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IRAN

INSURANCE REPORT

INCLUDES 5-YEAR FORECASTS TO 2020

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BMI Industry View

BMI View: *Sanctions relief is set to boost the Iranian insurance market as rising household incomes leads to growth in life, motoring and health lines, which dominate the market. Smaller lines will also grow, but from a very low base. Sustained growth and market development will require foreign capital and expertise. An end to sanctions - apart from US sanctions, which will continue to cause hurdles for businesses with exposure to US markets - will provide opportunities for tie-ups between local and foreign partners. However, the state will continue to remain a significant player in the market and this could restrict opportunities for competition among privately owned insurers.*

Table: Headline Insurance Forecasts (Iran 2013-2020)

	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
Gross life premiums written, IRRbn	14,781.78	21,508.86	21,368.68	24,578.59	31,596.59	37,865.35	44,849.86	52,261.08
Gross life premiums written, IRR, % y-o-y	44.2	45.5	-0.7	15.0	28.6	19.8	18.5	16.5
Gross life premiums written, USDbn	0.82	0.83	0.83	0.77	0.90	1.02	1.15	1.27
Gross life premiums written, USD, % y-o-y	-2.2	1.3	-0.7	-7.2	17.5	13.4	12.4	10.8
Gross non-life premiums written, IRRbn	147,274.01	183,890.93	188,798.67	210,241.96	249,995.24	286,161.12	325,847.66	367,663.69
Gross non-life premiums written, IRR, % y-o-y	21.9	24.9	2.7	11.4	18.9	14.5	13.9	12.8
Gross non-life premiums written, USDbn	8.19	7.12	7.31	6.57	7.14	7.73	8.36	8.97
Gross non-life premiums written,	-17.3	-13.1	2.7	-10.1	8.7	8.3	8.0	7.3

Headline Insurance Forecasts (Iran 2013-2020) - Continued								
	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
USD, % y-o-y								

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

Key Updates And Forecasts

- Iran's life gross written premiums are set to grow 53% from 2015 in US dollar terms to USD1.27bn in 2020, while the non-life sector will grow just 23% over the same period to USD8.97bn.
- Overall claims are likely to rise as a result of a recent Islamic ruling which put women on a parity with men; in the past, women were only allowed half the level of men in the event of injury, disability or death. This will lead to increased accident and motoring insurance claims.
- Rising car purchases will lead overall growth in the Iranian insurance sector with mandatory motoring insurance. The high level of car accidents will also support higher premiums, although improvements in car safety due to foreign investment in the automotive sector could mitigate the situation.
- Foreign investors are cautious about tie-ups with local partners due to the dominance of state insurance - particularly **Bimeh Iran**'s 50%+ market share - and the continuation of US sanctions. Washington's unilateral sanctions are a source of confusion among investors who are exposed to US markets and are concerned about potential prosecution.

SWOT

Insurance

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

- Continued	
	▪ Greater penetration by foreign insurers should help to stimulate product development and innovation. ▪ Rising morbidity coupled with a growing middle class should give the health sub-sector considerable long-term upside potential. ▪ A period of market consolidation would significantly improve net premiums and boost profit levels across the sector. ▪ Iranian insurers are increasingly pursuing partnerships with foreign companies, creating new entry points.
Threats	▪ The government continues to prevent market liberalisation, resulting in inefficient state insurers blocking innovation in the private sector. ▪ The market's competitive landscape remains fragmented. As such, the sector remains focused on price-competitive, basic lines, yielding low profits. ▪ The decline in the value of the rial has led to contraction in US dollar terms in recent years.

Industry Forecast

Life Premiums Forecast

BMI View: *Iran's nascent life insurance sector is set to grow rapidly in the years ahead due to the affluence expected to come from sanctions relief. Greater stability in the exchange rate coupled with increased consumer awareness should boost premiums with life insurance set to take a larger share of the insurance market.*

Latest Updates

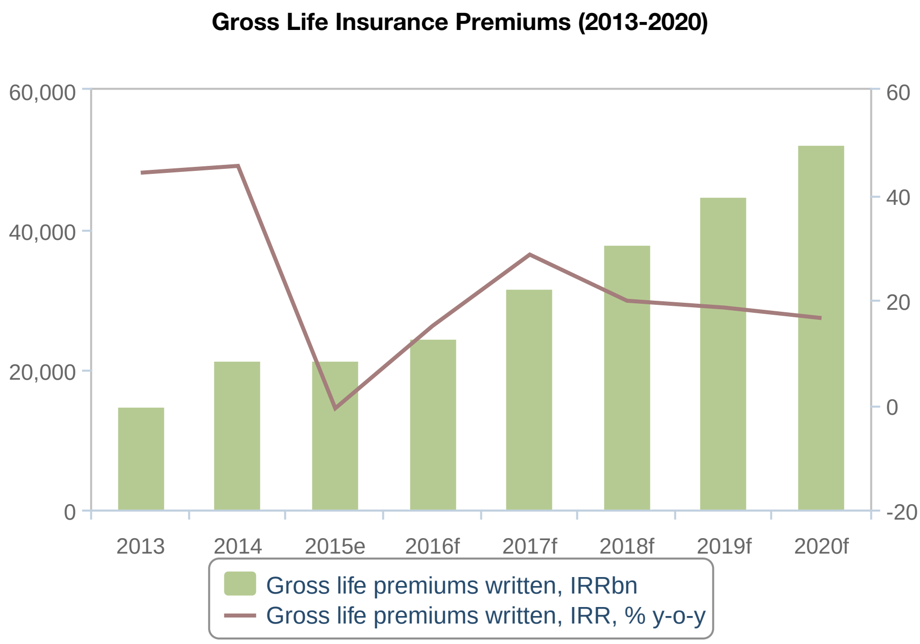
- Life insurance as a proportion of total premiums is set to rise from 10.2% in 2015 to 12.5% in 2020 amid strong growth in household income, particularly with the expansion of middle-income earners.
- Life density (premiums per capita) is set to grow from just under USD10 to USD15.3 by 2016, an increase of nearly 60%.
- Life insurance in local currency terms will rise 15.0% in 2016 to IRR24.6trn, an upward revision from 12.0% growth forecast in the previous quarter. However, in US dollar terms, the market will contract 7.1% due to currency movements. However, by 2020, the market should reach IRR52.3trn (USD1.3bn), which represents a considerable upward revision from the IRR32.3trn (USD0.9bn) forecast in the previous quarter.

Structural Trends

For a middle-income country with a sizeable population, Iran's life insurance market remains significantly underdeveloped, with penetration currently at around 0.2% of GDP. The segment is also considerably smaller than the non-life sector, accounting for just 10.5% of total premiums. The development of the market has been stunted by a lack of growth in Iran's economy over recent years as well as a lack of foreign competition due to the international sanctions imposed on the country. We also believe that government involvement in the sector through the regulator and the dominating state-owned insurance firm has hindered growth by discouraging competition among local re-insurers. In addition, the historical lack of a significant life insurance market means that public awareness of its benefits has been minimal and will remain so. As such, we envisage that the sector will remain in an embryonic stage of development over the long term.

While the market will remain small in absolute terms, the lifting of sanctions will raise household incomes and help expand the range of life insurance products on the market. This quarter, we have significantly raised our forecast for gross premiums written in anticipation of demographic changes brought about by economic growth and the expectation of partnerships with foreign insurers. A more affluent, younger and educated upcoming generation will be more inclined to seek life savings and care products. However, as a proportion of GDP, life insurance is unlikely to exceed current levels.

Gross Life Premiums



BMI/Central Insurance of Iran

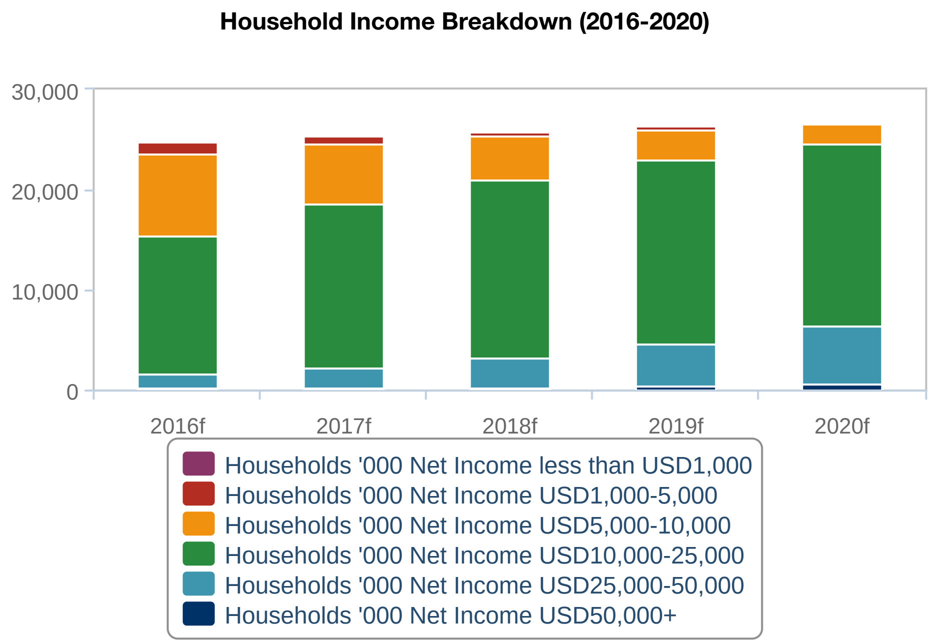
Life Insurance Premiums: Growing From Low Base

The end of sanctions in H116 is enabling Iran to emerge from recession with a resulting boost to the life insurance sector. At the same time, inflation is set to ease, freeing up household income and stabilising the exchange rate. At present, life insurance is in an embryonic stage of development and growing from a very low base. Life density (premiums per capita) is at just under USD10, an upward revision from the USD8 estimated in the previous quarter. Although premiums per capita are set to rise to USD15.3 by 2016, an increase of nearly 60%, strong GDP growth will ensure the market will never rise above 0.2% of GDP over the next five years. The upside scenario would see new entrants and offshore investors expanding the market and activate its dormant potential by raising awareness, expanding the product portfolio and bringing expertise to the market.

