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BMI View: *As of late 2013, we remain of the view that the key factors driving growth in Iran's insurance sector have been higher (real) prices in just two lines - Compulsory Motorists Third Party Liability, and (especially) health insurance. We are not convinced, though, that this is evidence of a definitive change for the better in the non-life segment or in the insurance sector as a whole*

Key Insights And Key Risks

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

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

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

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

Table: Total Premiums, 2010-2017

	2011	2012	2013e	2014f	2015f	2016f	2017f
Total premiums, IRRmn	75,439,856	94,362,262	117,427,298	139,401,648	163,904,201	192,396,265	219,257,138
- % change y-o-y	27.9	25.1	24.4	18.7	17.6	17.4	14.0
- per capita	1,008,573	1,247,983	1,536,865	1,806,273	2,103,667	2,447,282	2,765,475
- % of GDP	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Total premiums, US $mn	7,084	8,859	9,188	9,484	10,620	11,873	12,886
- % change y-o-y	22.3	25.1	3.7	3.2	12.0	11.8	8.5
- per capita	95	117	120	123	136	151	163
Total premiums, EURmn	5,096	6,976	6,856	7,468	8,634	9,894	10,738
- % change y-o-y	16.7	36.9	-1.7	8.9	15.6	14.6	8.5
- per capita	68	92	90	97	111	126	135

Source: BMI

SWOT

Insurance

Iran Insurance SWOT Analysis

Strengths	▪ The industry has scale. Bimeh Iran, the largest, and still state-owned, insurance company, is one of the biggest groups in the Middle East. ▪ The industry is sophisticated and has evolved far beyond basic lines such as motor insurance. ▪ The regulatory regime is, in some respects, unusual. But it is one within which the protagonists can work effectively. ▪ Unlike in other countries, particularly the Gulf Cooperation Council states, Iranian insurers have shown that they can thrive, or at least survive, with limited access to the global reinsurance markets. • Premiums surged in the year to March 2012 - in both segments.
Weaknesses	▪ Stagnation - in real terms, the non-life segment has not grown much over the long-term. ▪ 'Privatisation' and 'liberalisation' are not operating as they would in other countries. Privatisation does not imply greater access to capital, and not just because of the international sanctions against Iran. ▪ Liberalisation is not clearly benefiting entrepreneurs and shareholders either. Clients are, apparently, benefiting from non-life insurers pricing products at uncommercially low levels. ▪ Costs appear to have been rising relative to revenues. ▪ Entrenched inflation means that the life segment hardly exists at all.

Iran Insurance SWOT Analysis - Continued	
	• There are no obvious reasons why any of this should change. For the time being, we continue to take the view that non-life penetration and life density will likely stay unaltered through the forecast period.
Opportunities	▪ A wildcard is major political change. By most metrics, the Iranian insurance sector is (very) underdeveloped. Under different circumstances, total premiums could be 2-3 times as large as they are. • Pricing. The growth in premiums in the March 2012 year (which we have shown as 2011) was driven mainly by development in two lines - Compulsory Third Party Motor Liability and health insurance. The logical conclusion is that individual customers in both lines have the capacity - and probably the willingness - to pay.
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. • 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 gradual improvement in relations with the West.

Threats

- Ongoing nuclear tensions raise the prospect of further US and EU sanctions and the possibility of a military strike by the US or Israel.
- Youth unemployment is high.
- The strong influence of the Revolutionary Guards within the political and economic arena may present a challenge to the status quo over the long term.

Economic

Economic SWOT Analysis

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

Business Environment

Business Environment SWOT Analysis

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

Industry Forecast

Life

BMI View: *Iranian households basically do not use life insurance. This is partly because many are too poor to do so. However, there is a more fundamental reason. The government and the central bank have also run economic and monetary policy in such a way that high inflation expectations have become entrenched. The government has benefited from revenues related to the production of energy but its spending has typically exceeded these. Unwilling or unable to borrow from other sectors of the domestic economy, or from overseas, the government has monetised the deficit. As a result, money supply has grown at a rapid rate and inflation has been much higher in Iran than elsewhere. Over time, the currency has fallen in value, reducing the effective size of the government's debt, given that its revenues are linked significantly to the US dollar through global energy prices.*

Table: Total Life Premiums, 2010-2017

	2010	2011	2012	2013e	2014f	2015f	2016f	2017f
Total life premiums, IRRmn	4,071,885	4,967,700	5,775,506	8,054,022	10,758,697	13,115,220	15,979,465	19,459,004
- % change y-o-y	27.0	22.0	16.3	39.5	33.6	21.9	21.8	21.8
- per capita	55,045	66,414	76,384	105,409	139,404	168,330	203,259	245,435
% of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
- % of total premiums	6.9	6.6	6.1	6.9	7.7	8.0	8.3	8.9
Total life premiums, US $mn	400	466	542	630	732	850	986	1,144
- % change y-o-y	23.4	16.7	16.3	16.2	16.2	16.1	16.0	16.0
- per capita	5	6	7	8	9	11	13	14
Total life premiums, EURmn	301	336	427	470	576	691	822	953
- % change y-o-y	30.3	11.4	27.2	10.1	22.6	19.9	18.9	16.0
- per capita	4	4	6	6	7	9	10	12

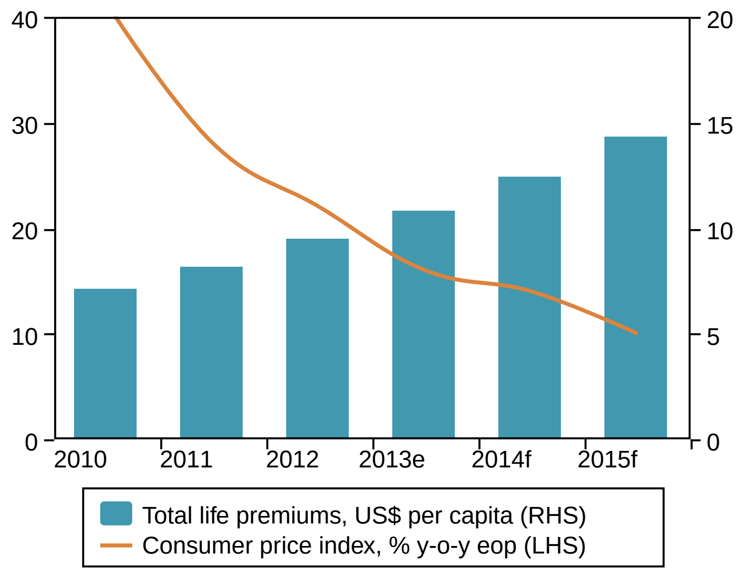
Source: Bimeh Markazi/Parsian/BMI

Any economy that is run in this way is one where no prudent person would use local life insurance contracts - or long-dated local currency financial assets - for their retirement savings. If they could, the consumer would invest in foreign currency denominated assets (ideally US dollars, given the importance of the energy sector to Iran's economy). Otherwise, they would prudently look for suitable real assets at home, such as property or gold.

The latest data from the regulator point to life premiums of just under IRR5,000,000mn in 2011 (the year to March 2012). Density has been rising, but remains at a very low level. We continue to look for a steady increase through the forecast period.

People Do Not Use Life Insurance When Inflation Is Structurally High

CPI Inflation And Life Density (premiums per capita - US$)



Note: Year Begins in March (Iranian calendar) Source: CBI, Bimeh Markazi, Parsian, BMI

Non-Life

BMI View: *Iran's non-life insurance segment has undoubtedly been growing. However, the expansion has been of 'low quality' given the distortion of prices, revenues and costs by the structurally high level of inflation.*

Table: Total Non-Life Premiums, 2010-2017

	2010	2011	2012	2013e	2014f	2015f	2016f	2017f
Total non-life premiums, IRRmn	54,933,000	70,472,156	88,586,756	109,373,276	128,642,951	150,788,981	176,416,800	199,798,134
- % change y-o-y	27.0	28.3	25.7	23.5	17.6	17.2	17.0	13.3
- per capita	742,602	942,159	1,171,600	1,431,456	1,666,869	1,935,336	2,244,023	2,520,040
- % of GDP	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
- % of total premiums	93.1	93.4	93.9	93.1	92.3	92.0	91.7	91.1
Total non-life premiums, US$mn	5,392	6,617	8,317	8,557	8,752	9,770	10,887	11,742
- % change y-o-y	23.4	22.7	25.7	2.9	2.3	11.6	11.4	7.9
- US$ per capita	73	88	110	112	113	125	138	148
Total non-life premiums, EURmn	4,065	4,761	6,549	6,386	6,891	7,943	9,072	9,785
- % change y-o-y	30.3	17.1	37.6	-2.5	7.9	15.3	14.2	7.9
-per capita	55	64	87	84	89	102	115	123

Source: Bimeh Markazi, Parsian, BMI

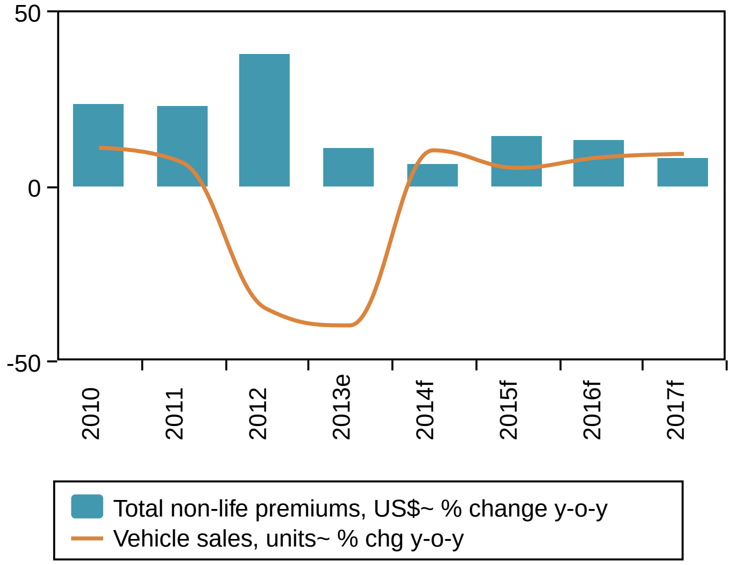
Iran's non-life insurance segment has undoubtedly been growing. However, the expansion has been of 'low quality' given the distortion of prices, revenues and costs by the structurally high level of inflation. Moreover, prices are set or influenced by leading insurers that are substantially under government control - and not necessarily on the basis of commercial principles. As we explain elsewhere in this report, the economy is likely to remain soft as sanctions bite. In this table, we have incorporated the regulator's data for the year to March 2012, which we show as 2011. It appears that non-life penetration has fallen, ending a favourable long-term trend. We assume that penetration remains unchanged through the forecast period.

