9	27.6	2.4	18.3	14.5	13.6	13.6
Gross non-life premiums written, USDbn	9.91	8.19	7.27	6.20	6.32	6.86	7.40	8.01
Gross non-life premiums written, USD, % y-o-y	32.8	-17.3	-11.2	-14.7	1.9	8.5	7.9	8.2
Gross non-life premiums written, % of GDP	1.8	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Gross non-life premiums written, % of gross premiums written	92.2	90.9	89.9	90.2	89.8	89.6	89.4	89.2

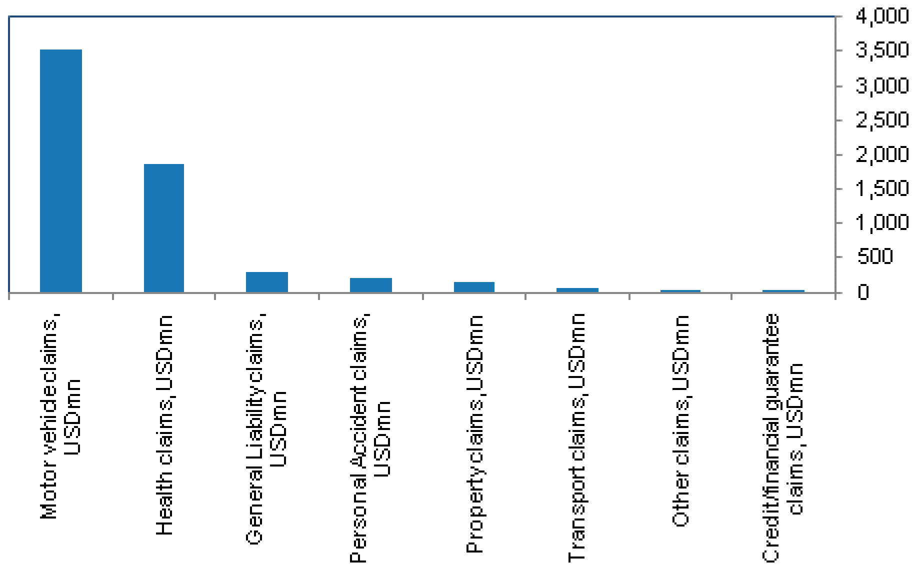
BMI/Central Insurance of Iran

Claims: An Increasing Cost

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 this is because of the structurally high rate of inflation; claims expenses rose consistently and rapidly through the six years to the end of 2013. 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. Over the medium term we expect that claims will continue to grow rapidly, although a partial levelling off of currency fluctuations may mean that the annual growth rate stabilises to some extent. As such, claims levels will largely depend on macroeconomic stability, and thus the mitigation of volatile currency fluctuations, as has been the case over recent years.

Motor Unsurprisingly Source Of Largest Claims

Non Life Insurance Claims (2012), USDmn



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, particularly in light of Iran's high levels of road accidents, which drive up claims levels. 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. 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 rising claims.

In Iran's underdeveloped non-life segment, all other sub-sectors constitute only a fraction of total premiums written at present. 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; although premiums written in the smaller lines are expected to increase steadily. As such, the smaller sub-sectors are likely to see a proportional increase in their claims. Claims in each of these sub-sectors will come off of very small bases and it is therefore unlikely that their respective portion of non-life claims will change dramatically, particularly with motor and health insurance continuing to constitute the vast bulk of non life insurance claims in Iran moving forward.

Table: Non-Life Insurance Claims (Iran 2008-2013)

	2008	2009	2010	2011	2012	2013e
Claims non-life, IRRbn	23,799.00	29,405.55	37,525.00	51,367.97	74,832.64	100,416.00
Claims non-life, IRR, % y-o-y	18.5	23.6	27.6	36.9	45.7	34.2
Non-life insurance gross loss ratio	61.9	68.0	68.9	64.8	61.9	68.2

BMI/Central Insurance of Iran

Non-Life Sub-Sector Forecast

BMI View: *Iran's non-life market remains dominated by the motor insurance segment which accounts for over 60% of premiums written (in 2015 - a market share we expect will increase over the remainder of the forecast period). With the exception of health insurance, and to a lesser extent general liability insurance, all the other lines are minimal contributors to the overall non-life market in the country. Most are expected to grow in terms of premiums written moving forward, though this growth is largely dependent upon wider economic growth in Iran.*

Latest Updates

- Updated industry figures for property insurance mean that we have marginally revised our figures for 2015; we now forecast gross property insurance premiums written of IRR6,052bn following growth of 7.1% compared to 2014.
- Weaker than expected domestic economic growth has also led to a slight downwards revision for transport insurance premiums growth forecasts, which are now expected to grow by just 0.1% in local currency terms over 2015.