The impact of sanctions relief will be felt immediately with growth in local currency terms of 15% in 2016 to IRR24.6trn, an upward revision from 12% growth forecast in the previous quarter. However, in US dollar terms, the market will contract 7.1% due to currency movements. However, over the rest of the forecast period, a more stable economic environment will facilitate substantial growth in premiums. By 2020, the market should reach IRR52.3trn (USD1.3bn), which represents a considerable upward revision from the IRR32.3trn (USD0.9bn) forecast in the previous quarter when we were more cautious about the pace of sanctions relief and their impact on the economy. The rate of life insurance growth will also raise the segment's contribution to total premiums written from 10.2% in 2015 to 12.4% in 2020.

Iran is a relatively wealthy country by regional standards, and its sizeable middle class demographic ensures that there is potentially a substantial market for life insurance products. We expect the number of middle income earners in the country to increase substantially over the next few years, in line with robust economic growth. In particular, the number of Iranians earning between USD10,000 and USD20,000 a year will expand from around 2.5mn in 2016 to 6.3mn in 2020. The number of individuals in the USD5,000 to USD10,000 earning bracket will stagnate over the period, indicating that households are increasingly moving from a low-income to a middle-income standard of living. Growth in disposable incomes will present increasing opportunities for life insurers to penetrate what remains a relatively untapped market.

Household Income Breakdown



f = BMI forecast. Source: BMI, Statistical Centre of Iran

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

Table: Life Premiums (Iran 2013-2020)

	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
Gross life premiums written, IRRbn	14,781.78	21,508.86	21,368.68	24,578.59	31,596.59	37,865.35	44,849.86	52,261.08
Gross life premiums written, IRR, % y-o-y	44.2	45.5	-0.7	15.0	28.6	19.8	18.5	16.5
Gross life premiums written, % of GDP	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross life premiums written, % of gross premiums written	9.1	10.5	10.2	10.5	11.2	11.7	12.1	12.5
Gross life premiums written, USDbn	0.82	0.83	0.83	0.77	0.90	1.02	1.15	1.27
Gross life premiums written, USD, % y-o-y	-2.2	1.3	-0.7	-7.2	17.5	13.4	12.4	10.8

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

Claims: Rising Alongside Premium Growth

Claims and payments in Iran's extremely underdeveloped life segment have risen sharply since 2007, increasing from IRR953.6bn in 2008 to IRR6,952.6bn in 2014. We believe that this is due, in part, to the erratic fluctuations that come with growth off such a low base. Moreover, as the market expands, consumers may become increasingly aware of their rights as policy holders. Looking ahead over our forecast period, the growth in claims is expected to continue grow.

Recent regulatory changes are set to raise the amount of pay-outs. In March 2016 the Guardian Council approved a parliamentary bill to implement parity in the third person life insurance of men and women, which will enable women to increase their claims. Parliament's economic commission had argued that many women are now sole guardians of their families and in case of their death, the financial health and security of their families is dependent on the insurance payouts, which need to be on par with what is paid out to men. Blood money - a form of Islamic life insurance paid to the deceased person's survivors - has also been increased to IRR1.9bn (USD61,250) and will not distinguish between men and women. Women were given only half the level of men on the basis that they were not the main income providers, but rising economic independence of women has prompted a revision of Islamic rulings.

Table: Life Insurance Claims (Iran 2008-2014)

	2008	2009	2010	2011	2012	2013	2014e
Claims life, IRRbn	953.64	1,347.80	1,698.25	2,330.28	3,547.03	4,678.51	6,952.56
Claims life, IRR, % y-o-y	30.1	41.3	26.0	37.2	52.2	31.9	48.6
Life insurance gross loss ratio	45.1	42.0	36.2	33.9	34.6	31.7	32.3
Claims life, USDbn	0.10	0.14	0.17	0.22	0.29	0.26	0.27
Claims life, USD, % y-o-y	25.7	37.1	22.5	31.7	32.4	-10.5	3.5

e = BMI estimate. Source: BMI, Central Insurance of Iran

Non-Life Premiums Forecast

BMI View: *Sanctions relief is set to generate increased household income that will benefit Iran's dominant motor and health lines. Motoring insurance will be boosted by an expected rapid upturn in car purchases, while affluence and the failings and deficiencies of the state health sector will drive health insurance. The entry of foreign players into the market should boost the range of offerings by providing much needed capital and industry knowledge.*

Latest Updates

- Household income growth on the back of the economic stimulus of sanctions relief has prompted us to raise out non-life insurance growth forecast from 10.9% to 11.4% in real terms, but currency fluctuations mean that in US dollar terms the market will contract 10.1% to USD 6.6bn.
- The outlook for 2020 sees the market rising by nearly a quarter compared to 2015 to USD9bn and in local currency terms it will be nearly double the size.
- Recent legislative changes will see women's claims put on a par with men, having been half the level. This will raise the cost of non-life claims,

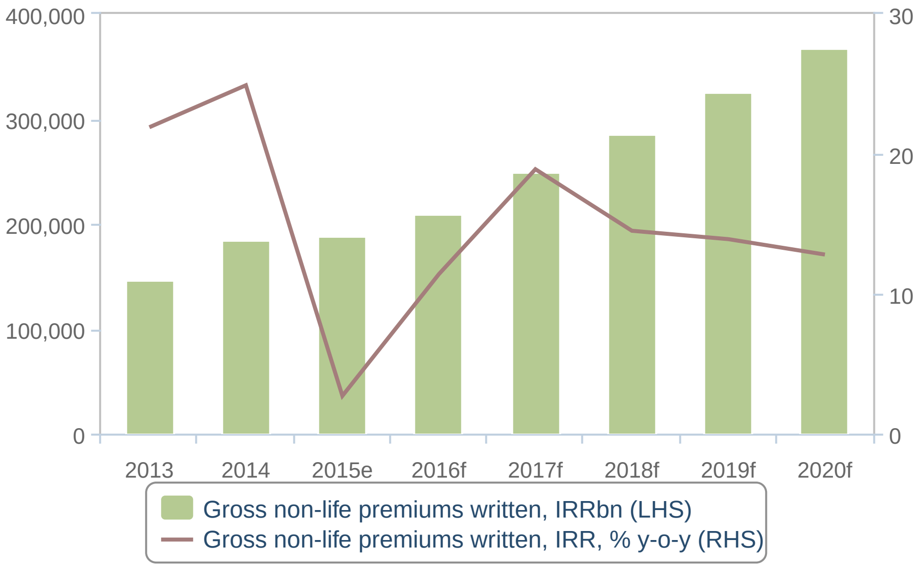
Structural Trends

Iran's non-life segment has traditionally accounted for over 90% of all premiums written in the insurance sector. Generally, the segment has achieved good real growth. Looking ahead, health and motor related lines should continue to benefit from higher prices and rates, as well as likely increases in the number of policies as economic output and consumer spending both start to pick up. However, both penetration levels and retention ratios will remain low as a result of heavy reliance on outward reinsurance, rising claims and a static market. These ingrained and widespread market issues mean that growth will fall below its potential over the long term.

Historically, the sub-sector has suffered from high inflation, a fluctuating currency and weak economy. Over the long term, as economic growth continues to pick up, the segment should achieve stronger and more consistent growth in premiums. Our Country Risk team expects to see annual real GDP growth of 4.3%, on average, between 2016 and 2025, with similar growth forecast in terms of private final consumption - boding well for the non-life insurance sector, as it indicates more potential spending on insurance products.