Most under-developed insurance markets are driven substantially by the fortunes of the auto sector, as CMTPL and voluntary car insurance (CASCO) are major lines. Data compiled by **BMI**'s auto sector analysts suggests that this is not the case in Iran. The non-life segment has continued to achieve real growth (given that we show changes in premiums in US$ terms in the charts) in spite of a slump in vehicle sales.

There has been a far greater correlation between growth in private healthcare spending and non-life insurance premiums (both of which we show in US$ terms in the chart in order to 'look through' distortions that arise from inflation and devaluations). Towards the end of the forecast period, real private healthcare spending will stagnate: however, we anticipate that Iran's insurers will be able to compensate for this with price/rate increases.

Not Affected By Vehicle Sale Boom And Bust

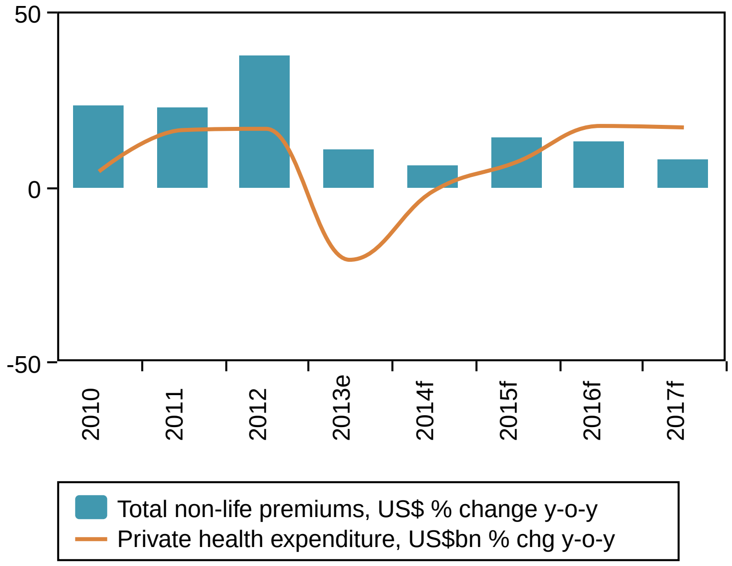
Growth In Vehicle Sales And Non-Life Premiums (US$) %



Source: Renault PC and LCV, Renault, Bimeh Markazi, Parsian, BMI

Health Insurance: Price Increases From 2015?

Growth In Private Health Care Spending And Non-Life Premiums (US$) %



Source: World Health Organization (WHO), Bimeh Markazi, Parsian, BMI

Industry Risk Reward Ratings

Iran Insurance Risk/Reward Ratings

BMI View: *Iran's Insurance Risk/Reward Rating (IRRR) is low even by the undemanding standards of the Middle East and North Africa (and Sub-Saharan Africa). In fact, the various components of BMI's proprietary IRRR suggest that a substantial insurance sector has developed in spite of profound challenges. Major problems include, and are not limited to, the challenging business environment, the isolation from global reinsurance markets and the distortions that arise from entrenched high inflation. The last of these problems is a major reason why the life insurance segment hardly exists.*

Table: Iran's Insurance Risk/Reward Ratings

	Data	Sub-rating score, out of 10	Rating score, out of 100
Rewards			**30.6**
Industry rewards			**22.5**
-Of which non-life			**27.5**
Non-life premiums, 2012, US$mn	5,975.3	5.0	
Non-life premium increase, 2012-2016, US$mn	6,231.4	7.0	
Non-life penetration, 2012,%	1.3	3.0	
Measure of openness	-	-	
-Life			**17.5**
Life premiums, 2012, US$mn	744.2	2.0	
Life premium increase, 2012-2016, US$mn	622.0	4.0	
Life penetration, 2012,%	0.2	1.0	
Measure of openness	-	-	
Country rewards			**42.8**
GDP per capita, 2012, US$	5,986.1	5.0	
Active population, 2012, % of total	70.7	7.0	
Tax regime	33.6	3.4	
GDP volatility	2.6	6.0	
Financial infrastructure	25.0	2.5	
Risks			**39.8**

Iran's Insurance Risk/Reward Ratings - Continued

	Data	Sub-rating score, out of 10	Rating score, out of 100
Regulatory framework			**20.0**
Regulatory framework and development	3.0	3.0	
Regulatory framework and competitive landscape	1.0	1.0	
Country risks			**42.8**
Long-term financial risk	8.3	0.8	
Long-term external risk	76.7	7.7	
Long-term policy continuity	70.0	7.0	
Legal framework	19.6	2.0	
Bureaucracy	10.9	1.1	
Insurance Risk/Reward Rating			**33.4**

Source: BMI

MENA Insurance Risk/Reward Ratings

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

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

Table: MENA Insurance Risk/Reward Ratings

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

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

Market Overview

Life Sector Update

BMI View: *While fiscal and monetary policy sustains high inflation and elevated inflation expectations, life insurance in Iran will remain at an embryonic stage of development.*

Life Sector Overview

A middle-income country where the average person spends about US$7 per annum on life insurance, as is the case in Iran, is an exception rather than the rule. Some Iranian households are unquestionably too poor to save for their future, but not all of them. In this respect, Iran is not like markets in Sub-Saharan Africa. Most Iranian insurance companies are small by international standards but the sector, unlike its counterparts in some Eastern European and African countries, does not include dozens of tiny operations that are built mainly around the premise that claims are mostly lower than premiums. The regulatory regime in Iran appears to be tilted in favour of **Bimeh Iran**, run by the government, and some consumers of non-life insurance, but it has not prevented the development of a substantial non-life segment, which is emphatically not dominated by compulsory lines. In addition, unlike in some Gulf Cooperation Council (GCC) countries, Iran is not a country where a small population enjoys extremely generous social security, therefore having no need to use life insurance.

We think that the main problem is that economic and monetary policy has, for a long time, been run in a way that entrenches high inflation and high inflationary expectations. The life insurance segment will hardly exist in Iran until this changes.

Non-Life Sector Update

BMI View: *An optimistic interpretation of recent developments in Iran's non-life segment would be that most companies are surviving in the face of challenging conditions in a marketplace which, in real terms, is hardly growing at all.*

Non Life Sector Overview

In recent years, inflation has consistently been running at double-digit rates. In real terms, the non-life segment has hardly grown at all. Gross premiums have been falling in real terms (and in nominal terms in some cases) in many of the lines identified by **Bimeh Markazi** Iran. The figures in the Non-Life table above indicate that competitive conditions have become a lot tougher thanks to the partial 'liberalisation' of Iran's insurance sector.

In August 2010, an article in Middle Eastern Insurance Review explained how the privatisation of three of the four state-owned insurance companies (**Bimeh Alborz**, **Bimeh Asia** and **Bimeh Dana**, but not **Bimeh Iran**) would be accompanied by a progressive move towards deregulation of premiums, which had previously been set by the regulator. The deregulation was set to take place in six steps, the first two of which had been completed prior to August 2010. The six steps are:

- Marine cargo, marine hull and aviation.
- Engineering, voluntary motor and residential/fire.
- Public liability and medical malpractice liability.
- Personal accident and (partially) industrial/fire.
- Medical, credit risks and (totally) industrial/fire.
- Motor third-party liability.

This is emphatically not a wholesale liberalisation of the insurance sector, although we accept that in the short term, customers may have been beneficiaries of the change. Interestingly, it appears that the last part of the segment to be liberalised, CMTPL, is by far the most important, accounting for about 43% of premiums but nearly 57% of claims. In short, the pre-eminent line in the segment, which dominates premiums, is one of the least profitable.

Parsian Insurance has provided a fairly comprehensive description of conditions in the non-life segment. Liberalisation has resulted in (dramatically) lower prices in a number of lines. Some of the reductions are 'unjustifiable' given the risks that are being assumed. The implication is that some of Parsian's competitors are not operating along entirely commercial lines.

As of mid-2013, the regulator has published figures which show that non-life insurance premiums rose to IRR67,018,260mn in the year to March 20, 2012 (which is shown in this report as 2011). The growth was driven by a surge of nearly 60% in compulsory motorists' third party liability (CMTPL) premiums and by over 41% in health insurance premiums (from a relatively small number of customers).

The regulator's figures showed that most of the larger insurers maintained their market shares and managed some improvement in loss ratios during the year relative to the year to March 20, 2011. The main exception was **Bimeh Dana**, which suffered from lower premiums: the corresponding reduction in claims was not sufficient to bring about an improvement in the loss ratio. As we explain in the company profile elsewhere in this report, our assessment would be that the company was trying to boost volumes by cutting prices - and at the expense of profits.