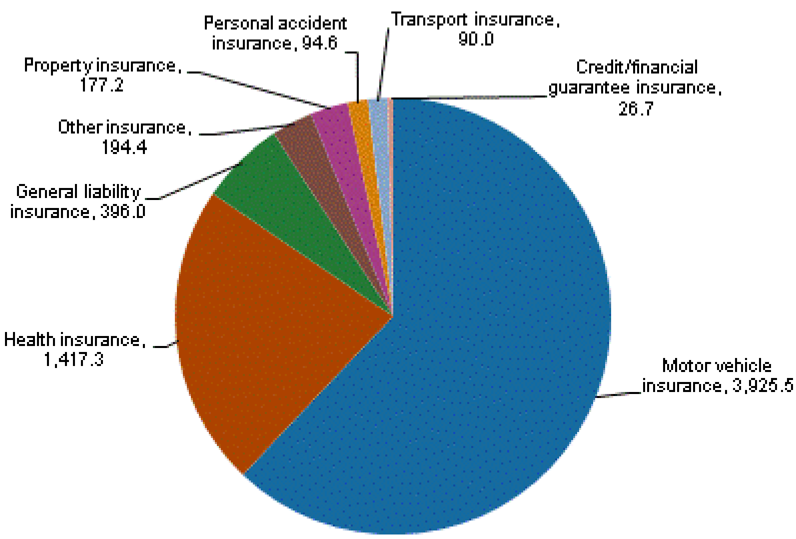
Structural Trends

Beyond the forecast period, the rate of increase of premiums will continue to be constrained by longstanding market issues. For instance, price competition will hamper profitability and limit any insurer's ability, as well as drive, to innovate its product line. In addition, a lack of scale will force insurers to remain heavy users of outward reinsurance. We do not envisage any long-term solution for these challenges, with sub-scale insurers likely to characterise the market beyond the forecast period. As such, many of Iran's non-life sub-sectors will be marked by sluggish growth over the longer term. Other structural issues include low retention ratios, a lack of demand for non-compulsory lines and limited access to international capital.

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. 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.

Motor, Health And General Liability Most Developed

Non Life Premiums By Product Line (2016), USDmn



Source: Central Insurance of Iran/BMI

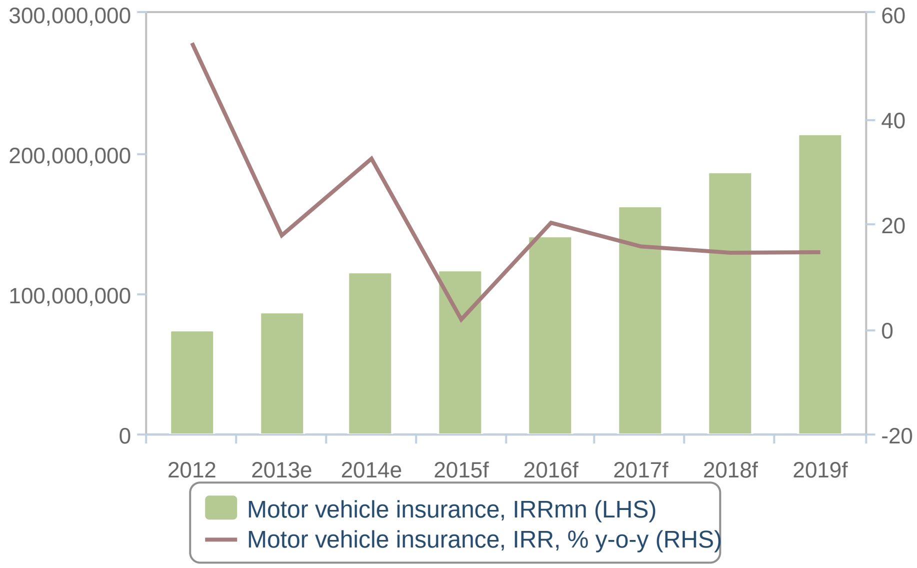
Motor Insurance: Big And Getting Bigger

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 in the Iranian non life insurance market. On its own, the motor vehicle insurance sub-sector rates as substantial in global terms. Annual premiums should reach nearly USD3.8bn in 2015, a decline of 15.3% compared to 2014, largely due to ongoing currency fluctuations. In local currency terms premiums are expected to increase by 1.7%, broadly in line with expected GDP growth.

Moving forward, the potential lifting of sanctions will provide a boost to the autos market in Iran, and the **BMI** Autos team expect to see substantial increases in new vehicle sales. As the lifting of sanctions will only be fully finalised by the end of the year, we forecast sales growth of 20% in 2016 as more brands enter the market and consumers take advantage of an unprecedented level of variety. This would take to the market to 1.8mn units - a new high for Iran and a reflection of real growth rather than just a return to pre-sanction levels. By 2017, we see the volumes surpassing 2mn units, with an improved economy and favourable demographics adding to the choice of brands as key drivers of growth. This sales growth will support an increase in the total vehicle fleet size from 14.6mn units in 2015 to 17.6mn in 2019, creating a positive environment for growth in motor insurance premiums.

Premiums Continue To Grow

Motor Premiums (2012-2019)

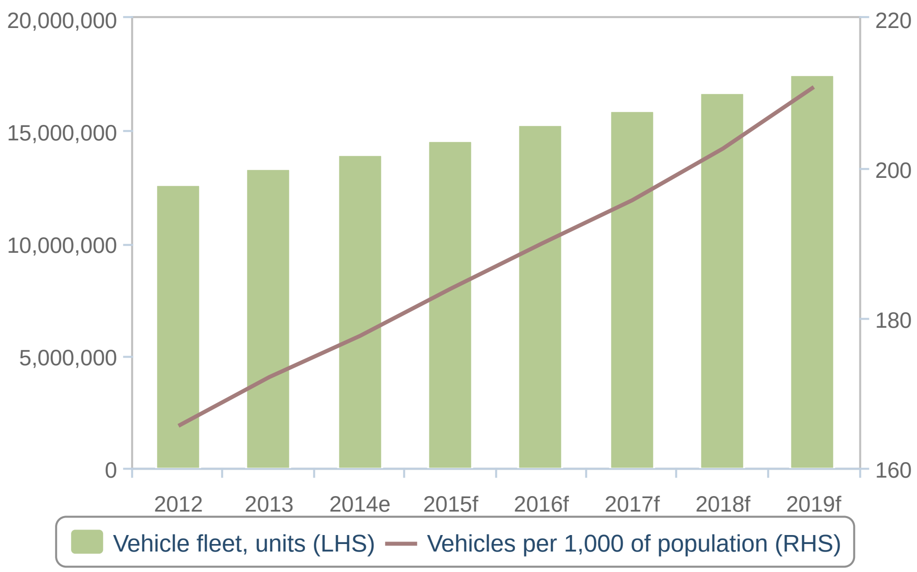


BMI/Central Insurance of Iran

Due to a more stable economic outlook and the relaxation of restrictive sanctions, we do not envisage the same levels of fluctuating growth over the forecast period that have characterised the sub-sector over the recent past, which should give insurers a period of relative stability. However, we do not anticipate any significant 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 and with vehicles sales increasingly rapidly, this will be sufficient to drive double digit growth in premiums written in local currency terms and solid growth in US dollar terms, leading to motor insurance premiums written of USD5.1bn at the end of the current forecast period in 2019.