Gross Non-Life Premiums

Gross Non-Life Premiums (2013-2020)



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

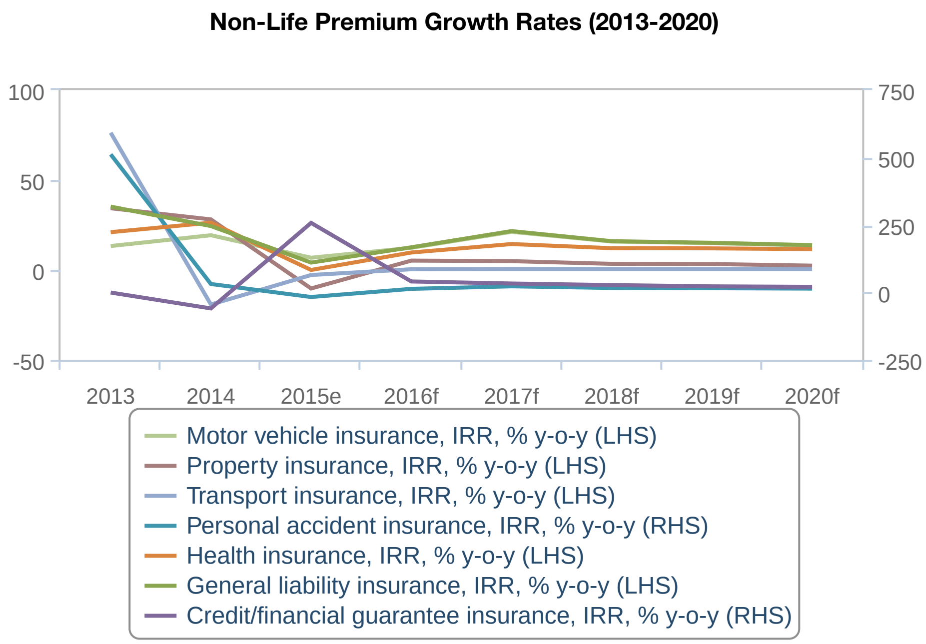
Non-Life Premiums: Economic Growth Supports Increase In Premiums Written

In the recent past, premiums in Iran's non-life sector when measured in US dollar terms have been depressed by the impact of inflation and the ongoing strengthening of the US dollar; a trend that will continue through 2016, when gross non-life premiums written are forecast to decrease by 10.1% in USD terms while growing by 11.4% in local currency terms. The expected easing of economic sanctions on Iran should spur growth in underwriting as companies and consumers begin to increase their spending.

Over 2017-2020 we retain a cautiously optimistic outlook. Growth in USD y-o-y should eventually reach the high single-digits, with stronger growth seen in local currency terms. We believe that this will largely be driven by the potential for continued rapprochement between Iran and Western nations. As Iran begins to open its doors, interest is already gathering from various non-life insurance providers, particularly those which previously had a presence in Iran. Product innovation, the opening of the market to foreign insurers and government legislation to prompt market consolidation would all help to facilitate growth above solid single-digits and lead to an upwards revision of our growth forecasts.

However, there will be other barriers to growth. For instance, the government's economic reforms, including the removal of costly subsidies, are moving slowly. The importance of macroeconomic factors for Iran's non-life segment is all the more significant given that the dominant sub-sectors are basic lines, such as motor. These tend to be susceptible to economic fluctuations where, for example, less demand for cars will affect the growth in premiums for compulsory motor insurance.

Non-Life Premium Growth Rates



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

As with the life sector, the primary potential risk to our current forecasts is the potential for further setbacks in negotiations between Iran's government and the West, which have the potential to derail the current progression in the country's economy and consumer spending environment. While significant progress was made during 2015, the process of removing sanctions is likely to be a gradual and arduous process and there is still potential for further setbacks. Should sanctions fail to be lifted, or economic growth fail to materialise, we would expect to see lower growth rates in the non-life sector.

Table: Non-Life Premiums (Iran 2013-2020)

	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
Gross non-life premiums written, IRRbn	147,274.01	183,890.93	188,798.67	210,241.96	249,995.24	286,161.12	325,847.66	367,663.69
Gross non-life premiums written, IRR, % y-o-y	21.9	24.9	2.7	11.4	18.9	14.5	13.9	12.8
Gross non-life premiums written, USDbn	8.19	7.12	7.31	6.57	7.14	7.73	8.36	8.97
Gross non-life premiums written, USD, % y-o-y	-17.3	-13.1	2.7	-10.1	8.7	8.3	8.0	7.3
Gross non-life premiums written, % of GDP	1.6	1.7	1.6	1.6	1.5	1.5	1.5	1.5
Gross non-life premiums written, % of gross premiums written	90.9	89.5	89.8	89.5	88.8	88.3	87.9	87.6

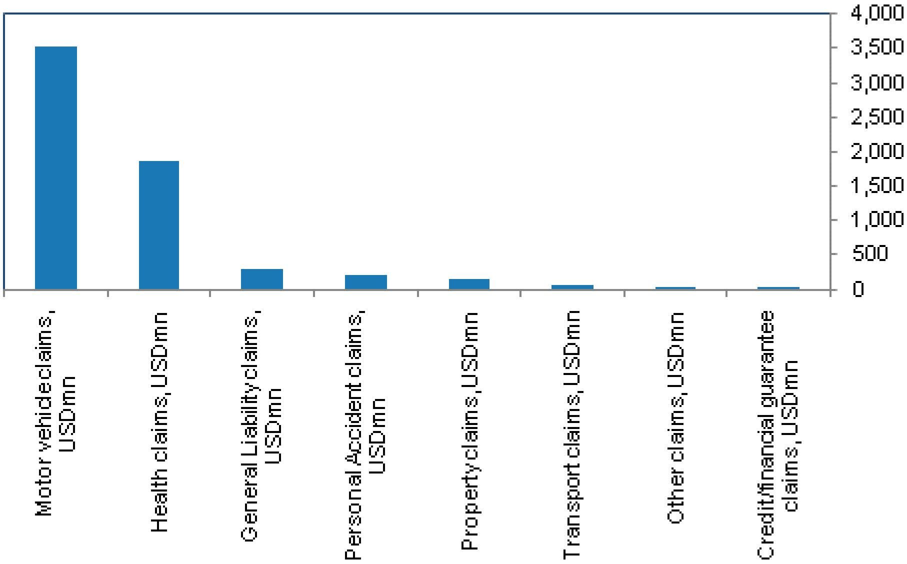
e/f = BMI estimate/forecast. Source: BMI/Central Insurance of Iran

Claims: An Increasing Cost

Because of the embryonic stage of development of Iran's life segment, non-life claims are virtually the same as total claims and payments. In part this is because of the structurally high rate of inflation - claims expenses rose consistently and rapidly through the six years to the end of 2013. Fortunately for the insurers, premiums kept up. We anticipate that this will remain the case in the short-term, with recent data from many of the market's largest players indicating that the growth in premiums is outstripping rising claims. Over the medium term we expect that claims will continue to grow rapidly, although a partial levelling off of currency fluctuations may mean that the annual growth rate stabilises to some extent. As such, claims levels will largely depend on macroeconomic stability, and thus the mitigation of volatile currency fluctuations, as has been the case over recent years.

Motor Unsurprisingly Source Of Largest Claims

Non Life Insurance Claims (2012), USDmn



Source: Central Insurance of Iran/BMI

Historically, motor claims have constituted the dominant portion of non-life claims. This is to be expected, given that motor lines represent a significant portion of total non-life premiums, particularly in light of Iran's high levels of road accidents, which drive up claims levels. In the recent past, motor claims, as a portion of total non-life claims, have decreased significantly and we expect this to continue over the forecast period. However, this is mostly due to rising claims in other sub-sectors rather than any meaningful slowdown in motor claims.

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

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

Table: Non-Life Insurance Claims (Iran 2009-2014)

	2009	2010	2011	2012	2013	2014e
Claims non-life, IRRbn	29,405.55	37,525.00	51,367.97	74,832.64	100,198.80	117,662.26
Claims non-life, IRR, % y-o-y	23.6	27.6	36.9	45.7	33.9	17.4
Non-life insurance gross loss ratio	68.0	68.9	64.8	61.9	68.0	64.0

e = BMI estimate. Source: BMI, Central Insurance of Iran

Non-Life Sub-Sector Forecast

BMI View: *Health and compulsory motor insurance dominate the non-life sector and their combined premiums will rise from 78.3% in 2015 to 79.4% by 2020. Rising affluence will lead to increasing car ownership and a move towards greater health protection in a country where health services are inadequate and most health spending is from out-of-pocket spending. Improved car safety could also reduce claims, although this will be partly offset by a recent ruling that guarantees women parity with men in claims.*

Latest Updates

- Motor insurance will remain by far the largest line in the Iranian non-life insurance market, growing by 12.3% in local currency terms in 2016, an upward revision from 11.6% due to the positive post-sanctions impact on household income and rising car ownership. However, currency movements mean this translates to a fall in US dollar terms of 9.3% to USD3.8bn.

- A similar trend will be seen in the next largest line, health insurance, where premiums are forecast to grow by 9.7% in local currency terms, down from 10.3% forecast in the previous quarter, translating to a fall of 11.4% in US dollar terms to USD1.4bn.

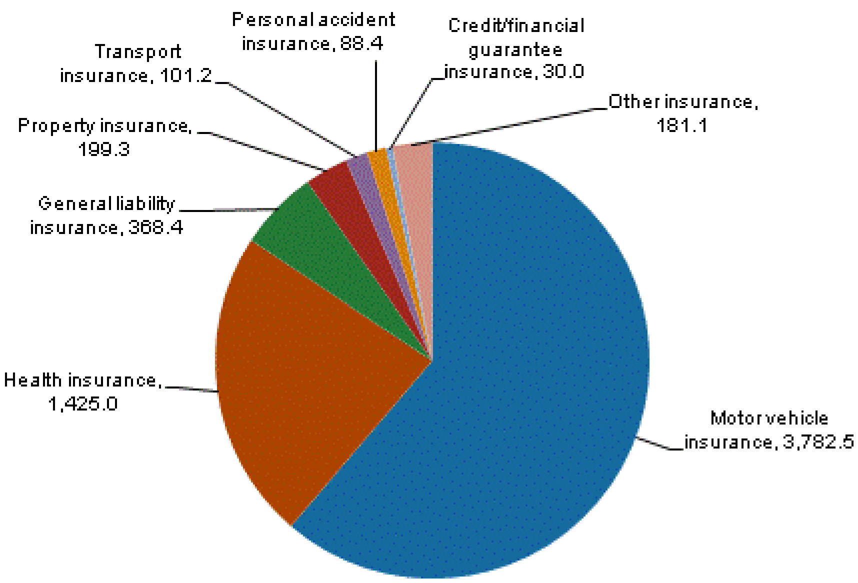
Structural Trends

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

As is the case with the overall sector, currency fluctuations distort the segment's financial metrics, hindering long-term market projections. As with the sector as a whole, Iran's non-life segment is dominated by sub-scale players focusing on compulsory, basic lines. This has hindered product innovation and prevented the market diversifying into more specialised lines. The dominance of basic lines is reinforced by the local population's lack of awareness of the benefits of non-compulsory lines. Motor vehicle insurance and health insurance are by far the largest and most important sub-sectors of Iran's non-life segment, accounting for around 85% of total premiums. It is hoped that the easing of sanctions on Iran's economy will allow the country's insurers greater access to international capital markets, which will in turn stimulate the development of non-compulsory lines and the segment as a whole.