Industry Trends And Developments

Life Growth Drivers and Risk Management Projections

BMI View: *The peculiar economic environment of Iran and, in particular, entrenched inflation, will constrain the development of life insurance (and, indeed, organised savings generally) for the foreseeable future.*

Population

Table: Insurance Key Drivers, Demographics, 2010-2017

	2011	2012e	2013f	2014f	2015f	2016f	2017f	2011
Population, mn	75.4	76.4	77.4	78.5	79.5	80.5	81.4	75.4
Population, % change y-o-y	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3
Population, total, male, '000	38,060	38,496	38,958	39,434	39,916	40,403	40,895	38,060
Population, total, female, '000	37,364	37,929	38,490	39,036	39,561	40,057	40,527	37,364
Population, 0-4 yrs, total, '000	6,754	6,915	7,034	7,111	7,146	7,135	7,077	6,754
Population, 5-9 yrs, total, '000	5,589	5,805	6,046	6,286	6,507	6,701	6,864	5,589
Population, 10-14 yrs, total, '000	5,464	5,379	5,357	5,395	5,488	5,635	5,831	5,464
Population, 15-19 yrs, total, '000	6,808	6,442	6,124	5,858	5,644	5,486	5,390	6,808
Population, 20-24 yrs, total, '000	8,695	8,322	7,904	7,476	7,068	6,691	6,350	8,695
Population, 25-29 yrs, total, '000	8,884	8,976	8,978	8,894	8,727	8,476	8,150	8,884
Population, 30-34 yrs, total, '000	6,917	7,352	7,789	8,179	8,485	8,698	8,823	6,917
Population, 35-39 yrs, total, '000	5,391	5,605	5,858	6,156	6,497	6,886	7,309	5,391
Population, 40-44 yrs, total, '000	4,922	4,991	5,057	5,142	5,263	5,419	5,606	4,922
Population, 45-49 yrs, total, '000	4,180	4,338	4,495	4,638	4,758	4,849	4,920	4,180
Population, 50-54 yrs, total, '000	3,352	3,472	3,605	3,747	3,896	4,054	4,223	3,352
Population, 55-59 yrs, total, '000	2,761	2,855	2,933	3,014	3,110	3,223	3,351	2,761
Population, 60-64 yrs, total, '000	1,787	1,966	2,159	2,342	2,500	2,625	2,723	1,787
Population, 65-69 yrs, total, '000	1,301	1,332	1,379	1,451	1,551	1,685	1,848	1,301
Population, 70-74 yrs, total, '000	1,131	1,130	1,129	1,133	1,143	1,160	1,183	1,131
Population, 75+, total, '000	1,489	1,545	1,599	1,650	1,695	1,737	1,775	1,489
POPULATION: Dependent ratio, % of total working age	40.5	40.7	41.1	41.5	42.1	42.6	43.2	40.5
Dependent population, total, '000	21,728	22,106	22,544	23,025	23,530	24,052	24,579	21,728

Insurance Key Drivers, Demographics, 2010-2017 - Continued

	2011	2012e	2013f	2014f	2015f	2016f	2017f	2011
Active population, % of total	71.2	71.1	70.9	70.7	70.4	70.1	69.8	71.2
Active population, total, '000	53,697	54,319	54,903	55,445	55,946	56,408	56,844	53,697
POPULATION: Youth population, % of total working age	33.2	33.3	33.6	33.9	34.2	34.5	34.8	33.2
Youth population, total, '000	17,807	18,099	18,436	18,792	19,141	19,471	19,772	17,807
POPULATION: Pensionable popn, % of total working age	7.3	7.4	7.5	7.6	7.8	8.1	8.5	7.3
Pensionable popn, total, '000	3,921	4,007	4,108	4,233	4,390	4,581	4,806	3,921
Life expectancy at birth, male, years	71.6	71.9	72.2	72.5	72.8	73.1	73.3	71.6
Life expectancy at birth, female, years	75.4	75.7	76.1	76.4	76.6	76.9	77.2	75.4
Urban popn. % of total	69.1	69.2	69.4	69.5	69.7	69.8	70.0	69.1
Rural popn. % of total	30.9	30.8	30.6	30.5	30.3	30.2	30.0	30.9
Urban popn, total, '000	52,105	52,906	53,726	54,548	55,362	56,193	57,011	52,105
Rural popn, total, '000	23,320	23,519	23,722	23,922	24,114	24,268	24,411	23,320

Source: World Bank, UN/BMI

Non-Life Growth Drivers and Risk Management Projections

Macroeconomic Outlook

Growth Returning To Positive Territory In 2014

BMI View: We project Iran's economy to contract by 1.6% and then grow 2.4% in real terms in 2013 and 2014, respectively, and we expect economic growth to accelerate significantly over the medium term. The macroeconomic outlook will be significantly influenced by developments in negotiations with the West over the country's nuclear programme, with risks elevated both to the upside and the downside.

We forecast Iran's economy to contract by 1.6% in real terms in 2013 and expand by 2.4% in 2014, from a 3.7% contraction in 2012. Low base effects and a rebound in oil exports, coupled with improving business and consumer confidence following the victory of moderate cleric Hassan Rouhani in Presidential elections on June 14, will ensure that growth returns to positive territory in 2014.

The macroeconomic picture will likely improve over the medium term. In particular, we expect macroeconomic management to improve significantly under Rouhani's presidency, which will lead to an acceleration in the headline growth figure over the coming years. We forecast real GDP growth averaging 2.5% over the 2013-17 period.

Private Consumption Outlook

Iranians' purchasing power will remain low over the coming quarters. According to official data, consumer price inflation reached 36.0% in September, having averaged 41.8% y-o-y over the first eight months of 2013. Although we expect inflationary pressures to gradually decline, CPI will remain elevated, which we project averaging 35.0% in FY2013/14 (fiscal year running from 21 March 2013-20 March 2014) and 25.0% in FY2014/15, compared to average inflation of 31.6% in FY2012/13 (*see 'Inflation Declining Modestly In 2014', October 7*). In addition, while we expect macroeconomic policy to improve significantly under Rouhani's presidency, we expect the impact on the economy to be felt only over the medium term. This will ensure that unemployment levels - which currently stands around the 20% level according to unofficial estimates - will remain elevated. Finally, despite improving relations with the West, sanctions against the country's hydrocarbon and banking industry will remain in place at least until the end of 2014 in our view.

Although Rouhani's elections will improve confidence among investors and consumers, we expect consumer demand to remain relatively subdued over the coming quarters. We forecast private consumption expanding 0.5% in 2013 and 1.0% in 2014.

Government Spending Outlook

Given our view that Iran's budget deficit will come in at 7.4% and 6.1% of GDP in FY2013/14 and FY2014/15, respectively, we expect Rouhani to undertake a tighter fiscal policy compared to former President Mahmoud Ahmadinejad. As a result, fiscal spending in areas such as healthcare, public services and education will be relatively low over the coming quarters. We forecast government spending to increase by 1.0% and 1.5% in 2013 and 2014, respectively.

Fixed Investment Outlook

Growth in gross fixed capital formation has been significantly hampered by international sanctions, an opaque business environment and a challenging macroeconomic picture over the past few years. According to a recently released report from the Central Bank of Iran (CBI), the industrial sector expanded by 10.0% in year-on-year terms as of Autumn 2010, before contracting by 0.6% and 13.7% y-o-y as of Autumn 2011 and Autumn 2012, respectively. Although Rouhani's victory bodes well for business confidence, we expect foreign and domestic investment to remain limited over the coming months. We retain a broadly bearish outlook for the Iranian construction sector in 2013 and forecast a 1.0% contraction in real terms, compared to a decline of 0.5% in 2012. We expect the sector to expand by 1.0% in 2014, and see growth accelerating at a more rapid pace over the medium term (*see 'Infrastructure & Construction - Q4 2013', July 31*). We forecast fixed investment contracting 1.0% in 2013 and expanding 1.5% in 2014.

Net Exports

Iran's external position will gradually improve over the coming quarters. We see total exports declining by 12.0% in 2013 before returning to growth of 7.0% in 2014, mostly as a result of fluctuations in oil exports - which accounted for 85.0% of total exports in 2010. According to the International Energy Agency, oil production fell by 6.8%% y-o-y to 2.68mn bbl/day in August. The decline in production has slowed significantly in year-on-year terms in August, largely as a result of increasing purchases from India, China and Japan after payment problems stalled liftings in July. Although sanctions on the hydrocarbon industry will remain in place, Asian importers are unlikely to cut imports much further, and low base effects will ensure a rebound in exports in 2014.

The fall in value of the rial and international sanctions have resulted in a sizeable decline in total imports over the past few quarters. As an illustration, the number of mobile phones coming into Iran during the first five months of FY2013/14 reportedly fell by between 40-48%, resulting from instability in the price of foreign currencies in open market transactions. Although we expect the rial to appreciate slightly over the coming quarters in the open market, volatility will remain significant, which will continue dampening imports going forward (*see 'IRR: Volatility On The Cards', October 4*). This is not to say, however, that imports will be completely muted. For instance, Iranian oil minister Bijan Zanganeh said on September 18 that Iran is currently taking measures to import several million litres a day of gasoline in order to fill the gap between domestic supply and consumption, a trend which we expect to continue in the near-to-medium term. We forecast imports contracting by 9.0% in 2013 and increasing by 4.0% in 2014.

Risks To Outlook

The macroeconomic outlook will be highly influenced by developments in negotiations with the West on the country's nuclear programme over the coming years. We see three potential scenarios in negotiations. One sees talks continuing without key developments over the next 24 months, another a major breakthrough within 6 to twelve months, and a third a breakdown in talks within the same time frame (*see 'US - Iran Talks: Three Scenarios', October 1*). Should the second or third scenario play out, this could prompt us to significantly revise our forecasts.

Table: Iran - Economic Activity

	2010	2011e	2012e	2013f	2014f	2015f	2016f	2017f
Nominal GDP, IRRbn 1,2	4,398,628	5,539,959	7,160,525	9,590,307	12,163,482	14,334,814	16,839,482	19,049,303
Nominal GDP, US $bn 1,2	436.7	521.8	587	467,819.90	486.5	551.3	701.6	865.9
Real GDP growth, % change y-o-y 1,2	2.1	2.8	-3.7	-1.6	2.4	3.6	4.3	3.9
GDP per capita, US$ 1,2	5,865	6,918	7,681	6,040,503	6,200	6,937	8,720	10,634
Population, mn 3	74.5	75.4	76.4	77.4	78.5	79.5	80.5	81.4

Notes: e BMI estimates. f BMI forecasts. 1 Year Begins in March (Iranian calendar). Sources: 2 UN, BMI; 3 World Bank, UN, BMI.