More Vehicles Equals More Insurance

Vehicle Fleet Size (2012-2019)



BMI/OICA

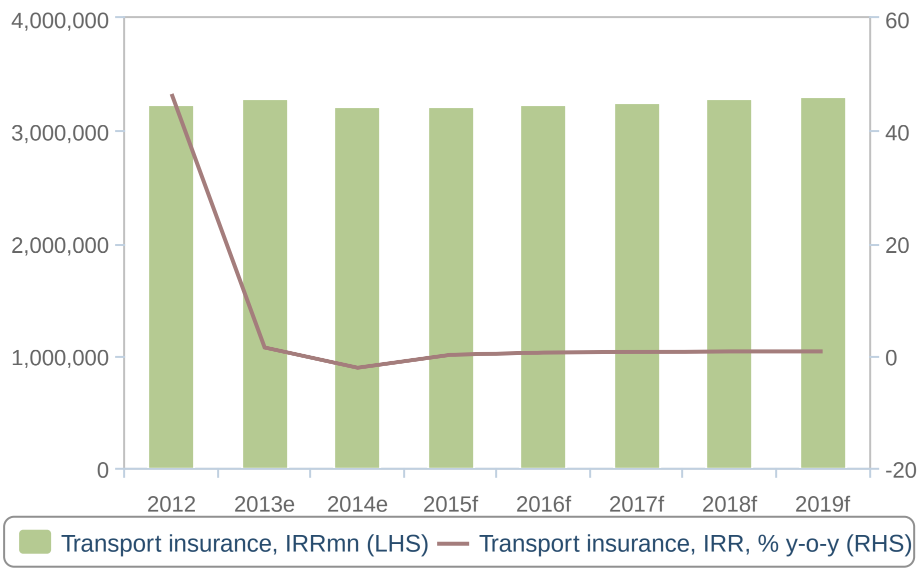
Beyond the forecast period, motor insurance should enjoy steady y-o-y growth in line with macroeconomic expansion. It is possible that the sub-sector will see a slow wearing down of its dominant position in terms of total non-life premiums; however, this is dependent on an increase in demand for non-compulsory lines. We anticipate that a wave of consolidation is possible over the long term, particularly if insurers are able to gain greater access to global capital markets. Moreover, a more competitive reinsurance sector would help improve net premiums by decreasing the cost of using outwards reinsurance solutions.

Transport Insurance: Limited Exports Equals Limited Demand

Transport insurance is neither a substantial nor a growing commercial opportunity in Iran. Historically, a downturn across the wider economy has curtailed the growth in premiums, as there is less commercial activity, which is the greatest driver of transport demands, and thus transport insurance. It is for this reason that the sub-sector accounts for about 1.7% of all premiums written in the non-life segment in 2015, versus 2.7% in 2012. Furthermore, currency fluctuations continue to distort the sub-sector's metrics with growth in the local currency expected to reach 0.1% compared to a 16.6% decrease in USD terms.

Stagnant Sub Sector

Transport Premiums (2012-2019)



BMI/Central Insurance of Iran

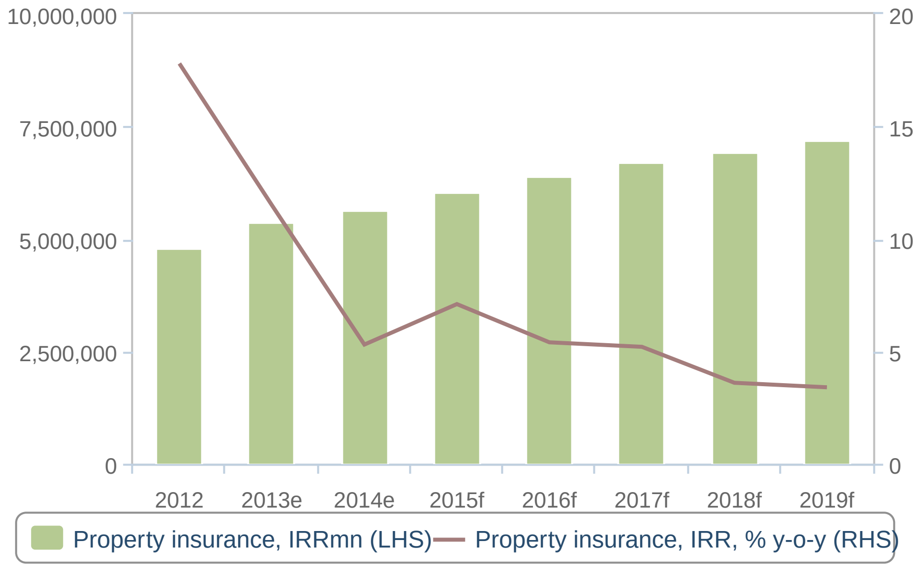
Across the remainder of the forecast period, transport premiums should receive a slight boost from growth in the volumes of freight carried on Iran's roads. Railway freight could certainly receive a boost from government investment. However, we only anticipate moderate growth in Iran's rail freight industry. An upturn in economic activity, possibly as a result of Iran's continued rapprochement with the West, would also help drive demand for transport insurance lines. Nonetheless, the market will continue to be constrained by wider structural economic issues, including high inflation and uncontrolled government spending. It is for this reason that we forecast premium growth of less than 1% annually throughout the forecast period, in local currency terms, and further contractions in US dollar terms.