Motor, Health And General Liability Most Developed

Non Life Premiums By Product Line (2016), USDmn



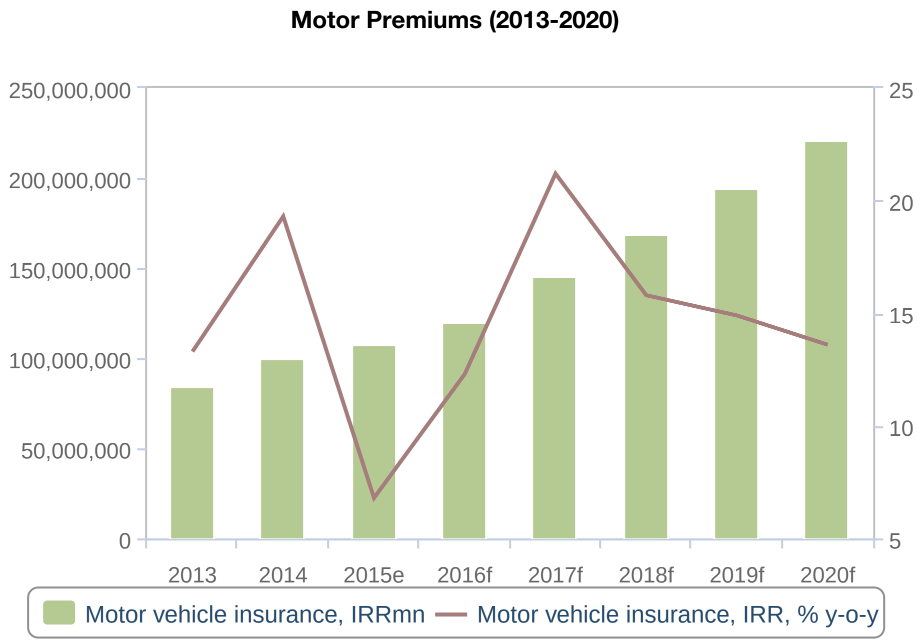
Source: Central Insurance of Iran/BMI

Motor Insurance: Big And Getting Bigger

Accounting for just under 57% of all premiums written in the non-life segment in 2015, motor vehicle insurance (including compulsory motorists' third party liability [CMTPL] covers and motor hull [CASCO] insurance) is by far the largest sub-sector in the Iranian non-life insurance market. On its own, the motor vehicle insurance sub-sector rates are substantial in global terms. Annual premiums should reach USD3.8bn in 2016, a fall of 9.3% compared to 2015 in US dollar terms. In local currency terms premiums are expected to increase by 12.3%, an upward revision from 11.6% forecast in the previous quarter.

Moving forward, the potential lifting of sanctions will provide a substantial boost to the autos market in Iran, and our Autos team expects to see substantial increases in new vehicle sales. We continue forecast sales growth of 19.8% in 2016 as more brands enter the market and consumers take advantage of an unprecedented level of variety. This would take to the market to 1.3mn units - a new high for Iran and a reflection of real growth rather than just a return to pre-sanction levels. By 2017, we see the volumes of vehicle sales reaching 1.4mn units, with an improved economy and favourable demographics adding to the choice of brands as key drivers of growth. This sales growth will support an increase in the total vehicle fleet size from 17.1mn units in 2016 to 23.8mn in 2020, creating a positive environment for growth in motor insurance premiums.

Motor Premiums

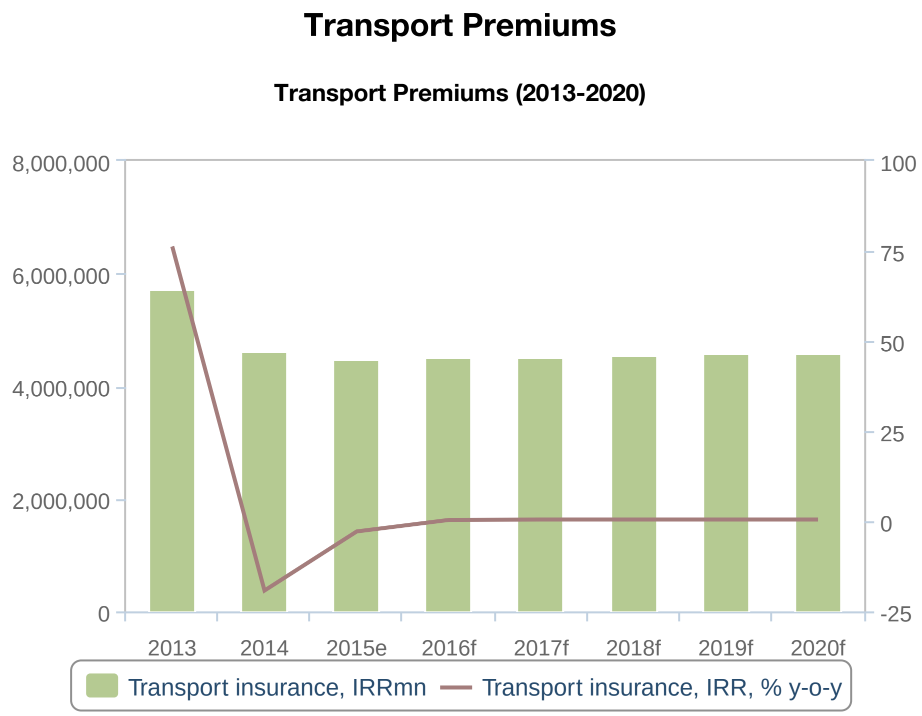


e/f = BMI estimate/forecast. Source: BMI, Central Insurance of Iran

Due to a more stable economic outlook and the relaxation of restrictive sanctions, we do not envisage the same levels of fluctuating growth over the forecast period that have characterised the sub-sector over the recent past, which should give insurers a period of relative stability. However, we do not anticipate any significant wave of market consolidation, which might otherwise generate higher growth through greater scale. As such, an overall increase in the volume of policies will continue to drive the sub-sector, and with vehicles sales increasingly rapidly this will be sufficient to drive double-digit growth in premiums written in local currency terms and solid growth in US dollar terms, leading to motor insurance premiums written of a fraction below USD5.4bn at the end of the current forecast period in 2020.

In terms of claims, recent regulatory changes will ensure that female victims of road traffic accidents are paid the same compensation as men. Legislative changes to third party insurance were approved by the

Guardian Council and bind insurance companies to compensate victims of road accidents regardless of their gender. Iranian law had stated that women were entitled to only half the compensation a man would receive. "Blood money", as stipulated in Islamic law, applies whether a case of death was deliberate or accidental. However, this applies only to Muslims and followers of recognised religious minorities, namely Christians, Jews and Zoroastrians.



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

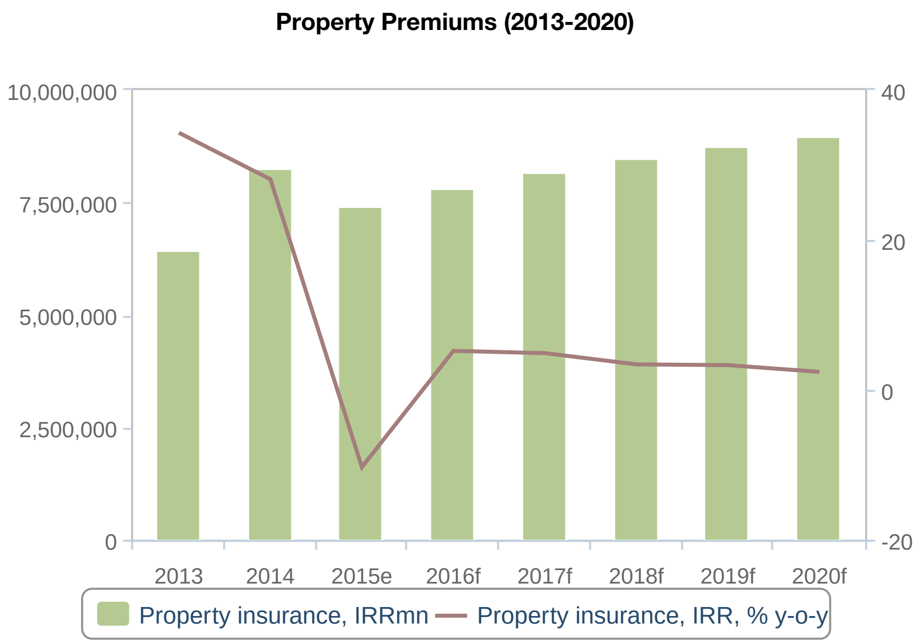
Transport Insurance: Slow But Steady Growth

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

Property Insurance: Minimal Growth Expected

Accounting for 3.9% of total premiums written in the non-life segment in 2015, the property insurance market is one of the smaller sub-sectors in Iran. Growth has been extremely erratic in recent years, with premiums contracting by about 25% in both 2013 and 2014. The main challenge for property insurers is that they are operating in a non-compulsory market. Given both Iranians' lack of disposable income over recent years, and very little awareness of the benefits of non-compulsory insurance solutions, it is a challenge to attract sufficient demand in this sub-sector.