Political Stability Outlook

Foreign Politics I - US-Iran Rapprochement Signals Low War Risks, For Now

BMI View:

Latest developments point to a notable improvement in relations between Iran and the West. Although a major breakthrough in negotiations on the Islamic Republic's nuclear programme appears off the cards over the next few months, risks of an Israeli military attack against Iran have declined significantly over the short term. We have recently raised Iran's short-term political risk rating to 49.6 out of 100 from 42.5 previously as a result.

In our latest article on Iran's politics we wrote that, as a result of the victory of moderate cleric Hassan Rouhani in presidential elections held on June 14, Tehran would likely adopt more conciliatory tones towards the West. Therefore, we believed that confidence in the West for a negotiated solution to the stand-off on the Islamic Republic's nuclear programme would increase (*see 'Presidential Election: Improved International Climate', June 17*). Indeed, Rouhani has repeatedly called for constructive interaction with the world, a significant shift in tone compared to the stridently anti-Western rhetoric of his predecessor Mahmoud Ahmadinejad. In the latest development, Rouhani held a phone call with US President Barack Obama on September 27, the first conversation between US and Iranian presidents since the 1979 Iranian revolution, while US Secretary of State John Kerry and Iranian Foreign Minister Mohammad Javad Zarif met on September 26 to discuss the Islamic Republic's nuclear programme on the sidelines of the UN General Assembly in New York.

Positive Signals From The Supreme Leader

In Iran's political system, the Supreme Leader remains in charge of key decisions such as those relating to defence, foreign policy and the country's nuclear programme. This is not to say that the president does not have influence over Iran's foreign and nuclear policy. As the presidency of the reformist Mohammad Khatami in the 1997-2005 period showed, Iran can behave quite differently under individual presidents despite the same supreme leader. It remains unclear how much bargaining room Supreme Leader Ali Khamenei will give to Rouhani in negotiations. In a potentially significant development, Khamenei advocated flexibility in talks with major powers on September 17. The timing of his remarks, days before Zarif met Western officials on the sidelines of the annual UN General Assembly (which began on September 17), appeared to signal that the West should expect a new desire to clinch a deal. Moreover, Khamenei's comments were made to an audience of the Revolutionary Guards, a powerful branch of Iran's military set up to protect the country's Islamic system. His comments might therefore be intended to signal to powerful security hardliners that they should not seek to undermine any forthcoming attempt at negotiations.

It remains unclear whether recent developments represent a change in negotiating tactics or a signal that Tehran is genuinely interested in new negotiations. That said, the likelihood that Iran may be eventually prepared to compromise on its nuclear programme is higher compared to a few months ago. The impact of international economic sanctions on Iran's hydrocarbon and banking industries has contributed to two consecutive years of recession in 2012 and 2013, according to our estimates. In particular, sanctions have hit the oil sector hard. Given that oil exports account for the large majority of Iran's exports, the country's external position has weakened significantly, resulting in a sharp drop of foreign reserves. The situation has exacerbated already elevated inflation rates, hindering Iranian's purchasing power (Rouhani's landslide victory in presidential elections - he won the ballot in the first round with 50.7% of the vote - is a clear signal that Iranians have rejected Ahmadinejad's confrontational foreign policy stance and are ready to adopt more conciliatory tones with the West in exchange for an improvement in the country's domestic economy. Although a note of caution remains in our view necessary, it is possible that the economic circumstances may have led Iran's leadership to begin reassessing the costs and benefits relating to the nuclear programme. We have recently raised Iran's short-term political risk rating to 49.6 out of 100 from 42.5 previously as a result. Along with an improvement in the 'Security/External Threats' subcomponent of the rating, Rouhani's appointment as president is a positive development in terms of domestic political risks, as it signals that the popular will for change has been endorsed by the Iranian leadership. We have therefore increased the 'Policy-making process', 'Social stability' and 'Policy continuity' subcomponents of the rating as well.

Opening Met With Relative Optimism

The US, France, Britain and other Western countries reportedly saw Tehran's opening as an encouraging sign, albeit reiterating that more conciliatory language needs to be backed up with concrete action. In a sign that the governments of US and Iran are attempting to improve relations, the two countries confirmed in recent days that US President Barack Obama had exchanged letters with Rouhani after the victory of the latter in presidential elections. Rouhani also recently praised a recent letter sent to him by Obama as "positive and constructive". In addition, the Syrian crisis has recently taken a turn away from US military action, following Damascus' acceptance on September 10 of a Russian proposal that Syria gives up its chemical weapons. Although we believe that challenges relating to the destruction of the latter country's chemical weapons arsenal are formidable, the Russian deal bodes well for a rapprochement between the US, which is supporting Syrian opposition groups, and Iran - an ally of the Syrian regime.

Uncertainty Over Negotiations...

Uncertainty remains over the outcome of upcoming nuclear negotiations. The latest round of negotiations between the so-called 5+1 powers (the United States, Russia, China, France, Britain and Germany) and Iran, which took place in Almaty, Kazakhstan, in April, showed that the parties remain far apart in substance. Iranian negotiators did not accept the offer to give up its most sensitive uranium-enrichment work to allay concerns that Tehran is seeking the means to make atom bombs, in exchange for modest relief from crippling economic sanctions. Moreover, Obama recently reiterated the point that Iran's nuclear issue is far more important for the US than Syria's chemical weapons issue, and the threat of a military response to any Iranian attempt to build nuclear weapons has not weakened. Indeed, the US Senate Banking Committee is expected to begin debating this month a package of additional sanctions, which was passed in the House of Representatives in July. The bill is designed to cut Iran's oil exports to global customers by an additional 1mn barrels per day.

...But Military Attacks Unlikely Short Term

Israel is much more concerned about Iran's nuclear programme than the US, due to Israel's proximity to Iran, Tehran's verbal threats against the Jewish state, and the latter's highly concentrated urban population. Israel met Iran's opening with scepticism. Israel's Prime Minister Benjamin Netanyahu said on September 17 that he would focus on halting Iran's nuclear programme in a meeting with Obama at the end of September and in his annual speech before the United Nations General Assembly. That said, improvements in the international climate for talks reinforce our core view that, barring dramatic progresses in Iran's nuclear programme or a sudden breakdown in negotiations, an Israeli attack on Iranian facilities is unlikely over the coming quarters. Washington will impress upon Jerusalem the undesirability of a military campaign at this time, and logistical and strategic challenges are likely to dissuade Israel from carrying out a solo strike against Iran's nuclear facilities.

Table: Middle East And Africa Security Ratings

	Interstate risk	Terrorism risk	Criminal risk	Composite domestic risk	Regional rank	Composite security rating	Ranking
UAE	84	81	78	80	1	81	1
Kuwait	88	76	79	77	2	81	2
Jordan	76	71	77	74	3	75	3
Saudi Arabia	80	68	81	74	4	76	4
South Africa	92	88	49	69	5	76	5
Israel	62	56	79	68	6	66	6
Turkey	74	62	65	64	7	67	7
Uganda	64	66	55	61	8	62	8
Iran	27	81	74	78	9	61	9
Egypt	64	61	41	51	10	55	10
Iraq	61	40	27	33	11	43	11
Libya	52	34	30	32	12	39	12
Sudan	36	49	31	40	13	38	13
Yemen	37	33	29	31	14	33	14
Syria	19	28	36	32	15	28	15

Scores out of 100, with 100 the highest. The 'Composite Security Risk' is the principal rating. It comprises 'Interstate' risk - the risk of becoming a primary party to an inter-state conflict that threatens significant damage to homeland; 'Terrorism' risk - the risk of terrorist groups (domestic or international) being able to launch a major attack/sustained campaign; and 'Criminal' risk - the risk of (politically motivated) violence against expatriate workers. Each of the three risks is given equal weighting. The 'Composite domestic risk' rating comprises 'Terrorism' and 'Criminal' risk, each of which is given equal weighting. Each rating (State, Terrorism, Criminal) is assessed subjectively by our analysts within a clearly defined methodology, incorporating a minimum of six conceptually distinct elements. Source: BMI

Healthcare Sector

The Iranian government has invested substantially in the development of the healthcare system, with investments paving the way for an increase in the number of doctors and hospitals in the country, although quality issues have yet to be resolved. The government has attempted to improve public access to primary and preventative care, particularly in the rural areas where more than 35% of the population reside. Since 2005, a rural insurance scheme has been implemented, which has led to significant falls in infant mortality among these at-risk groups. The measures have improved basic health indicators to some extent, and life expectancy has been rising steadily in recent years.

All Iranians are eligible for community-based preventive public health and limited curative health services, financed and provided through the primary healthcare network, which is funded entirely by the national government. This system was established to improve rural access to healthcare and reduce the gap between rural and urban health outcomes. Although the Social Security Organisation (SSO) guarantees a minimum level of care for those who meet their insurance obligations, it also gives added benefits to those who volunteer to pay higher premiums.

Medical students and employees do not have access to experienced doctors from Western countries, which negatively affects the quality of care. The health of the population is threatened by the unhygienic disposal of wastewater and sewage, along with the limited availability of clean water, especially in rural areas. Despite investments in healthcare, the infant mortality rate is estimated to be much higher than in the developed world.

Healthcare Spending

Iran's government committed around one-sixth of its budget to healthcare-related functions for the financial year April 2008-March 2009, according to the MOHME. Approximately IRR70trn (US$7.5bn) was used to fund the ministry health, government insurance schemes, public medical centres and medical universities.

This level of funding is expected to encourage growth already seen in the public hospital sector and allow the expansion of healthcare in rural areas to continue. The improvement of Iran's per capita health indicators is further aided by sluggish population growth, of less than 1% per annum.