Property Insurance: Minimal Growth Expected

Accounting for about 3% of total premiums written in the non-life segment, the property insurance market is one of the smaller sub-sectors in Iran. Growth has been extremely erratic in recent years, with high of 2.5% growth in USD terms in 2012 and lows of a -26.7% contraction in 2014. The main challenge for property insurers is that they are operating in a non-compulsory market. Given both Iranians' lack of disposable income, due to poor economic output, and very little awareness of the benefits of non-compulsory insurance solutions, it is a challenge to attract sufficient demand in this sub-sector.

Demand Will Remain Low

Property Premiums (2012-2019)



BMI/Central Insurance of Iran

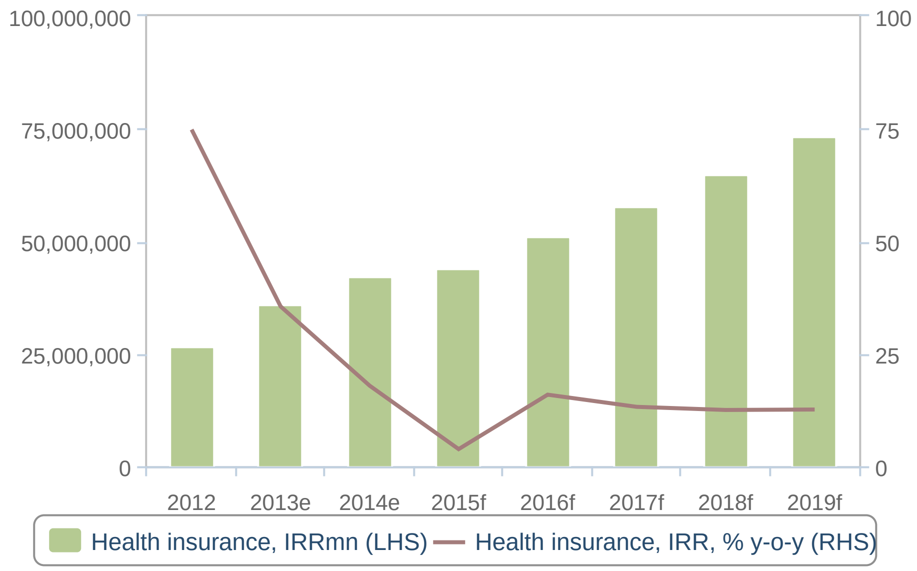
We expect that the relative importance of this sub-sector will progressively decrease through the forecast period. This is largely due to the fact that the bulk of demand for non-life lines as a whole will remain focused on compulsory, basic lines such as third party motor. Moreover, property and casualty insurers will suffer from a lack of access to global capital markets, which might otherwise be able to provide sufficient capital injections to facilitate growth. However, the recent breakthrough in nuclear negotiations between world powers and Iran gives some hope that the Iranian insurance market as a whole will become more accessible for foreign insurers. At present, we expect property insurance premiums to show an overall contraction when measured in US dollar terms by the end of the forecast period, while posting minimal growth in local currency terms.

Health Insurance: Growing In Popularity

Iran's health subsector 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 (disability adjusted life years) rise in these age cohorts, overall volumes of policies should also rise. Moreover, there is an increasing demand for private healthcare provisions among Iran's middle class as the public sector struggles to meet the demands, and costs, of modern medical advancements. In 2015 we expect to see relatively solid growth of 3.8% in local currency terms, underpinned by an increase in private final consumption in the country, while currency fluctuations mean health insurance premiums will fall in US dollar terms.

Private Healthcare In High Demand

Health Premiums (2012-2019)



BMI/Central Insurance of Iran

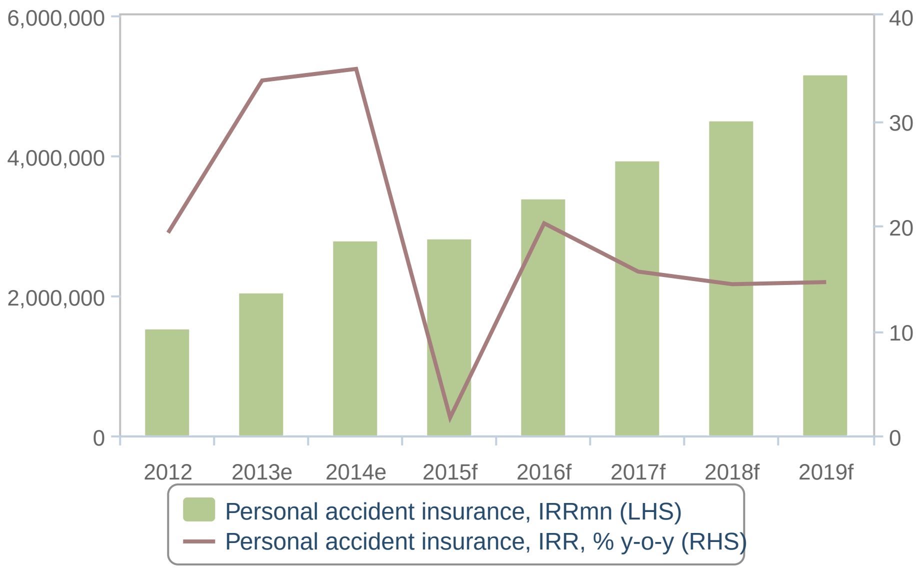
Over the forecast period we anticipate that the health sub-sector will continue to enjoy substantial growth, due to the steady demand for policies, as well as a greater sense of macroeconomic stability and less volatile currency fluctuations. Premiums are therefore expected to show double digit increases in local currency terms, while increasing by high single digits in US dollar terms from 2017 onwards to reach USD1.7bn in 2019, up from USD1.4bn in 2015. As with other sub-sectors of the non-life market, the health insurance sector stands to benefit from potential entries by foreign insurers, which will bring much needed capitalisation and industry knowledge.