Property Premiums



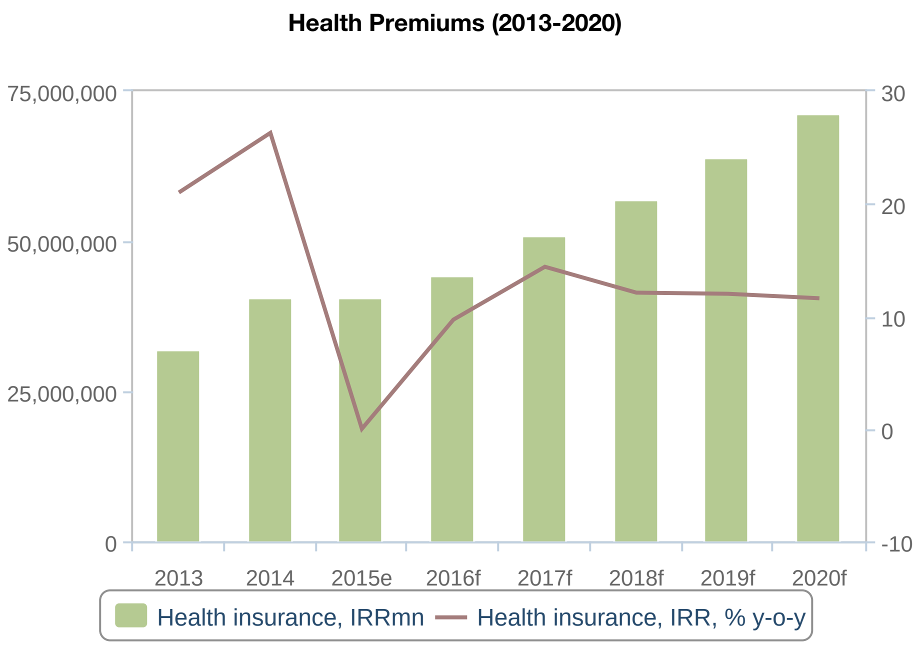
e/f = BMI estimate/forecast. Source: BMI, Central Insurance of Iran

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

Health Insurance: Growing In Popularity

Iran's health subsector is, and will remain, the second largest of the various sub-sectors of the non-life segment. In part, we attribute this growth to the rise in morbidity among older age groups. As DALYs (disability adjusted life years) rise in these age cohorts, overall volumes of policies should also rise. Moreover, there is an increasing demand for private healthcare provisions among Iran's middle class as the public sector struggles to meet the demands, and costs, of modern medical advancements.

Health Premiums



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

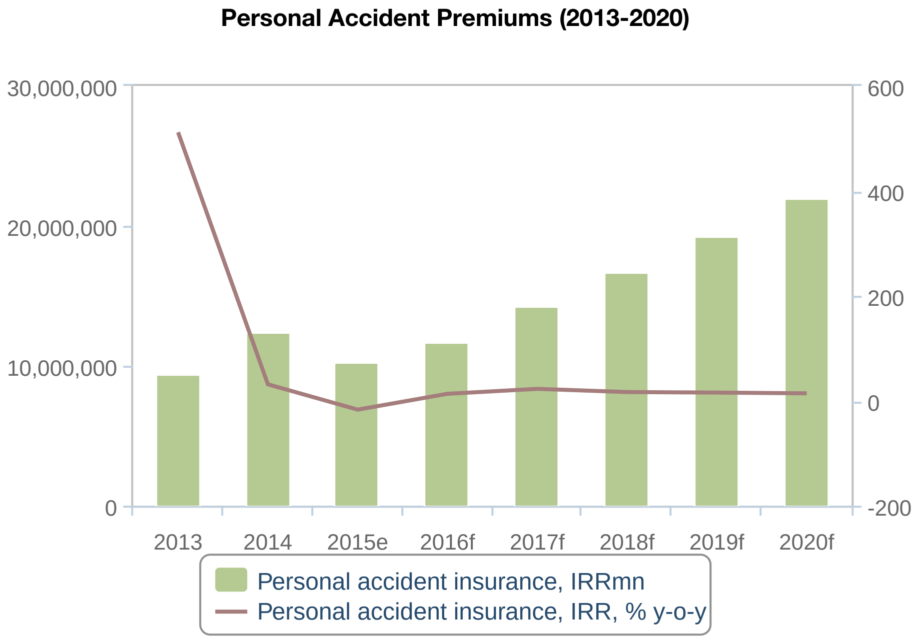
In 2016 we expect to see solid growth of 9.7% in local currency terms, 0.6 percentage points down on our forecast in the previous quarter. Growth in health insurance has been downgraded due to worse than estimated performance in 2015 when the market stagnated instead of showing the 8.9% growth we had forecast. Meanwhile currency fluctuations mean health insurance premiums will fall 11.4% in US dollar terms. However, in the medium-term, the segment will grow from USD1.57bn in 2015 to USD1.74bn in 2020, driven by population growth, currency stability, growth in household incomes and a desire for better healthcare than the inefficient public healthcare system which sees around 55% of health spending paid out of pocket. As incomes rise, more Iranians will look towards health insurance in order to reduce the overall cost of their healthcare.

Meanwhile, improvements in road safety and car manufacture, as a result of rising foreign investment in the automotive sector, should reduce claims and help reduce the cost of health premiums. At present, road accident deaths are the second biggest killer in Iran after cardiovascular disease, accounting for up to 18% of all deaths as well as a sizeable number of injuries and disabilities.

Personal Accident Insurance: Not A Priority Spend

Personal accident insurance accounts for about 5.6% of all premiums written in the non-life segment. It is, therefore, one of the smaller sub-sectors. Historically it has suffered from being a non-compulsory sector, as these have generally underperformed in the Iranian insurance market, where understanding of the benefits of various non-life products is not well developed. Growth has been well into double-digits in the last few years. As with the other non-life sub-sectors, currency fluctuations mean that we expect to see little growth in personal accident insurance premiums written in the country, with premiums expanding by 13.3% in local currency terms - up from 11.4% in the previous quarter - while falling by 8.6% in US dollar terms to USD364.9mn.

Personal Accident Premiums



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

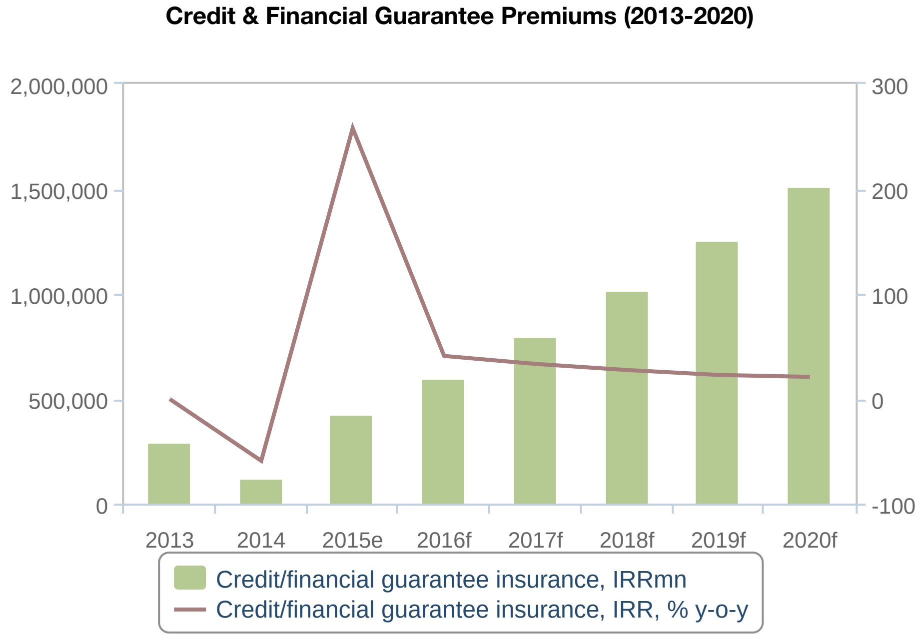
Over the forecast period, we expect the demand for personal accident insurance to continue to grow, reaching solid single digit figures over the forecast period in US dollar terms (double-digit growth in local currency terms). In part it will benefit from a more stable economic outlook and a growing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

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

Historically, the credit/financial sub-sector in Iran has witnessed unimpressive and a somewhat erratic contraction in premiums. This reached a low point in 2012 with a local currency contraction of 48%; however, in other years it was in the low single-digit figures. This was largely due to a contraction in financial and commercial services following the increase in international sanctions against Iran over its nuclear activities. However, in 2015, a return to a more stable domestic economic situation saw the credit/

financial guarantee segment outperforming the wider non-life insurance market, with premiums growing by 257.8% in USD terms to USD16.6mn with growth expected to be maintained in 2016 when we are forecasting premium growth of 13.6% to USD18.9mn.