Absolute spending levels have risen steadily in recent years, despite government attempts to control costs. Nevertheless, the government accounts for a progressively smaller percentage of the overall spending on health (which fell to an estimated 37% in 2012, from some 45% in 2007), even though the country's private healthcare coverage remains fragmented. Although the private sector - including out-of-pocket spending - accounts for the majority of healthcare expenditure, private health insurance comprises only 2-3% of total expenditure.

Primary Care

Primary care is provided by clinics known as health houses, which employ community workers known as behvarzes. Tasks performed by the health houses include record keeping and data collection; public health education and promotion of community participation; antenatal, prenatal and postnatal care; care of children; family planning services; immunisation; and disease control services. The second and third levels in the hierarchy of the rural health network provide backup for the rural health houses and offer diagnostic and treatment services. These organisations also have urban counterparts.

The primary healthcare system relies on three components:

- Establishing a simple, but integrated, health information system.
- Establishing health houses in remote and sparsely populated villages.
- Staffing health houses with health workers recruited from local communities.

The expansion of the primary healthcare system has achieved remarkable results. Steps taken by the system have been responsible for reducing infant and child mortality, eradicating major infectious paediatric diseases and improving post-natal health. However, there are weaknesses in the system, and some facilities do not meet the required standards. Also, there is insufficient support from the institutions at the second and third tiers of the system, with salaries received by medical professionals similarly considered inadequate.

Secondary Care

In addition to the health houses, the country's largest healthcare delivery network is owned and run by the MOHME through its network of health establishments and medical schools. Other parallel organisations, such as Medical Service Insurance Organisation (MSIO), have been established to act as relief foundations, as well as insurance firms.

According to the census undertaken by the Statistical Centre of Iran in 2003, Iran had 730 medical establishments, of which 488 were directly affiliated and run by the MOHME, 120 were owned by the private sector and the rest belonged to other organisations such as the Social Security Organisation (SSO). Most private hospitals are better equipped than their public equivalents. The government has been planning to privatise some of the state-owned hospitals as the demand for private hospitals has increased and occupancy rate of state-owned hospitals has decreased to about 56%.

In general terms, there is a need to improve consumer awareness of the need to use pharmaceuticals more rationally and effectively, with around 8% of annual hospital admissions thought to be a result of the misuse of medicines. In fact, according to 2010 statements made by the director of pharmaceutical affairs of Zanjan University of Medical Sciences, as many as 30% of patients treated for renal failure are suffering due to the incorrect or uncontrolled use of medicines, especially painkillers, which can have dramatic side-effects on the gastrointestinal system.

Health Insurance

Iran has a compulsory health insurance system managed by the SSO. The public sector guarantees a minimum level of care for those who meet their insurance obligations but gives added benefits for those who volunteer to pay higher premiums.

Membership of the SSO is mandatory for all employed, who pay 7% of their salaries as premiums. These are mostly topped up by the employer, with a small proportion also provided by the government (3%). Self-employed citizens have to contribute voluntary premiums of around 15% of their income. Most private healthcare insurance is also operated by state-owned companies.

The SSO is the largest single purchaser of healthcare services in the country. The organisation provides direct coverage to insured people (including pensioners) through 67 hospitals and about 270 clinics. Indirect coverage is provided on contract with approximately 840 clinics and polyclinics, 670 hospitals and over 28,500 doctors and dentists. The insured people using those facilities pay a fraction of the cost, while the full cost of the treatment is borne by patients using facilities not contracted by the SSO.

The health insurance organisation encourages generic substitution, agreeing to pay the cost fixed at the level of the lowest-priced medicine using the same molecule, regardless of the actual price of different drugs. However, insurance covers only 70% of the pharmacy and 80% of the hospital value of products, and then only if included on the positive reimbursement list. Therefore, patients who wish to use imported drugs have to cover the difference, which can be significant and even unaffordable when higher-cost medicines are involved.

The government still provides approximately US$240mn in subsidies for drugs and infant milk per year. The medicine subsidies are primarily for older oncology drugs, plasma derivatives and multiple sclerosis products. Although some OTCs, including paracetamol, continue to be subsidised, local reports suggest this is likely to change in the near future.

Low capacity and investment in public hospitals are the leading problems facing the state healthcare sector, as wealthier Iranians tend to opt for 'private' healthcare or travel abroad for treatment. Despite the fact that the government subsidises pharmaceutical production and drug imports, most households spend more than 19% of their healthcare expenditure on pharmaceuticals.

According to Jam-e-Jam reports from February 2010, the SSO owed IRR3,800bn (US$385mn) to the hospitals with which it held contracts. Additionally, reimbursements to pharmaceutical companies were also delayed, causing friction between the SSO and the industry. At the same time, SSO's outstanding liability to pharmacies was reported to be in the range of millions of US dollars. While some of those debts are likely to have been repaid since, their sheer size would have prevented full resolution in a timely fashion.

Epidemiology

According to our Burden of Disease Database (BoDD), the number of disability-adjusted life years (DALYs) lost to disease or injury in Iran is expected to increase from around 8.7mn in 2010 to over 10.7mn by the end of 2030. Underlying this trend is the burden of non-communicable disease, which is expected to increase by an average of 1.5% year-on-year (y-o-y), due to an increasingly affluent and aging population. The burden of communicable disease (including conditions such as malaria and cholera) is expected to fall, due to improved healthcare.

The prevalence of respiratory diseases and cancers in Iran is increasing at a significant rate, according to the Tehran Times. **BMI** notes the Iranian capital is exposed to higher risk factors than other regions. These include the geographical situation, climate and congestion, which all increase the levels of air pollution in the city. With none of these causes likely to change within the short- to medium-term, we expect multinational drug firms that focus on respiratory related diseases to find Iran an attractive market to boost revenues in the Middle East. This view is also supported by the fact that respiratory diseases are estimated by the World Bank to cause losses to the economy in excess of US$640mn annually, which is likely to prompt the authorities to deal with the issue.

The Behesht-e Zahra Organisation conducted a demographic study in Tehran during 2007-2008 to determine the scale of the problem. During this period, 762 people died from lung cancer in Tehran, while 291 people died from respiratory diseases. Over two-thirds of those dying from respiratory-related disease in the capital were men. A further 401 people died from lung cancer during 2008-2009, with more expected to be added to this number pending a consensus on figures.

Public awareness of the dangers that air pollution poses to health is increasing, although this is not entirely due to government intervention. As the incidence of asthma and other respiratory illnesses rises, physicians have begun advising patients not to venture outdoors during peak traffic periods and at midday during the summer. BMI believes early diagnosis and management of respiratory diseases must also be encouraged to reduce the morbidity rate.

Additionally, diabetes is emerging as a public health issue. According to the December 2010 diabetes awareness survey across 10 countries in the Middle East and North Africa (Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, Saudi Arabia, Tunisia and the UAE), 40% of the respondents were at risk of developing diabetes. The survey found that over half of the people questioned were unaware of the medical repercussions of the disease, while 37% had never been screened for it. Novo Nordisk appointed Ipsos Emirates Health to conduct the survey as part of its contribution to World Diabetes Day 2010.

In December 2012, it was reported that a large-scale healthcare project in Iran, which has secured approval from the Iranian president, will be carried out in the near future, according to Iran's Nursing Council Chief Ghazanfar Mirzabeygi. Under the project, the nursing community will perform free-of-charge medical tests on about 50mn people aged 20 years and above. The tests will be carried out for extra weight, blood pressure and blood sugar concentration by about 40,000 nursing students and some 100,000 registered nurses within one month, Mirzabeygi added.

Table: Insurance Key Drivers, Disease Adjusted Life Years, 2010-2017

	2010	2011	2012e	2013f	2014f	2015f	2016f	2017f
All diseases and injuries, total, male, DALYs	6,505,853	6,589,414	6,672,698	6,755,559	6,837,922	6,919,766	7,001,118	7,082,033
Communicable, maternal, perinatal and nutritional conditions, total, male, DALYs	831,960	825,282	818,281	810,951	803,289	795,292	786,962	778,298
Non-communicable diseases, total, male, DALYs	3,620,466	3,675,884	3,731,543	3,787,318	3,843,141	3,898,992	3,954,885	4,010,856
All diseases and injuries, 0-4 yrs, male, DALYs	1,107,440	1,108,993	1,108,851	1,107,040	1,103,585	1,098,512	1,091,848	1,083,630
All diseases and injuries, 5-14 yrs, male, DALYs	531,252	534,917	540,251	547,144	555,439	564,942	575,420	586,607
All diseases and injuries, 15-29 yrs, male, DALYs	1,830,882	1,809,303	1,784,754	1,758,749	1,732,630	1,707,584	1,684,674	1,664,844
All diseases and injuries, 30-44 yrs, male, DALYs	1,276,939	1,349,029	1,422,838	1,496,354	1,567,879	1,635,979	1,699,446	1,757,258
All diseases and injuries, 45-59 yrs, male, DALYs	1,013,870	1,036,189	1,058,204	1,080,442	1,103,372	1,127,415	1,152,961	1,180,389
All diseases and injuries, 60-69 yrs, male, DALYs	409,586	417,289	426,438	436,719	447,865	459,658	471,916	484,485