Personal Accident Insurance: Not A Priority Spend

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. Historically it has suffered from being a non-compulsory sector, as these have generally underperformed in the Iranian insurance market, where understanding of the benefits of various non-life products is not well developed. Growth has been well into double digits in the last few years. As with the other non-life sub-sectors, currency fluctuations mean that we expect to see a contraction in personal accident insurance premiums written in the country in 2015, falling by 15.3% to USD91.4mn.

Positive Growth Ahead

Personal Accident Premiums (2012-2019)



BMI/Central Insurance of Iran

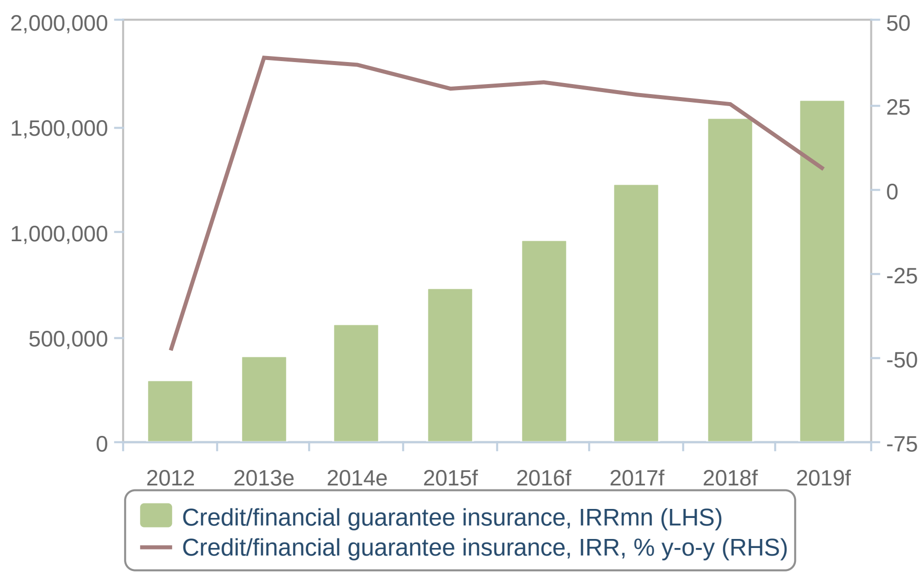
Over the forecast period, we expect the demand for personal accident insurance to continue to grow, reaching solid single digit figures over the forecast period in US dollar terms (double digit growth in local currency terms). In part it will benefit from a more stable economic outlook and a growing middle class. This social cohort has sufficient disposable income to purchase non-essential lines and, as such, represents a key demographic for the personal accident sub-sector. As with other sub-sectors a lack of scale will prevent insurers from acquiring sufficient capital to invest in innovative products and one of the long-term issues in this sub-sector lies in promoting the benefits of insurance to the wider population.

Credit and Financial Guarantee Insurance: Outpacing The Rest Of The Market

Historically, the credit/financial sub-sector in Iran has witnessed unimpressive and a somewhat erratic contraction in premiums. This reached a low point in 2012 with a local currency contraction of 48%; however, in other years it was in the low single digit figures. This was largely due to a contraction in financial and commercial services following the increase in international sanction against Iran over its nuclear activities. In 2015, a return to a slightly more positive domestic economic outlook means that credit/ financial guarantee insurance will be the non-life sector outperforming, with premiums growing by 8.2% in US dollar terms to USD23.5mn.

Small But Growing

Credit and Financial Guarantee Premiums (2012-2019)



BMI/Central Insurance of Iran

Over the forecast period, the possibility of greater commercial activity and macroeconomic stability should help fuel sustained growth in credit/ financial lines. As such, we are looking for low double digit growth over the remainder of the forecast period in USD terms; however, this will decrease to around 0.9% in 2019 as the market stabilises. As a niche market, the sub-sector will benefit from higher levels of disposable income both on a private and corporate level. The credit/financial guarantee insurance sector also stands to benefit from the potential relaxation of sanctions; which could result in an increase in lending in Iran over the longer term.

Table: Non Life Insurance Premiums by Product Line (Iran 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Motor vehicle insurance, IRRmn	74,334,430	87,491,739	115,717,083	117,642,388	141,316,453	163,337,839	186,915,542	214,103,659
Motor vehicle insurance, IRR, % y-o-y	54.3	17.7	32.3	1.7	20.1	15.6	14.4	14.5
Motor vehicle insurance, % of non-life insurance	61.5	59.4	61.6	61.2	62.1	62.7	63.1	63.7
Property insurance, IRRmn	4,810,043.4	5,364,519.6	5,651,096.5	6,052,965.4	6,378,832.0	6,707,477.4	6,946,963.3	7,181,799.3
Property insurance, IRR, % y-o-y	17.8	11.5	5.3	7.1	5.4	5.2	3.6	3.4
Property insurance, % of non-life insurance	4.0	3.6	3.0	3.1	2.8	2.6	2.3	2.1
Transport insurance, IRRmn	3,244,064.1	3,290,636.2	3,217,410.0	3,222,172.3	3,239,554.6	3,259,789.6	3,282,614.0	3,305,851.9
Transport insurance, IRR, % y-o-y	46.5	1.4	-2.2	0.1	0.5	0.6	0.7	0.7
Transport insurance, % of non-life insurance	2.7	2.2	1.7	1.7	1.4	1.3	1.1	1.0