Credit And Financial Guarantee Premiums



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

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

Table: Non-Life Insurance Premiums By Product Line (Iran 2013-2020)								
	2013	**2014**	**2015e**	**2016f**	**2017f**	**2018f**	**2019f**	**2020f**
Motor vehicle insurance, IRRmn	84,191,326	100,414,450	107,231,582	120,447,793	145,998,583	168,992,879	194,193,889	220,645,491
Motor vehicle insurance, IRR, % y-o-y	13.3	19.3	6.8	12.3	21.2	15.8	14.9	13.6
Motor vehicle insurance, % of non-life insurance	57.2	54.6	56.8	57.3	58.4	59.1	59.6	60.0
Property insurance, IRRmn	6,461,587	8,276,752	7,427,162	7,809,341	8,194,779	8,475,650	8,751,067	8,964,815
Property insurance, IRR, % y-o-y	34.3	28.1	-10.3	5.2	4.9	3.4	3.3	2.4
Property insurance, % of non-life insurance	4.4	4.5	3.9	3.7	3.3	3.0	2.7	2.4
Transport insurance, IRRmn	5,720,317	4,622,447	4,491,227	4,509,338	4,530,398	4,554,129	4,578,257	4,602,761
Transport insurance, IRR, % y-o-y	76.3	-19.2	-2.8	0.4	0.5	0.5	0.5	0.5
Transport insurance, % of non-life insurance	3.9	2.5	2.4	2.1	1.8	1.6	1.4	1.3
Personal accident insurance, IRRmn	9,445,180	12,400,841	10,307,568	11,675,383	14,319,766	16,699,565	19,307,748	22,045,361
Personal accident insurance, IRR, % y-o-y	511.7	31.3	-16.9	13.3	22.7	16.6	15.6	14.2
Personal accident insurance, % of non-	6.4	6.7	5.5	5.6	5.7	5.8	5.9	6.0

Non-Life Insurance Premiums By Product Line (Iran 2013-2020) - Continued								
	2013	**2014**	**2015e**	**2016f**	**2017f**	**2018f**	**2019f**	**2020f**
life insurance								
Health insurance, IRRmn	32,091,610	40,545,138	40,531,712	44,464,354	50,869,831	57,045,834	63,908,026	71,328,981
Health insurance, IRR, % y-o-y	21.0	26.3	0.0	9.7	14.4	12.1	12.0	11.6
Health insurance, % of non-life insurance	21.8	22.1	21.5	21.2	20.4	19.9	19.6	19.4
General liability insurance, IRRmn	9,164,051	11,403,824	11,869,586	13,365,790	16,258,390	18,861,570	21,714,571	24,709,151
General liability insurance, IRR, % y-o-y	35.2	24.4	4.1	12.6	21.6	16.0	15.1	13.8
General liability insurance, % of non-life insurance	6.2	6.2	6.3	6.4	6.5	6.6	6.7	6.7
Credit/ financial guarantee insurance, IRRmn	294,073	119,957	429,220	603,831	803,385	1,022,895	1,254,179	1,514,921
Credit/ financial guarantee insurance, IRR, % y-o-y	-0.4	-59.2	257.8	40.7	33.1	27.3	22.6	20.8
Credit/ financial guarantee insurance, % of non-life insurance	0.2	0.1	0.2	0.3	0.3	0.4	0.4	0.4
Other insurance, IRRmn	5,387,309	6,107,523	6,510,613	7,366,135	9,020,109	10,508,594	12,139,925	13,852,211
Other insurance, IRR, % y-o-y	62.5	13.4	6.6	13.1	22.5	16.5	15.5	14.1

Non-Life Insurance Premiums By Product Line (Iran 2013-2020) - Continued								
	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
Other insurance, % of non-life insurance	3.7	3.3	3.5	3.5	3.6	3.7	3.7	3.8

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

Insurance Risk/Reward Index

MENA Insurance Risk/Reward Index

Outside the region's top-scorer, Israel, the life insurance sectors of the MENA region are grossly underdeveloped, and are likely to remain so for some time. Coupled with weak regulatory environments and uncertain political environments, this leaves the average MENA score of 41.5 below the global average of 45.6. The UAE is a regional outperformer due to its more stable political environment and better-established non-life market. The opening up of Iran is unlikely to significantly boost the country's insurance sector over the next five years, and as such we continue to score the country as one of the weaker markets in the region.

The region's weakest performers, of the markets covered by **BMI**, are unsurprisingly Yemen and Libya, scoring 27.3 and 17.3 respectively, due to the low potential rewards in the near-term and the significant risks to the realisation of these rewards. This situation is not expected to improve for some years and these markets will remain unappealing to investors.

The Insurance Risk/Reward Index scores take into account objective measures of the current state and long-term potential of both the non-life and the life segments. They also take into account an assessment of the openness of each segment to new entrants and economic conditions. Collectively, these measures enable an objective assessment of the limits to potential returns across all countries and over a period of time. The scores also incorporate an objective assessment of the risks to the realisation of returns. The risk assessment is based on **BMI**'s Country Risk Index. It embodies a subjective assessment of the impact of the regulatory regime on the development and the competitive landscape of the insurance sector.

Table: MENA Insurance Risk/Reward Index - Q416

	Industry Rewards	Industry Rewards Non-Life	Industry Rewards Life	Country Rewards	Rewards	Industry Risk	Country Risks	Risks	Insurance Risk/Reward Score	Rank
Israel	57.50	55.00	60.00	59.66	58.36	80.00	74.82	76.89	63.92	1
UAE	41.25	50.00	32.50	62.54	49.76	70.00	56.79	62.07	53.46	2
Bahrain	30.00	37.50	22.50	69.81	45.92	85.00	53.60	66.16	51.99	3
Saudi Arabia	31.25	50.00	12.50	65.10	44.79	60.00	56.62	57.97	48.74	4
Oman	26.25	35.00	17.50	62.88	40.90	65.00	52.00	57.20	45.79	5
Qatar	20.63	36.25	5.00	70.21	40.46	55.00	59.50	57.70	45.63	6
Morocco	36.25	40.00	32.50	44.37	39.50	70.00	52.56	59.54	45.51	7
Kuwait	21.25	25.00	17.50	67.81	39.87	50.00	60.35	56.21	44.77	8
Lebanon	30.00	37.50	22.50	53.98	39.59	65.00	46.55	53.93	43.89	9
Jordan	22.50	30.00	15.00	54.18	35.17	70.00	48.23	56.94	41.70	10
Egypt	26.25	27.50	25.00	44.49	33.55	60.00	46.16	51.70	38.99	11
Tunisia	20.00	27.50	12.50	44.52	29.81	55.00	35.80	43.48	33.91	12
Iran	27.50	37.50	17.50	37.93	31.67	20.00	42.43	33.46	32.21	13
Algeria	17.50	27.50	7.50	27.54	21.52	50.00	42.28	45.37	28.67	14
Yemen	15.00	17.50	12.50	35.38	23.15	60.00	21.39	36.84	27.26	15
Libya	5.00	7.50	2.50	35.58	17.23	15.00	19.11	17.46	17.30	16

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

Market Overview

Life Market Overview

BMI View: *The life insurance sector is at a nascent stage with premiums totalling USD721mn in 2014 and representing just under 10% of total direct premiums written. At present, the market is dominated by state-owned insurers. However, there is considerable potential for merger and acquisition activity among private providers, partnerships with foreign insurers who had previously been kept out by sanctions and the increasing affluence that will come with expected economic growth. As such, Iran's life insurance market is set to become more sophisticated, diverse and competitive.*

Product Offering

Life insurers offer a well-developed and highly-diversified product range, including both low-cost and premium products, as well as both individual and group offerings. Despite this, and the availability of products combining life insurance with other cover, most business remains in the area of standalone group products sold to businesses. This is likely to remain the case for some time, with a large number of individuals unable to afford the luxury of premium individual life cover. However, there are some pension and other saving policies offered on an individual basis. We also believe that the potential integration of overseas providers into the life market as international sanctions against the country are relaxed will spur future innovation and product development.

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

Competitive Landscape

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

Players offering retirement and savings products to individuals rather than businesses (or rather bought by businesses for employees) include **Bimeh Alborz** and **Bimeh Asia**. Both of these groups are partially privatised. There are also specialist life insurance companies, though some of these, such as **Dana**

Insurance, have since expanded into the non-life market. However, their presence there is frequently negligible owing to the highly fragmented nature of the non-life competitive landscape. Overall, state involvement in the insurance sector is quite high in Iran, accounting for just under half of the market share - this is a combination of wholly state owned groups, and partially privatised entities such as those above. Moreover, the Iranian life sector is dominated by the state-owned composite company **Bimeh Iran**, a domestic behemoth that dwarfs other groups.

Although just over half of the market is comprised of private sector players, these are comparatively small, with limited market shares in comparison to Bimeh Iran's dominance. However, Iran's ongoing rapprochement with the West is expected to pave the way for increased competition in life insurance underwriting in the country, with European, Asian and African insurers all reportedly keen to re-enter the Iranian market and looking to cooperate with Iranian groups. As a result, we expect to see an uptick in mergers and acquisitions activity within the sector over the next few years. Increased competition should see the dominance of the state-owned insurance groups gradually eroded.

Rising incomes, particularly among the middle-class, should lead to greater interest in alternative forms of savings. Gradually increasing affluence post-sanctions should spur competition for a broader and more sophisticated range of product offerings.