Insurance Key Drivers, Disease Adjusted Life Years, 2010-2017 - Continued								
	2010	**2011**	**2012e**	**2013f**	**2014f**	**2015f**	**2016f**	**2017f**
All diseases and injuries, 70+ yrs, male, DALYs	335,884	333,694	331,362	329,111	327,152	325,677	324,853	324,819
All diseases and injuries, total, female, DALYs	5,582,072	5,645,264	5,708,545	5,772,058	5,835,881	5,900,032	5,964,484	6,029,183
Communicable, maternal, perinatal and nutritional conditions, total, female, DALYs	909,479	892,922	876,473	860,139	843,922	827,824	811,843	795,981
Non-communicable diseases, total, female, DALYs	3,431,004	3,493,266	3,555,655	3,618,297	3,681,259	3,744,562	3,808,193	3,872,115
All diseases and injuries, 0-4 yrs, female, DALYs	962,213	962,984	962,210	959,919	956,143	950,908	944,245	936,193
All diseases and injuries, 5-14 yrs, female, DALYs	472,814	474,721	478,043	482,678	488,488	495,300	502,916	511,107
All diseases and injuries, 15-29 yrs, female, DALYs	1,434,202	1,409,389	1,383,630	1,357,880	1,332,972	1,309,631	1,288,499	1,270,134
All diseases and injuries, 30-44 yrs, female, DALYs	1,107,817	1,152,052	1,195,699	1,237,607	1,276,836	1,312,617	1,344,323	1,371,441
All diseases and injuries, 45-59 yrs, female, DALYs	865,661	895,297	925,205	955,565	986,513	1,018,146	1,050,529	1,083,710
All diseases and injuries, 60-69 yrs, female, DALYs	384,612	393,605	403,540	414,597	426,881	440,431	455,247	471,292
All diseases and injuries, 70+ yrs, female, DALYs	354,754	357,215	360,218	363,811	368,049	372,999	378,727	385,305
All Causes, DALYs	12,087,925	12,234,678	12,381,243	12,527,618	12,673,803	12,819,798	12,965,602	13,111,216
Communicable, maternal, perinatal and nutritional conditions, DALYs	1,741,439	1,718,204	1,694,755	1,671,090	1,647,211	1,623,116	1,598,805	1,574,279
Noncommunicable diseases, DALYs	7,051,470	7,169,150	7,287,198	7,405,615	7,524,400	7,643,554	7,763,078	7,882,971

Insurance Key Drivers, Disease Adjusted Life Years, 2010-2017 - Continued								
	2010	**2011**	**2012e**	**2013f**	**2014f**	**2015f**	**2016f**	**2017f**
All diseases and injuries, 0-4 yrs, total, DALYs	2,069,653	2,071,977	2,071,061	2,066,960	2,059,728	2,049,420	2,036,093	2,019,823
All diseases and injuries, 15-29 yrs, total, DALYs	3,265,084	3,218,692	3,168,384	3,116,629	3,065,601	3,017,215	2,973,172	2,934,978
All diseases and injuries, 30-44 yrs, total, DALYs	2,384,756	2,501,081	2,618,537	2,733,962	2,844,715	2,948,596	3,043,769	3,128,699
All diseases and injuries, 45-59 yrs, total, DALYs	1,879,531	1,931,486	1,983,409	2,036,008	2,089,886	2,145,560	2,203,490	2,264,100
All diseases and injuries, 5-14 yrs, total, DALYs	1,004,066	1,009,638	1,018,295	1,029,822	1,043,927	1,060,242	1,078,336	1,097,714
All diseases and injuries, 60-69 yrs, total, DALYs	794,198	810,894	829,978	851,316	874,745	900,089	927,162	955,777
All diseases and injuries, 70+ yrs, total, DALYs	690,638	690,909	691,580	692,922	695,201	698,675	703,580	710,124

Source: Bimeh Markazi, Parsian, BMI

Autos

BMI believes there are still too many risks to manufacturing - not least the shortage of capital and Western sanctions - to expect a full recovery in the current year. Indeed, output for the first four months of the Iranian year, which coincides with the four months ending July 2013, was down a further 47.0% year-on-year (y-o-y), according to data from the Iran Vehicle Manufacturers Association. Although production of the **Peugeot** 206 recommenced in December 2012, which was heralded as the beginning of an upturn for the more self-sufficient industry, output of the model is down 67.0% y-o-y for the four-month period to July.

With this performance for the year so far in mind, we are revising our production forecast down further to a decline of 49.3%. There is reasonable upside potential for the remainder of the year, after Iran's Minister and Trade for Economic and Industrial Affairs, Mohsen Salehinia, announced in July 2013 that the country will produce 3,000 cars every day from August, despite international sanctions placed on the industry. Iranian carmakers **Iran Khodro** (IIKCO) and **Saipa** are set to produce 1,500 cars a day each under the renewed push.

How successful this will be without backing from former foreign partners remains to be seen and even if achieved, it would leave output down on the previous year. However, new opportunities have arisen in the form of agreements reportedly reached in July between major Iranian manufacturers and Chinese carmakers. There are few details about the scale of the projects and we believe that the time required to start such projects would mean that any new models would not be contributing significantly to total industry output growth within the current year. Therefore, we retain our view that production will remain far below previous levels.

Information on latest sales is more difficult to obtain. It is clear that sanctions will have taken their toll as several major international brands have ended their operations in Iran. However, the expanded US sanctions, which came into effect on July 1 2013, do not include export of finished vehicles to Iran. Goods and services exported for use in the Iranian automotive manufacturing segment do fall under the sanctions. However, in July, France's **Renault** was the latest carmaker to announce it is considering withdrawing from the market. The French company had supplied kits to IKCO for assembly in Iran, but the company said its Iranian business was now 'slowing down'.

Table: Insurance Key Drivers, Autos, 2010-2017

	2010	2011	2012e	2013f	2014f	2015f	2016f	2017f
SALES: Vehicles, units, mn	1.5	1.6	1.0	0.9	0.9	0.9	1.0	1.1
SALES: Vehicles, units, % chg y-o-y	10.7	6.5	-35.2	-15.0	-2.6	5.0	8.0	9.0
SALES: Passenger cars, units, mn	1.5	1.6	1.0	0.9	0.9	0.9	1.0	1.1
SALES: Passenger cars, units, % chg y-o-y	10.7	6.5	-35.2	-15.0	-2.6	5.0	8.0	9.0

Source: Renault, BMI

Competitive Landscape

Iran Competitive Landscape

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

Major Players In Iran's Insurance Sector

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

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

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

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

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

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

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

Competitive Landscape - Middle East and North Africa

BMI View: *In general, the insurance sectors of Middle Eastern countries fall into two categories: The first is characterised by a relatively small number of oligopolists, whose positions may have been formally protected by law (as in most of the GCC countries) or effectively protected by geopolitical issues (as in Israel and Iran). The second category is characterised by the large number of local players relative to the present market opportunity.*

The insurance sectors of Middle Eastern countries fall into two categories. The first is characterised by a relatively small number of oligopolists, whose positions may have been formally protected by law (as in most of the GCC countries) or effectively protected by geopolitical issues (as in Israel and Iran). The oligopolists are large by local standards but no more than medium-sized companies by other standards. Examples include **Clal**, **Harel**, **Phoenix/Hadar** and **Menorah** in Israel and **Bimeh Iran**, **Bimeh Asia**, **Bimeh Dana** and **Bimeh Alborz** in Iran. Outside Israel, these companies are overwhelmingly non-life insurers. Following the announcement by the Egyptian government in late 2007 that three state-owned insurers, **al-Chark**, **Misr Insurance** and **National Insurance**, were to be merged, concentration is increasing in that country.

The second category is characterised by the large number of local players relative to the present market opportunity. By world standards, these are small companies. Typically they are pure non-life companies, or non-life companies that derive a small portion of total income from life products. Often they have a close association with a local banking or trading company that may assist with procurement of business. The UAE, where local companies account for nearly 80% of the market, is a good example. So too is Kuwait, where the local companies account for about 90% of local premiums.

Other markets in the region with (comparatively speaking) large numbers of players relative to the total opportunity include Oman (eg **Oman United** and **Muscat International**), Qatar (eg **QIC**, **QGIC**, **Doha Insurance** and **al-Khaleej**), Bahrain (eg **Bahrain National**, **Gulf Union** and **Bahrain Kuwait**), Algeria, Morocco, Tunisia, Jordan and especially Lebanon.

AIG, **AXA** and **RSA** are noteworthy as major foreign multinationals with non-life operations across the region.

MetLife Alico stands out as a life company with a broad regional footprint that has long been established in the Middle East and North Africa. Many of the other multi-nationals that are distributing savings, investment and protection products across the region are offshore life companies (typically based in the Isle of Man) serving (mainly) an expatriate clientele. Examples include **Zurich Insurance Group's Zurich International Life (ZIL)**, **Friends Provident International (FPI), Skandia International**, and **Royal London 360°**. In Bahrain, **LIC (International)**, an offshoot of the giant Indian state-owned life insurer **Life Insurance Corporation (LIC)** was the largest life company in terms of premiums written in 2010.

A number of Middle Eastern insurers have expanded their business into other countries in the region. Examples include two substantial reinsurers, **Arig** and **Trust Re**, which are both based in Bahrain and, in terms of the risks that it covers, **Kuwait Re**. Companies that are totally or overwhelmingly direct insurers with a significant regional footprint include **MedGulf**, whose largest operation is in Saudi Arabia and **Gulf Insurance** of Kuwait. As we indicate in the company profiles, there are plenty of opportunities for local non-life insurers that are reasonably large players in their own markets but small by any other standard to gain the benefits of scale through regional partnerships.

Company Profile

Bimeh Alborz

Strengths

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

Weaknesses

- Writing premiums of a little over US$430mn annually, Bimeh Alborz would rank as no more than a medium-sized company in most countries.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana, mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

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

Threats

- Government policies and decisions that are inimical to the development of insurance.

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

Company Overview

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

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

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

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

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

Recent Developments

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

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

Bimeh Asia

Strengths

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

Weaknesses

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

Opportunities

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

Threats

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

- A hostile macro-economic environment.

Company Overview

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

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

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

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

Recent Developments

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

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

Bimeh Dana

Strengths

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

Weaknesses

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

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

Opportunities

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

Threats

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

Company Overview

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

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

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

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

Recent Developments

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

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

Bimeh Iran

Strengths

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

Weaknesses

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

Opportunities

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

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

Threats

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

Company Overview

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

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

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

Recent Developments

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

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

Parsian Insurance

Strengths

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

Weaknesses

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

Opportunities

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

- Wholesale political change.