Non Life Insurance Premiums by Product Line (Iran 2012-2019) - Continued								
	2012	**2013e**	**2014e**	**2015f**	**2016f**	**2017f**	**2018f**	**2019f**
Health insurance, IRRmn	26,526,899	35,952,351	42,397,593	44,021,143	51,023,964	57,745,959	64,949,574	73,119,623
Health insurance, IRR, % y-o-y	74.8	35.5	17.9	3.8	15.9	13.2	12.5	12.6
Health insurance, % of non-life insurance	22.0	24.4	22.6	22.9	22.4	22.2	21.9	21.7
Personal accident insurance, IRRmn	1,544,080.3	2,065,804.2	2,787,267.1	2,833,705.9	3,404,730.4	3,935,891.9	4,504,592.1	5,160,376.5
Personal accident insurance, IRR, % y-o-y	19.3	33.8	34.9	1.7	20.2	15.6	14.4	14.6
Personal accident insurance, % of non-life insurance	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5
General liability insurance, IRRmn	6,778,331	8,886,679	11,774,916	11,961,561	14,256,609	16,391,439	18,677,145	21,312,856
General liability insurance, IRR, % y-o-y	47.5	31.1	32.5	1.6	19.2	15.0	13.9	14.1
General liability insurance, % of non-life insurance	5.6	6.0	6.3	6.2	6.3	6.3	6.3	6.3
Credit/ financial guarantee insurance, IRRmn	295,120.6	410,271.5	561,568.1	729,044.1	959,808.5	1,228,544.0	1,538,229.8	1,629,708.8
Credit/ financial guarantee insurance, IRR, % y-o-y	-48.0	39.0	36.9	29.8	31.7	28.0	25.2	5.9
Credit/ financial	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5

Non Life Insurance Premiums by Product Line (Iran 2012-2019) - Continued								
	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
guarantee insurance, % of non-life insurance								
Other insurance, IRRmn	3,315,413	4,353,417	5,776,486	5,868,419	6,998,846	8,050,359	9,176,186	10,474,408
Other insurance, IRR, % y-o-y	6.9	31.3	32.7	1.6	19.3	15.0	14.0	14.1
Other insurance, % of non-life insurance	2.7	3.0	3.1	3.1	3.1	3.1	3.1	3.1

BMI/Central Insurance of Iran

Insurance Risk/Reward Index

MENA Insurance Risk/Reward Index

In the MENA region, Middle Eastern countries dominate the higher end of the Insurance Risk/Reward Index's spectrum. The top 10 countries by ranking are all Middle Eastern scoring over 40.00 (100 is the best), with the exception of Morocco in sixth place (43.99). The predominance of North African countries placing at the lower end of the index 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.

The Insurance Risk/Reward Index scores take into account objective measures of the current state and long-term potential of both the non-life and the life segments. They also take 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 scores also incorporate an objective assessment of the risks to the realisation of returns. The risk assessment is based on BMI's Country Risk Index. 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

	Industry Rewards	Industry Rewards Non-Life	Industry Rewards Life	Country Rewards	Rewards	Industry Risk	Country Risks	Risks	Insurance Risk/Reward Score	Rank
Israel	55.00	50.00	60.00	59.72	56.89	80.00	73.49	76.09	62.65	1
UAE	41.25	50.00	32.50	62.58	49.78	70.00	56.79	62.07	53.47	2
Bahrain	30.00	37.50	22.50	69.80	45.92	85.00	52.93	65.76	51.87	3
Saudi Arabia	31.25	50.00	12.50	65.07	44.78	60.00	56.62	57.97	48.74	4
Qatar	21.88	38.75	5.00	70.21	41.21	55.00	60.16	58.10	46.28	5
Morocco	33.75	40.00	27.50	44.40	38.01	70.00	49.90	57.94	43.99	6
Oman	21.25	27.50	15.00	63.01	37.96	65.00	53.33	58.00	43.97	7
Lebanon	30.00	37.50	22.50	53.92	39.57	65.00	46.55	53.93	43.88	8
Kuwait	17.50	25.00	10.00	67.87	37.65	50.00	62.35	57.41	43.58	9
Jordan	22.50	30.00	15.00	54.13	35.15	70.00	48.23	56.94	41.69	10
Egypt	25.00	27.50	22.50	42.57	32.03	60.00	48.83	53.30	38.41	11
Tunisia	20.00	27.50	12.50	44.58	29.83	55.00	36.47	43.88	34.05	12
Iran	23.75	32.50	15.00	37.98	29.44	20.00	42.43	33.46	30.65	13
Algeria	17.50	27.50	7.50	27.64	21.56	50.00	44.94	46.97	29.18	14
Yemen	15.00	17.50	12.50	35.32	23.13	60.00	22.73	37.64	27.48	15
Libya	5.00	7.50	2.50	37.55	18.02	15.00	19.11	17.46	17.85	16

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

Market Overview

Life Market Overview

Iran's life insurance market is underdeveloped, with limited rates of penetration and density. Expansion of the life insurance market has been hindered by the dominance of predominantly state owned, domestic insurance firms, as well extensive sanctions which have deterred major insurers from entering the market. Iran's large population and the potential for renewed economic growth, following a reduction in sanctions, suggest there are opportunities for expansion in the life insurance sector over the longer term.

Product Offering

Life insurers offer a well-developed and highly-diversified product range, including both low-cost and premium products, as well as both individual and group offerings. Despite this, and the availability of products combining life insurance with other cover, most business remains in the area of standalone group products sold to businesses. This is likely to remain the case for some time, with a large number of individuals unable to afford the luxury of premium individual life cover. However, there are some pension and other saving policies offered on an individual basis.

The insurance industry has faced difficulties in developing sophisticated compliance capabilities. This position has changed somewhat in recent years, primarily due to the increasing scope of Iran sanctions, but challenges remain. Moreover, the rapidly-evolving sanctions environment has added an additional layer of complexity to compliance efforts within those industries already attempting to make up ground.

Competitive Landscape

The life sector, like its non-life counterpart, is currently fragmented with a sizeable state presence. In addition, the sanctions have resulted in the absence of international companies and their subsidiaries, reducing the market's size.