Non-Life Market Overview

BMI View:*The Iranian non-life market is dominated by the state-owned Bimeh Iran, which accounts for over half of all gross written premiums. There are plenty of openings for foreign involvement in the sector following the end of sanctions in Q116, but hurdles remain including continuing US sanctions on Iran and the lack of international credit ratings. Private domestic insurers are fragmented and there are opportunities for merger and acquisition activity within the market.*

Product Offering

The majority of Iran's non-life insurance companies offer products across a broad spectrum of insurance lines, and there is significant variation within these lines. In addition, the non-life companies offer both corporate and personal products across most non-life lines. The non-life product offering has expanded steadily over the past decade, as the market became partially privatised, with a concomitant uptick in competition and the expansion of various niche product offerings. Initially, prior to the implementation of privatisation, Iranian insurers mainly provided motor and fire insurance, but have since expanded to provide liability and credit insurance and sector-specific products such as oil and energy insurance policies, rent insurance and train coverage. The increasing diversity is a reflection of the growing competition as new entrants seek to establish themselves in key spheres.

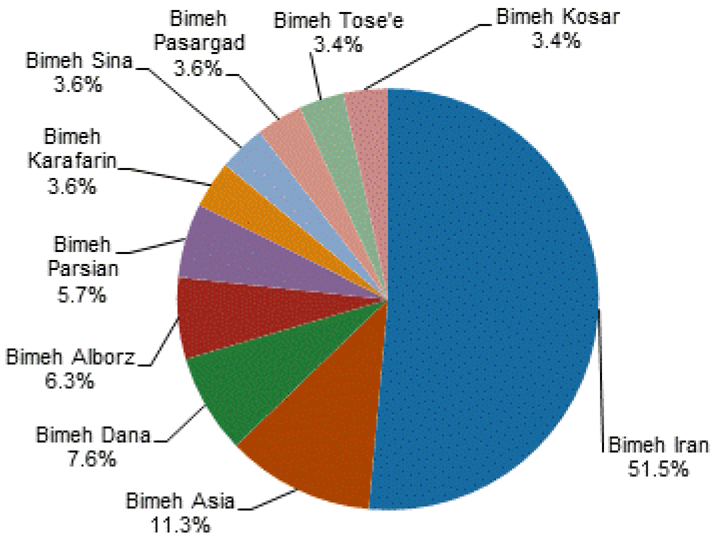
Iran's non-life insurance sector lacks sophisticated compliance regulations, although some advances have been made in recent years. The issue is intensified by the ongoing sanctions, which have exacerbated the complexity for foreign insurer involvement. This means that these groups are frequently reliant on domestic companies, which has boosted Iran's own insurers' maritime product offerings as they benefit from a captive consumer base. However, with the imminent relaxation of sanctions, we anticipate an improvement in this sphere over the next few years as well as the expansion of the product offering. As well as maritime insurance, we view airline insurance as another key opportunity likely to attract foreign private sector insurers over the next few years as the sanctions are relaxed. The Civil Aviation Organization of Iran is already anticipating a number of cooperation agreements with foreign insurers.

Competitive Landscape

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

Bimeh Iran Dominates Insurance Market

Gross Written Premiums By Provider (%)



Source: Insurance Information Institute, BMI

A sizeable portion of the non-life market is state owned with Bimeh Iran consistently accounting for over half of gross written premiums. In addition, there are three partially privatised groups. One such group is **Bimeh Asia** (nationalised in 1980) with 11.3% share of all gross written premiums, both life and non-life. **Bimeh Dana** is another partially privatised groups in Iran, and unlike some of its other life peers, its established life presence is countered by a solid non-life portfolio, offering accident, health, fire, theft, cargo, motor and liability insurance policies. This breadth has enabled the group to rise from fifth to third largest player in the combined life and non-life markets with 7.6% of the total market share.

In recent years, Dana has overtaken **Bimeh Alborz**, another part-privatised group which offers a similar range of products as Bimeh Asia and has 6.3% market share. In common with the majority of Iranian non-life companies, it has a presence in most non-life lines, both personal and corporate, including motor insurance, property insurance accident and health insurance, maritime insurance, and liability policies. One explanation for Alborz's loss of market share to Dana due to the latter's focus on fewer but costlier products.

The ongoing sanctions have posed a particular issue for reinsurers, as compliance for broad multi-activity coverage is difficult. In particular, insurers involved in maritime policies for Iranian vessels and cargos (or reinsurers taking on such risks) which include both property underwriters for the physical vessels and their cargos, and protection/indemnity policies for marine liability coverage have frequently withdrawn from involvement with the Iranian market owing to compliance issues. At present, therefore, there continues to be limited scope for non-Iranian participation in the market, owing to the sanctions. However, government involvement is seeing an incremental reduction as private sector players become more prominent.

The removal of sanctions should encourage foreign participation. The main foreign interest following the lifting of sanctions in January 2016 is in reinsurance, particularly for transport. The marine and energy sectors are set to provide the most rewarding opportunities. Iran has struggled to secure insurance backing for cargo shipping with the oil industry cobbled by a lack of affordable hull insurance. Reinsurance is also a growth area. Just 4% of total Iranian insurance premiums are ceded to reinsurers, which would amount to an estimated USD300mn of reinsurance business in Iran. Foreign insurers would have a significant role in expanding reinsurance cover.

Allianz, **Zurich Insurance**, **Hannover Re** and **RSA** have been among those who have expressed an interest in potential opportunities in the country. However, US insurers remain banned from the country due to the US's unilateral sanctions. Indeed, the US's continued sanctions have posed an element of uncertainty with European and Asian insurers seeking clarification that they will not be prosecuted in US courts. US regulations exclude US nationals, banks and insurance industry players from trading with Iran, so concerns remain on whether other foreign insurers can transact without the risk of penalties.

Foreign entry into the market is likely to come in the form of partnerships with local providers with international brokers helping foreign firms get that business. However, most Iranian insurance and reinsurance firms were established since 2005. They lack international credit ratings because they have been shut out of markets. This has served as a deterrent to foreign firms.

Company Profile

Bimeh Alborz

Strengths

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

Weaknesses

- Writing premiums of a little over USD430mn annually, Bimeh Alborz would rank as no more than a medium-sized company in most countries.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana, mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development whilst inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Wholesale political change.
- Alleviation of inflationary pressures as a result of potential lifting of western sanctions.

Threats

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

Company Overview

Bimeh Alborz is one of the three partially privatised (and formerly wholly state-owned) insurance companies in Iran. It is classed as a private company by the regulator, Bimeh Markazi. It was established in 1959 and nationalised in 1979.

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

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

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

Recent Developments

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

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

Strategy

In early 2016 Bimeh Alborz reportedly enhanced its capitalisation levels by increasing capital from retained earnings to enhance solvency levels. The group is planning on further expanding its market share by diversifying the range of products it has available in the non-life sector. We believe the company's size, healthy capital levels and strong brand awareness mean it is well place to take advantage of the expected growth in the insurance sector, despite the potential entrance of multinational competitors.

Financial Data

Bimeh Alborz has released its financial data for the Iranian year of 1391 (ie, March 2013, latest available).

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

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

Company Details

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Bimeh Asia

Strengths

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

Weaknesses

- Writing premiums of a little over USD800mn annually, Bimeh Asia would rank as no more than a medium-sized company in most countries.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana, mean that corporate policies and initiatives may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.

Opportunities

- Continued growth in medical insurance.
- Wholesale political change.
- Relaxation of sanctions and wider economic growth.

Threats

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

Company Overview

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

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

According to the company's website, Bimeh Asia's products are distributed through a relatively diversified spread of channels, including brokers and a nationwide branch network. There are over 100 branches and 2,000 agencies, covering 380 cities. The broad distribution network and wide range of products available mean that Bimeh Asia is very well placed to take advantage of the growth potential in Iran's insurance market moving forward, particularly as it has developed a strong online presence to enhance direct sales.

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1392 (ie, the year to March 2014) indicate that Bimeh Asia is the country's first largest insurer, with a market share of 11.3% in 2014. Bimeh Asia, according to Bimeh Merkazi Iran, has registered capital of IRR2,300bn as of the end of 1932.

Financial Data

During the year ending March 2013 (Iranian year 1391, latest available):

- Gross written premiums amounted to IRR10,094,598mn, having risen by 53.4%.
- The number of policies in force rose by 10.4% during the year to 5,305,403. By this measure, the company's market share is 15.1%.
- The amount of claim losses paid increased by 31.6% to IRR5,963,118mn.
- The number of losses rose by 17.5% to 489,085.
- Over the year, the loss ratio improved by 9.8 percentage points.

Company Details

- Bimeh Asia

299 Taleghani St

- www.Bimehasia.com

Bimeh Dana

Strengths

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

Weaknesses

- Writing premiums of a little over USD370mn annually, Bimeh Dana would rank as no more than a medium-sized company in most countries.
- Clearly losing market share and shrinking in terms of premium income.
- But for the high inflation in Iran, the contraction of business would have been well into double-digits.
- Loss ratio deteriorated last year and, at 75.7%, is considerably higher than those of the other large insurance companies.
- Claims losses have fallen broadly in line with gross written premiums, which suggests that the contraction in Bimeh Dana's business was not driven by management actions to improve profitability.
- Double digit growth in the number of policies, at a time when premium income is falling in nominal terms (and in double-digits in real terms) suggests that the company has been competing to boost the number of customers by slashing prices and rates, possibly to uneconomic levels.
- Management of claims and other costs is complicated by the endemic inflation in Iran.
- Investment policy is complicated by lack of access to global capital markets.
- Laying off of risk is complicated by lack of access to many of the world's largest and most important reinsurers.