Threats

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

Company Overview

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

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

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

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

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

Recent Developments

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

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

Regional Overview

Middle East And North Africa Life Overview

BMI View: *By most metrics, life insurance remains very underdeveloped across the Middle East. However, it is an important conduit of organised savings for the expatriates who play a crucial role in the economies of the Gulf Cooperation Council (GCC) countries.*

Table: Middle East And North Africa's Life Premiums, 2010-2017 (US$mn)

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Algeria	97	101	91	138	147	158	168	179
Angola	38	40	49	61	69	79	89	101
Bahrain	135	130	133	138	142	146	151	156
Egypt	1,223	1,320	1,259	1,409	1,562	1,719	1,881	2,045
Iran	400	466	542	630	732	850	986	1,144
Israel	5,800	6,681	6,612	7,778	8,372	9,010	9,696	10,431
Jordan	54	62	67	71	75	79	81	84
Kenya	337	348	449	483	541	602	666	732
Kuwait	185	191	196	200	205	209	213	217
Libya	11	1	1	1	1	1	2	2
Mauritius	388	453	462	471	480	490	499	508
Morocco	790	947	1,014	1,025	1,061	1,097	1,133	1,170
Namibia	610	620	609	622	653	685	719	753
Nigeria	285	376	425	493	558	630	713	806
Oman	107	119	169	172	175	187	200	213
Qatar	60	64	68	80	86	92	97	101
Saudi Arabia	260	242	237	264	269	275	280	286
South Africa	28,220	36,592	39,024	43,132	44,623	46,163	47,756	49,404
Tunisia	113	127	123	124	125	127	128	129
United Arab Emirates	1,089	1,307	1,465	1,579	1,679	1,777	1,888	2,015

Source: BMI

As of mid-2013, it appears that the challenges and the opportunities which confront life insurance companies across the Middle East and North Africa (MENA) region are broadly the same as they were in mid-2012 or, indeed, mid-2011 or 2010.

By most metrics, such as absolute premiums written, the typical size of indigenous life insurance companies, life density (premiums per capita) and penetration (premiums as a percentage of GDP), life insurance remains (very) underdeveloped in virtually all countries. In the six, relatively (and/or absolutely) wealthy countries of the Gulf Cooperation Council (GCC), comprehensive social security systems mean that local people perceive that they have little need for the benefits that are provided by life insurance in most other countries. Elsewhere in the region, the main problems vary, but include widespread poverty, a general lack of financial literacy and understanding of insurance and/or chronic financial instability.

This means that the main opportunity for life insurance companies comes from expatriates who are working in the region - and, predominantly, in the GCC countries. In general, the expatriates are prospective clients because they are looking to build savings (often, but not necessarily, for retirement), in the limited period that they are working in the region, and before they move on (often, but not necessarily, to their country of origin). Although many of the expatriates understand the general benefits of life insurance, they are typically relying on financial advisers for assistance with financial decisions. Often the financial advisers are employees of independent financial advisory (IFA) firms of the kind that would be instantly recognisable in the UK. Sometimes, though, the advisers are employees of banks that distribute life insurance and other wealth management products, such as investment funds.

BMI's reports include projections for the five years to 2017. A key assumption that we are making is that the constraints on the use of life insurance by local people will remain in place at the end of the forecast period. It is conceivable that political and economic developments in Jordan, Morocco and Egypt result in substantial expansion in the life insurance segments of at least one of those countries. However, we would regard this outcome as a positive wildcard. Almost all the growth will come from the virtually certain, and significant, increase in sales of life insurance to expatriates. The reason why the increase is virtually certain, and significant is that the GCC economies are still growing rapidly (by most standards) and are absolutely dependent on expatriate labour.

Insight Discovery, a leading market research firm in the region, has highlighted a number of other key details. That company's *Middle East Investment Panorama 2012*, which was published in September, notes that around 63% of investment advisers across the region deal with international life insurance companies. 'This means that the international life companies still have room to grow their businesses across the GCC through reaching out to "new users" among advisers.' Insight Discovery points out that the international life companies are becoming more important as distributors of the offerings of international asset management companies, both through the life companies' platforms and 'mirror funds.'

Insight Discovery notes that 'it is absolutely crucial that international life companies which want to do business (in the GCC countries) have an on-the-ground presence and are able to provide excellent support to the advisers who use their products and services. The international life companies should also strive to provide advisers with access to the international asset managers who run the underlying products which the international life companies are distributing. International asset managers will, ideally, have good investment performance over virtually all periods and a good reputation.'

In the short-term, a number of the advisers with whom the life insurance companies deal face challenges from regulators on two fronts. As we remark in most of **BMI'**s reports on insurance across the MENA region, the regulatory environment in most countries is unclear and/or evolving. Many of the advisers are adjusting their business models so that they comply with the Retail Distribution Review (RDR) regime that is being introduced by the UK's **Financial Services Authority** (FSA). UK norms are important because, as Insight Discovery points out, 31% of the advisers in the GCC countries come from that country. (Another 37% come from India and one fifth come from Pakistan, or other countries in the MENA region.)

Insight Discovery noted that about 10 international life companies have a presence in the region. 'They include **Zurich International Life (ZIL), Friends Provident International (FPI)**, **Skandia International**, **MetLife Alico**, **Royal London 360°**, **Generali**, **Swiss Life** and **Hansard**.' A large majority of the advisers surveyed by Insight Discovery said that they believe that there is room for additional international life companies: significant numbers identified **Prudential plc** and **Standard Life** as companies that they would like to see establishing a presence in the region. Standard Life International opened its doors in the Dubai International Finance Centre (DIFC) on November 26, 2012.

As is the case in other parts of the world, several of the international life insurance companies which are active in the MENA region announced innovations in terms of product and/or service in late 2012. In early October, for instance, **Friends Provident International** said that it had launched an improved version of Premier, its 'flagship regular savings product' for the Middle East and Africa region.' The new version 'offers some key improvements including enhanced allocations, loyalty bonus, AED currency option and automatic lifestyle investment strategies.' Premier Advance, the new version of the product, offers 'access to a range of more than 200 investment funds, suitable for any investment strategy and attitude to risk.'

On September 29, 2012, **Old Mutual Wealth,** of which Skandia International is an element, announced the launch of a new Risk Profiler iPhone app that complements its online Portfolio Builder tool. 'The app, which is designed to help advisers with the first part of the portfolio building process, assesses a client's attitude to risk without the need for online access. Advisers ask their clients 11 questions which, once evaluated, will produce a score between 1 and 5, with 5 representing the highest risk level. The app quantifies each risk level by showing the range of potential investment returns that are likely to occur for each specific risk profile. This output is designed to help advisers explain in real terms the most likely scenarios associated with their clients' perceived appetite for risk, enabling them to recommend investment solutions based on the levels of loss or gain their customers are willing to accept.'

As the table shows, we are looking for steady, but not spectacular growth in life premiums across most countries in the region for calendar 2012 and 2013. Very few of the international life companies comment specifically on their operations in the region. Nevertheless, Royal London 360° noted that, in the first three quarters of 2012, new business (APE) sales had slipped relative to the previous corresponding period, because of the company's deliberate policy of focusing on higher margin regular-premium products. Old Mutual Wealth said that its APE sales decreased by 17% to GBP138mn in Q312. 'International APE sales were impacted by the HMRC restriction on Qualifying Recognised Overseas Pension Schemes (QROPS). A new structure was successfully implemented in Malta in Q312 and some recovery in sales performance is expected in this product line in Q412.'

Middle East And North Africa Non-Life Overview

BMI View: *As of late 2013, the figures published by non-life companies in relation to their operations indicated that, across the Middle East and North Africa (MENA) region, conditions have been mixed. As the figures in the table show, the data available suggests that moderate premium growth has been the norm for most countries in the region. This is, however, largely the result of the continuing expansion in economic activity. In many countries, non-life penetration has been falling, as rises in nominal premiums have not kept pace with the growth in nominal GDP.*

Table: Middle East And North Africa's Non-Life Premiums, 2010-2017 (US$mn)

	2010	2011	2012e	2013f	2014f	2015f	2016f	2017f
Algeria	1,001	1,095	1,150	1,332	1,443	1,578	1,776	2,003
Angola	790	874	1,068	1,380	1,784	2,228	2,759	3,409
Bahrain	422	440	449	479	514	554	599	644
Egypt	918	957	1,046	1,034	1,293	1,565	1,892	2,370
Iran	5,392	6,617	8,317	8,557	8,752	9,770	10,887	11,742
Israel	5,302	5,770	5,663	6,359	6,876	7,451	8,089	8,738
Jordan	524	559	597	639	718	804	889	981
Kenya	661	730	927	1,000	1,094	1,211	1,335	1,466

Middle East And North Africa's Non-Life Premiums, 2010-2017 (US$mn) - Continued								
	2010	2011	2012e	2013f	2014f	2015f	2016f	2017f
Kuwait	611	646	671	667	691	727	758	807
Libya	381	153	272	339	488	903	1,296	1,772
Mauritius	181	216	226	235	249	264	283	308
Morocco	1,806	1,978	1,960	2,153	2,297	2,416	2,564	2,754
Namibia	277	275	256	247	254	310	386	443
Nigeria	1,042	1,124	1,184	1,396	1,670	1,970	2,295	2,654
Oman	546	718	849	924	989	1,049	1,102	1,160
Qatar	908	1,021	1,109	1,328	1,422	1,563	1,821	2,134
Saudi Arabia	4,116	4,699	5,417	5,188	5,570	5,922	6,248	6,659
South Africa	9,901	10,340	9,378	9,207	9,427	10,152	10,943	11,855
Tunisia	669	712	710	830	945	1,020	1,105	1,194
United Arab Emirates	4,887	5,161	5,320	5,741	6,190	6,855	7,568	8,280

Source: BMI

There was limited comment from the non-life companies in relation to conditions in the latter part of 2012, but what little there was is illuminating, **Emirates Insurance**, one of the larger indigenous firms in the UAE and one that had suffered a contraction in premiums, noted that 'the market continues to experience exceptional levels of competition with a strong downward pressure on premium levels in practically all classes. … The increase in claims expense was driven by an increase in motor claims expense.'