Players offering retirement and savings products to individuals rather than businesses (or rather bought by businesses for employees) include **Bimeh Alborz** and **Bimeh Asia**. Both of these groups are partially privatised. There are also specialist life insurance companies, though some of these, such as **Dana Insurance**, have since expanded into the non-life market. However, their presence there is frequently negligible owing to the highly fragmented nature of the non life competitive landscape. Overall, state involvement in the insurance sector is quite high in Iran, accounting for just under half of the market share - this is a combination of wholly state owned groups, and partially privatised entities such as those above.

Moreover, the Iranian life sector is dominated by the state-owned composite company **Bimeh Iran**, a domestic behemoth who dwarfs other groups.

This means that although just over half of the market is comprised of private sector players, these are comparatively small, with limited market shares in comparison to Bimeh Iran's dominance. However, over the longer term, as sanctions relax and foreign entrants return, we anticipate an increasingly competitive market, with the state dominance being eroded.

European, Asian and African insurers are all keen to re-enter the Iranian market, and are looking to cooperate with Iranian groups. We therefore expect to see a number of subsidiaries and joint ventures over the coming years, as established insurance majors see to capitalise on the reopening of a lucrative market.

Non-Life Market Overview

While Iran's non-life insurance market is considerably more developed than the life sector, it has been prevented from reaching its full potential by the ongoing sanctions which have stopped major global insurers from maintaining a presence in the market. As sanctions are gradually relaxed and removed we expect to see foreign insurers, particularly those with a history in Iran, re-enter the market, with some reportedly planning to target the non-life sector as early as 2016. While over the longer term this will improve competition in the market, over the short to medium term the well-established domestic non-life firms are likely to maintain their dominance in Iran.

Product Offering

The non-life sector in Iran offers a range of products, and the majority of Iran's non-life insurance companies offer products across a broad spectrum of insurance lines, and there is significant variation within these lines. In addition, the non-life companies offer both corporate and personal products across most non-life lines.

The non-life product offering has expanded steadily over the past decade, as the market became partially privatised, with a concomitant uptick in competition and the expansion of various niche product offerings. Initially, prior to the implementation of privatisation, Iranian insurers mainly provided motor and fire insurance, however it has since expanded to provide liability and credit insurance and sector-specific products such as oil and energy insurance policies, rent insurance and train coverage. The increasing diversity is a reflection of the growing competition, as new entrants seek to establish themselves in key spheres.

As noted in the life Market Overview, the non-life sector lacks sophisticated compliance regulations, although some advances have been made in recent years. The issue is intensified by the ongoing sanctions, which have exacerbated the complexity for foreign insurer involvement. In particular, marine insurers have lost a lucrative market due to the sanctions, as US and EU insurers can no longer offer cover to those shipping or purchasing Iranian Oil, even those who are legitimately shipping such cargos like **Islamic Republic of Iran Shipping Lines** (IRISL) and the **Iranian National Tanker Company** (NITC). This means that these groups are frequently reliant on domestic companies, which has boosted Iran's own insurers' maritime product offerings as they benefit from a captive consumer base.

That being said, with the imminent relaxation of sanctions, we anticipate an improvement in this sphere over the next few years. In addition, the sanctions against Iran have led to the expansion of the product offering, with standardised sanctions clauses now included in many insurance contracts, in order to meet compliance procedures. As well as maritime insurance, we view airline insurance as another key opportunity likely to attract foreign private sector insurers over the next few years as the sanctions are relaxed. The Civil Aviation Organization of Iran is already anticipating a number of cooperation agreements with foreign insurers.

Competitive Landscape

At present, the competitive landscape reveals a small, but fragmented market, with major domestic players present in most product lines. The comparatively small market shares of some of the country's largest insurers highlight the fragmentation of the Iranian market, with the second largest insurer having just 11% of the market share. However, this comparatively small share is also due to the dominance of the state-owned composite leviathan, **Bimeh Iran**, whose personal and corporate offering covers all non-life lines. In addition, it is the main reinsurer in the country, benefitting from the other smaller players' need to reduce their risk exposure. Moreover, unlike other Iranian insurers, the state-owned group has a presence outside of Iran in some of the GCC states.

A sizeable portion of the non-life market is state owned. In addition, there are three partially privatised groups. One such is **Bimeh Alborz** which, in common with the majority of Iranian non-life companies, has a presence in most non-life lines, both personal and corporate, including motor insurance, property insurance accident and health insurance, maritime insurance, and liability policies.

Another partially privatised group is **Bimeh Asia** (nationalised in 1980) that also has a strong presence in the non-life market, offering a similar range of products to Alborz. **Dana** is the third of the partially privatised groups in Iran, and unlike some of its other life peers, its established life presence is countered by a solid non-life portfolio, offering accident, health, fire, theft, cargo, motor and liability insurance policies. This breadth has enabled the group to become the fifth largest player in the combined life and non-life markets, according to the regulator, with over 5% of the total market share (though with regards to number of policies, rather than value, its market share is lower, at around 3.6%, highlighting that it sells fewer, but costlier products than many of its peers).

The most recent data shows that Bimeh Alborz has around 6% of the non-life market share. However, this was dwarfed by Bimeh Asia, which has over 11% of the market, making it the second largest insurer in Iran based on premiums (in addition with regards to actual policies sold, Bimeh Asia's market share is far higher, at around 15% according to the regulator).

The ongoing sanctions have posed a particular issue for reinsurers, as compliance for broad multi-activity coverage is difficult. In particular, insurers involved in maritime policies for Iranian vessels and cargos (or reinsurers taking on such risks) which include both property underwriters for the physical vessels and their cargos, and protection/indemnity policies for marine liability coverage have frequently withdrawn from involvement with the Iranian market owing to compliance issues. At present, therefore, there continues to be limited scope for non-Iranian participation in the market, owing to the sanctions. However, government involvement is seeing an incremental reduction as private sector players become more prominent. As the sanctions are removed over the next few years, we expect to see increasingly foreign participation, particularly from some of the larger multinational insurers, as they return to this potentially lucrative market. However, although increasingly open, Iran's main state-owned insurer will continue to dominate the market and pose significant competition to potential entrants.