	▪ The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana mean that corporate policies and initiatives may not be driven by purely commercial objectives. ▪ Life insurance will remain in an embryonic stage of development while inflation is entrenched in Iran.
Opportunities	▪ Continued growth in medical insurance. ▪ Wholesale political change. ▪ Relation in foreign sanctions leading to wider economic growth.
Threats	▪ Government policies and decisions which are inimical to the development of insurance. ▪ Escalation in claims or other costs. ▪ Deterioration in Iranian negotiations, leading to a slowdown in economic output.

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, however, it was permitted to expand into non-life insurance. Bimeh Dana is the country's fifth largest insurer, with a market share of 7.6% in 2014.

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

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

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

Strategy

The insurer will continue to focus on a number of key lines, including personal and property lines. In addition, the company is looking to develop its health insurance services. The diversification of product lines will be key to maintaining growth in an increasingly competitive marketplace, particularly if the Iranian market is opened to more regional or multinational insurance providers in the coming year.

Recent Developments

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

Financial Data

During the year ending March 2012 (Iranian year 1390, latest available):

- Gross written premiums amounted to IRR4,632,579mn, having fallen by 9.1%.
- The number of policies in force rose by 16.4% during the year to 1,265,104. By this measure, the company's market share is just 3.6%.
- The amount of claim losses paid fell by 7.6% to IRR3,505,908mn.
- The number of losses fell by 25.9% to 1,259,368. Over the year, the loss ratio remained high at 75.7%, rising by 1.3 percentage points.

Bimeh Iran

Strengths

- A state owned titan, which accounted for nearly half of all premiums written in the year to March 2012.
- Writing gross premiums of around USD3,300mn, Bimeh Iran ranks as one of the largest insurance companies in the Middle East. It would rank as a medium-sized insurer (at least) in most developing countries.
- A composite insurer, with a broad range of both corporate and personal lines.
- A strong brand and national branch network.
- Holding market share, in spite of competition from recently established private sector insurers.
- Loss ratio improved last year and is now a little higher than the industry norm.
- Bimeh Iran is a fully state-owned enterprise, with all the advantages that confers.

Weaknesses

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

Opportunities

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

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

Threats

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

Company Overview

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

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

According to the company's 2013-2014 annual report it has around 45% of the domestic market share. In addition, it holds 50% of the market share in a number of the sub-sectors in which it operates. Its capital at the time of publication exceeded IRR3.89bn. Recent statistics show that it has a 51.5% share of all premiums.

Strategy

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

Iran Insurance is also solidifying its presence in the market by enhancing relationships with other Iraqi state insurance companies, al Araqiyya and al Badiyyah with a view to strengthening cooperation between the companies. Iran's head of Reinsurance and International Affairs Bahman Lameie said that the company has been asked to participate in the Iraqi insurance market, specifically in the personal, property, fire, engineering, transport, shipping and aviation insurance sub-sectors.

Bimeh Iran is also one of the few domestic firms with a large overseas presence. Expanding in markets outside of Iran is another key part of the strategy to grow - one which will likely gain in importance over the long term as sanctions are relaxed, and competition within the domestic market intensifies. As a state-owned firm, Bimeh Iran benefits from significant support both in terms of capital and access to public contracts, which does mean the company is well placed to take advantage of growth potential in the Iranian market moving forward.

Iraq's insurance market is underdeveloped relative to that of Iran, and this development presents an opportunity for Iran Insurance to grow its business in exchange for inputting much-needed capital and expertise. The move also represents further integration between the Iranian insurance sector and the international community. We expect to see further instances of partnerships between local companies and their global counterparts as Iran's relations with the international community continue to thaw.

Table: Bimeh Iran Financial Results (USD)

	2013-2014	2014-2015
Gross Written Premium	**2,596,073,39**	**3,063,080,643**
Net Retained Premium	**2,025,417,393**	**2,381,770,643**
Paid Losses	**-1,890,187,143**	**-2,186,137,500**
Investment Income	**124,533,857**	**134,212,464**
Personal and Administrative Expenses	**-99,801,679**	**-114,982,607**
Net Profit	**-528,912,857**	**9,677,893**
Total Assets	**2,707,698,143**	**3,988,326,393**

Note: Statistics are in Iranian years, which start on 20 March Source: Bimeh Iran

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 USD400mn 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 risk is complicated by lack of access to many of the world's largest and most important reinsurers.
- The continued state ownership of Bimeh Iran, and state influence over the shareholders of Bimeh Asia, Bimeh Alborz and Bimeh Dana mean that corporate policies and initiatives of major rivals may not be driven by purely commercial objectives.
- Life insurance will remain in an embryonic stage of development whilst inflation is entrenched in Iran.

Opportunities

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

- Wholesale political change.

Threats

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

Company Overview

Parsian Insurance is the largest private sector insurer in Iran. In terms of gross premiums written, it places fifth overall, coming after Bimeh Iran, Bimeh Asia, Bimeh Dana and Bimeh Alborz. It is a listed company that began operations in late 2003.

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

The main shareholders are: Parsian Bank (20%), Iran Khodro Investment Development Co. (15.11%) and the Oil Industry Retirement Fund Investment Co. (15.11%). Parsian Insurance utilises bancassurance via Parsian Bank, which reportedly has 159 active branches in Tehran, 134 branches in other cities and a subsidiary in Iraq.

Statistics published by Bimeh Merkazi Iran in relation to Iranian year 1390 (the year to March 2012) indicate that Parsian Insurance is the country's fourth largest insurer, with a market share of 5.8% in terms of gross written premiums. In 1391 this had decreased somewhat to 4.6% though Parsian Insurance maintained its position as fourth largest private insurers in terms of gross written premiums.

Recent Developments

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

Strategy

While domestic growth opportunities have been limited, Parsian Insurance is one of the Iranian firms which is investigating options for expanding into overseas markets. In December 2015, it was reported that Parsian was one of two Iranian banks poised to open branches in India as part of a trade and investment partnership between the countries' governments. Parsian will open branches in Mumbai and Delhi as part of the agreement. The move follows a Joint Commission Meeting held in India which will see India and Iran pursue trade and investment agreements across a number of industries, including insurance and banking.

We see the development as further evidence of the gradual reintegration of Iranian insurers and the wider financial services sector with the international community. We expect foreign insurers to look increasingly to move into Iran's insurance market as sanctions against the country are lifted. Likewise, Iranian firms will look for opportunities to expand their business overseas.

Financial Data

Financial results for the year ending March 2012 (Iranian year 1390, latest available):

- During the year ending March 2012, its gross written premium amounted to IRR5,021,191mn, having risen by 47.7%.
- The number of policies in force rose by 9.9% during the year to 1,520,917. By this measure, the company's market share is 4.3%.
- The amount of claim losses paid increased by 35.8% to IRR2,839,536mn.
- The number of losses rose by 32.6% to 273,217.
- Over the year, the loss ratio improved by 7.9 percentage points to 53.6%, the lowest of the larger insurance companies.

Methodology

Industry Forecast Methodology

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

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

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

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

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

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

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

Sector-Specific Methodology

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

The following are considered in our reporting of the sector:

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

Life

In projecting life insurance premiums, the following are considered:

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

In some instances, further factors are considered, including:

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

Non-Life

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

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

In some instances, further factors are considered, including:

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

Reinsurance and Net Premiums

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

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

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

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

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

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

Burden of Disease

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

Risk/Reward Index Methodology

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

The RRI system divides into two distinct areas:

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

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

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

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

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

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

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

fourfold:

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

Sector-Specific Methodology

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

Table: Indicators

Rewards	
Insurance market rewards	**Rationale**
Non-life premiums, 2015 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in non-life premiums, five years to end-2019 (USDmn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Non-life penetration, %	Premiums expressed as % of GDP. An indicator of actual and (to an extent) potential development of non-life insurance. The greater the penetration the better.
Non-life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Life premiums, 2015 (USDmn)	Indicates overall sector attractiveness. Large markets more attractive than small ones.
Growth in life premiums, five years to end-2019 (USDmn)	Indicates growth potential. The greater the likely absolute growth in premiums the better.
Life penetration, %	Premiums as % of GDP. An indicator of actual and (to a certain extent) potential development of life insurance. The greater the penetration the better.
Life segment measure of openness	Measure of market's accessibility to new entrants. The higher the score the better.
Country rewards	
GDP per capita (USD)	A proxy for wealth. High-income states receive better scores than low-income states.
Active population	Those aged 16-64 in each state, as a % of total population. A high proportion suggests that market is comparatively more attractive.
Corporate tax	A measure of the general fiscal drag on profits.
GDP volatility	Standard deviation of growth over 7-year economic cycle. A proxy for economic stability.
Financial infrastructure	Measure of financial sector's development, a crucial structural characteristic given the insurance industry's reliance on risk calculation.
Risks	
Regulatory framework	
Regulatory framework and development	Subjectively evaluates de facto/de jure regulations on development of insurance sector.
Regulatory framework and competitive landscape	Subjectively evaluates impact of regulatory environment on the competitive landscape.
Country risk (from BMI's Country Risk Ratings)	
Long-term financial risk	Evaluates currency volatility.

Indicators - Continued	
Rewards	
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