For its part, regional reinsurance group **Arig** noted that its gross written premiums in the first nine months of 2012 amounted to US$209.4mn. This was 12% less than in the previous corresponding period, 'mostly as a result of decreased income from territories subject to UN sanctions or political turmoil, and clients struggling to reach their business targets within a highly price competitive market environment.' However, Arig benefited from much improved investment income (of US$16mn, versus just US$200,000 or so in the first nine months of 2011) and from a sharp reduction in non-life claims. Net underwriting returns in the first three quarters of 2012 were US$8.3mn, which contrasts with the loss of US$7.9mn in the first nine months of the previous year.

It should be noted, though, that particular companies reported very strong growth in parts (if not most) of their businesses across the region. **AXA**, for instance, highlighted the strong growth in health insurance premiums from its businesses in the Gulf. **RSA** remarked on the expansion of its retail business in Oman. In Saudi Arabia, market leader **Tawuniya** said that its gross written premiums increased from SAR2,912mn in the first nine months of 2011 to SAR3,792mn in the first three quarters of 2012. This growth was overwhelmingly because of a 51% surge in medical insurance premiums, from SAR1,495mn to SAR2,259mn. The expansion of Tawuniya's medical insurance business comes at a time that the Saudi subsidiaries of **Bupa Arabia** and **MedGulf** reported that their medical insurance premiums (had achieved only single digit growth). Significantly, Tawuniya said that the net claims in the medical insurance line rose from SAR969mn to SAR1,769mn.

In short, the non-life segments of the MENA region continue to be characterised by large number of sub-scale insurance companies, not all of which are showing discipline in their underwriting. For many companies, retention ratios are low, and at a time that reinsurance rates are generally moving upwards. Some companies face burgeoning claims costs. Investment profits have, for most, been improving: nevertheless, a number of indigenous companies are either sitting on very substantial amounts of cash or are heavily exposed to local commercial real estate markets. We remain of the view that a very substantial consolidation is overdue.

Finally, the hard numbers that have been published by leading players suggest that, across the region, the growth of Takaful may be losing momentum. The two leading Qatari Takaful operators indicated that gross and/or net contributions written in the first three quarters of 2012 were lower than they had been in the previous corresponding period. More crucially, **Salama**, the UAE company which is the world's largest (re)Takaful operator (and an organisation with global reach) said that gross contributions in H112 were AED1,243mn, or slightly less than in H111. Net earned contributions increased slightly, from AED959mn to AED972mn. However, a surge in claims - suffered mainly by Salama's **BEST Re** subsidiary as a result of its exposure to the 2011 floods in Thailand - caused the underwriting profit to fall.

Demographic Forecast

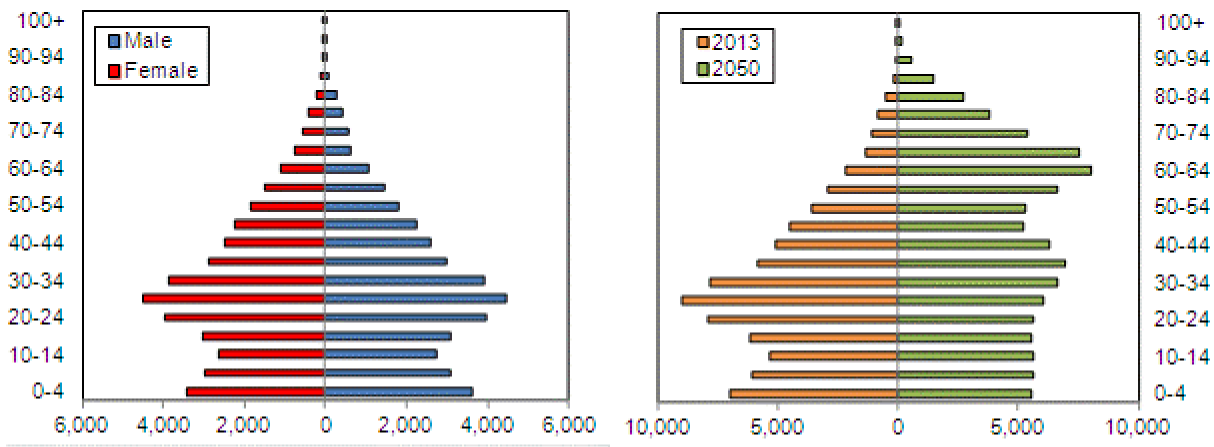
Demographic Outlook

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

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

Population Pyramid

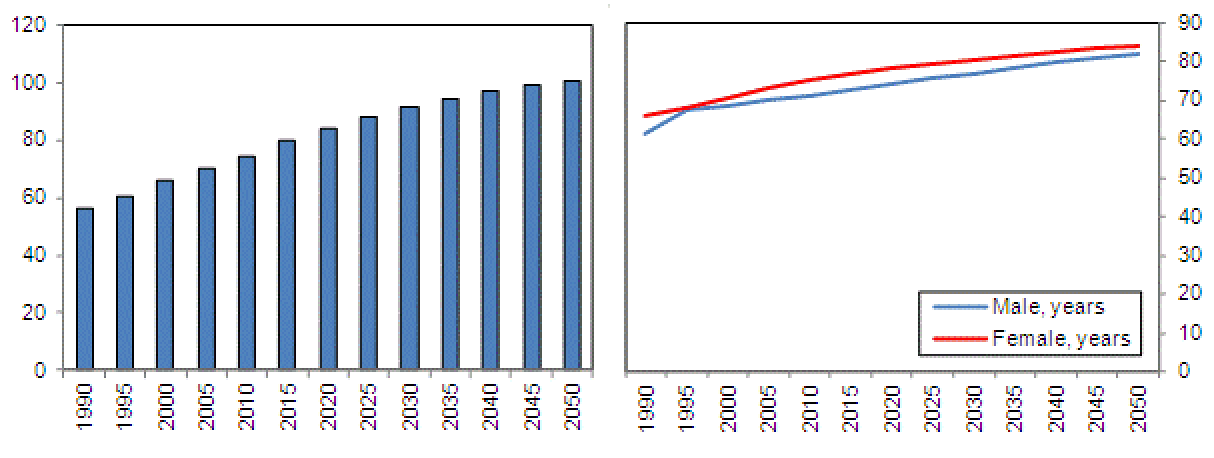
2013 (LHS) And 2013 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Population Indicators

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



Source: World Bank, UN, BMI

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Methodology

Industry Forecast Methodology

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

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

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

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

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

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

- R^2 tests explanatory power; adjusted R^2 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-collinearity.

BMI uses the selected best model to perform forecasting.

It must be remembered that human intervention plays a necessary and desirable role in all of **BMI**'s industry forecasting. Experience, expertise and knowledge of industry data and trends ensure that analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Sector-Specific Methodology

BMI's insurance reports provide insights into the operating conditions in and prospects for insurance in over 60 mostly developing countries. The reports incorporate the latest information available from official sources such as regulators, international associations of regulators and trade associations; comparable information from other countries; and **BMI's** economic and risk data. The reports focus on gross written premiums in two segments: 'Non-Life', and 'Life'. Unless stated, 'premiums' refers to gross written premiums.

In projecting our premiums, we consider the following factors:

- In BMI's reports, non-life insurance includes health insurance premiums if these are normally considered by industry observers to lie within the mainstream insurance sector;
- Non-life insurance includes inwards reinsurance premiums if these would normally and reasonably be considered a significant part of the non-life segment. In practice, this means that we generally include inwards reinsurance in developed countries and offshore financial centres that specialise in insurance;
- We consider outwards reinsurance to be an expense;
- Life insurance includes all long-term savings products that are legally structured as insurance products; and
- Life insurance premiums do not, therefore, include contributions to pension plans and other long-term savings schemes unless they are legally constituted as being within the insurance sector.

Life Segment

In projecting life premiums, we consider two aspects:

- The likely development of population; and
- The likely development of life density (life premiums per capita).

Typically, we forecast life density for 2018 and assume density changes evenly from 2014 to 2018. In some cases there will be clear reasons why life density is not likely to change evenly over time. In such cases, we forecast life density from year to year.

Forecasts of life density for 2018 typically take into account the following factors:

- Life density in 2014;
- Density in nearby countries at a similar level of development;
- Relative importance of life insurance in terms of overall retirement savings; and
- Other factors promoting or retarding evolution of the life segment.

Non-Life Segment

In making projections of premiums in the non-life segment, we consider two aspects:

- The likely development of nominal GDP; and
- The likely development of non-life penetration (non-life premiums as a percentage of GDP).

Typically, we forecast non-life penetration for 2018 (the end of the forecast period) and assume that non-life penetration changes evenly from 2014 to 2018. However, in some cases, an examination of the various lines (motor, accident/health, liability, etc) that constitute the non-life segment indicates that the non-life penetration is not likely to change evenly over time. In such cases we forecast the non-life penetration from year to year.

Forecasts of non-life penetration for 2018 typically take into account the following factors:

- Non-life penetration in 2014;
- Penetration in nearby countries at a similar level of development;
- Whether or not health insurance is generally considered to be within the insurance sector; and
- Any other factors promoting or retarding evolution of the non-life segment.

Autos

At a general level we approach our forecasting from both a micro and a macro perspective, assessing the expansion plans of relevant multinationals/indigenous firms, while also taking account of the prevailing economic outlook. In this latter respect, **BMI** projections for macro variables such as industrial output, private consumption, government investment, monetary policy and GDP growth play a key role.

Burden Of Disease

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

Risk/Reward Rating Methodology

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

The RRR system divides into two distinct areas:

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

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

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

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

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

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

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

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

Sector-Specific Methodology

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

Table: Insurance Risk/Reward Ratings Indicators

Rewards

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

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

Source: BMI

Weighting

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

Table: Weighting Of Indicators

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

Source: BMI