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 whilst 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 which are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macroeconomic environment.

Company Overview

Bimeh Alborz is one of the three partially privatised (and formerly wholly state-owned) insurance companies in Iran. It is classed as a private company by the regulator, Bimeh Markazi. 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.

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

According to the company's profile on the website of Bimeh Markzai, the Iranian insurance regulator, Bimeh Alborz has diversified channels of distribution, which include agents, brokers and a nationwide branch network. There are around 53 branches, 1,170 agents and 267 brokers as of 2015. The same profile indicates that the company is implementing a number of strategies, such as technological improvements, across its operations in order to reduce cost ratios.

Recent Developments

Industry regulator Central Insurance of Iran (Bimeh Markzai) is carrying out a review of the solvency and capitalisation of all domestic insurers; this is to ensure that firms are on track to meet the enhanced capitalisation requirements being imposed by the government. Bimeh Alborz has been highlighted as one of the firms that is well on track to meet requirements by the deadline (March 2017 - Iranian year 1395).

This follows Bimeh Alborz's reports of 24% premium growth in the first half of Iranian year 1393 (2015), three times the average growth of the insurance industry. The company has a solvency ratio of over 100% and claims to be the largest firm in Iran in terms of capital.

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

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- 009821 88803821
- Info@alborzins.com
- www.alborzinsurance.ir

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, it is 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.
- Relaxation of sanctions and wider economic growth.

Threats

- Government policies and decisions which are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macroeconomic 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.

According to the company's website, Bimeh Asia's products are distributed through a relatively diversified spread of channels, including brokers and a nationwide branch network. There are over 100 branches and 2,000 agencies, covering 380 cities.

Financial Data

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1392 (i.e. the year to March 2014) indicate that Bimeh Asia is the country's first largest insurer, with a market share of 7.9%. Bimeh Asia, according to Bimeh Merkazi Iran, has registered capital of IRR2,300bn as of the end of 1932.

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.

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, it is 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 when 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 which are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macroeconomic 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-1990showever, it was permitted to expand into non-life insurance.

Bimeh Dana's coverage falls into two broad categories. The first is personal lines; including accident insurance covers, healthcare insurance and life insurance. The second is property lines, which include fire and theft, cargo insurance, motor insurance and engineering and liability.

According to the company's Managing Director, the company is looking to computerise its entire scope of activities. In addition, it is investing in in-house education and training. It is also increasing the number of agents and representatives across the country.

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

Strategy

The insurer will continue to focus on a number of key lines, including personal and property lines. In addition, the company is looking to develop its health insurance services.

Recent Developments

Industry regulator Bimeh Merkazi Iran is conducting solvency and capitalisation assessments of all domestic insurance firms operating in Iran under new regulations which stipulate an increase in minimum capital levels. Bimeh Dana has been found to meet updated capitalisation requirements with a solvency ratio of 111% for the Iranian year 1394 (ending March 2016).

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%. This market share was maintained in the statistics released for 1392.

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.

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 which are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macroeconomic 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 and further 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.

According to the company's 2013-2014 annual report it has around 45% of the domestic market share. In addition, it holds 50% of the market share in a number of the sub-sectors in which it operates. Its capital at the time of publication exceeded IRR3.89bn

Strategy

Bimeh Iran's current focus is on updating IT services in order to streamline the business and reduce operating costs. The firm has started using mobile phone technology in order to provide electronic insurance services and notes the importance of private sector agency sales in expanding the current distribution network. The priority for Iranian year 1934 (ending March 2016) is further development of IT systems in order to fully issue policies electronically.

Bimeh Iran is also one of the few domestic firms with a large overseas presence. Expanding in markets outside of Iran is another key part of the strategy to grow - one which will likely gain in importance over the long term as sanctions are relaxed, and competition within the domestic market intensifies.

Financial Data

Bimeh Iran provides the most up-to-date financials of all Iran's insurers. Its most recent report for 2013-2014 includes the following highlights:

- Total written premiums over March 2013-March 2014 were USD2.85bn, up by 22% from USD2.33bn during the period March 2012-March 2013.
- Of all sub-sectors, third party motor insurance represented the biggest single insurance line for the company. Written premiums in this sub-sector reached USD1.3bn in 2013-2014, up 38% from USD1.14bn in 2012-2013
- Claims rose by 30%, from USD1.61bn in 2012-2013 to USD2.1bn in 2013-2014.
- The number of policies issued reached 18,276,252 in 2013-2014, growth of 3%.
- Within the company's reinsurance business, written premiums rose 25%, from USD30mn in 2012-2013 to USD37.5mn in 2013-2014.
- Total assets were USD3mn in 2013-2014, up from USD2.6mn in 2012-2013.

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 whilst 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 which are inimical to the development of insurance.
- Escalation in claims or other costs.
- A hostile macroeconomic environment.

Company Overview

Parsian Insurance is the largest private sector insurer in Iran. In terms of gross premiums written, it places fourth overall, coming 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%). Parsian Insurance utilises banacassrance via Parsian Bank, which reportedly has 159 active branches in Tehran, 134 branches in other cities and a subsidiary in Iraq.

Recent Developments

Industry regulator Bimeh Merkazi Iran is conducting solvency and capitalisation reviews of Iran's domestic insurers under new regulations which stipulate updated capitalisation requirements to be introduced by Iranian year 1395 (2017). Parsian Insurance has been noted as a private insurance firm with strong capitalisation levels; indeed for the third year running Parsian Insurance has been noted as having the highest solvency levels, with capital amounting to over IRR2,000bn.

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. In 1391 this had decreased somewhat to 4.6% though Parsian Insurance maintained its position as fourth largest private insurers 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.

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, 2015 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to end-2019 (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, 2015 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2019 (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