

# LIFE INSURANCE IN PAKISTAN

Past , Present and Future

Presented by  
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# AGENDA

- PART 1 - Actuarial Profession in Pakistan
- PART 2 - Overview of Life Insurance business – Indian Subcontinent
- PART 3 - Overview of Life Insurance business - Pakistan
- PART 4 - Evolution of Life Insurance products
- PART 5 - Evolution of Regulatory regime
- PART 6 - The way ahead

# PART 1

## Actuarial Profession in Pakistan

# Pakistan Society of Actuaries

- Formed in the mid 1970's as an informal association
- Met off and on informally over the next 30 years
- Since 1999 an effort was initiated to convert it into a formally registered body
- On 29 June 2001 the PSOA was registered as a company limited by guarantee under S42 of the Companies Ordinance 1984

# PSOA Objectives

- To be a professional body representing the actuarial profession in Pakistan with respect to:
  - Minimum standards of education and professional training
  - Initiatives by government and other bodies (e.g. ICAP) with respect to issues involving actuarial expertise
- To regulate the practice of its members to ensure:
  - Adherence to standards
  - Adherence to professional ethics
- To promote the actuarial profession in the country

# PSOA - Accomplishments

- Recognized by the SECP in the Insurance Rules 2002
- Actively involved in:
  - The process of promulgation of the Insurance Ordinance 2000
  - The formulation of the Insurance Rules (SECP) 2002
  - The formulation of the Insurance Accounting Regulations 2002 (in a joint committee with ICAP)
  - Discussions with the SECP on various aspects of life insurance regulation

# PSOA - Accomplishments

- In process of drafting standards for the actuarial valuation of pension schemes for IAS-19 purposes
- In process of drafting life insurance valuation regulations

# PSOA Membership

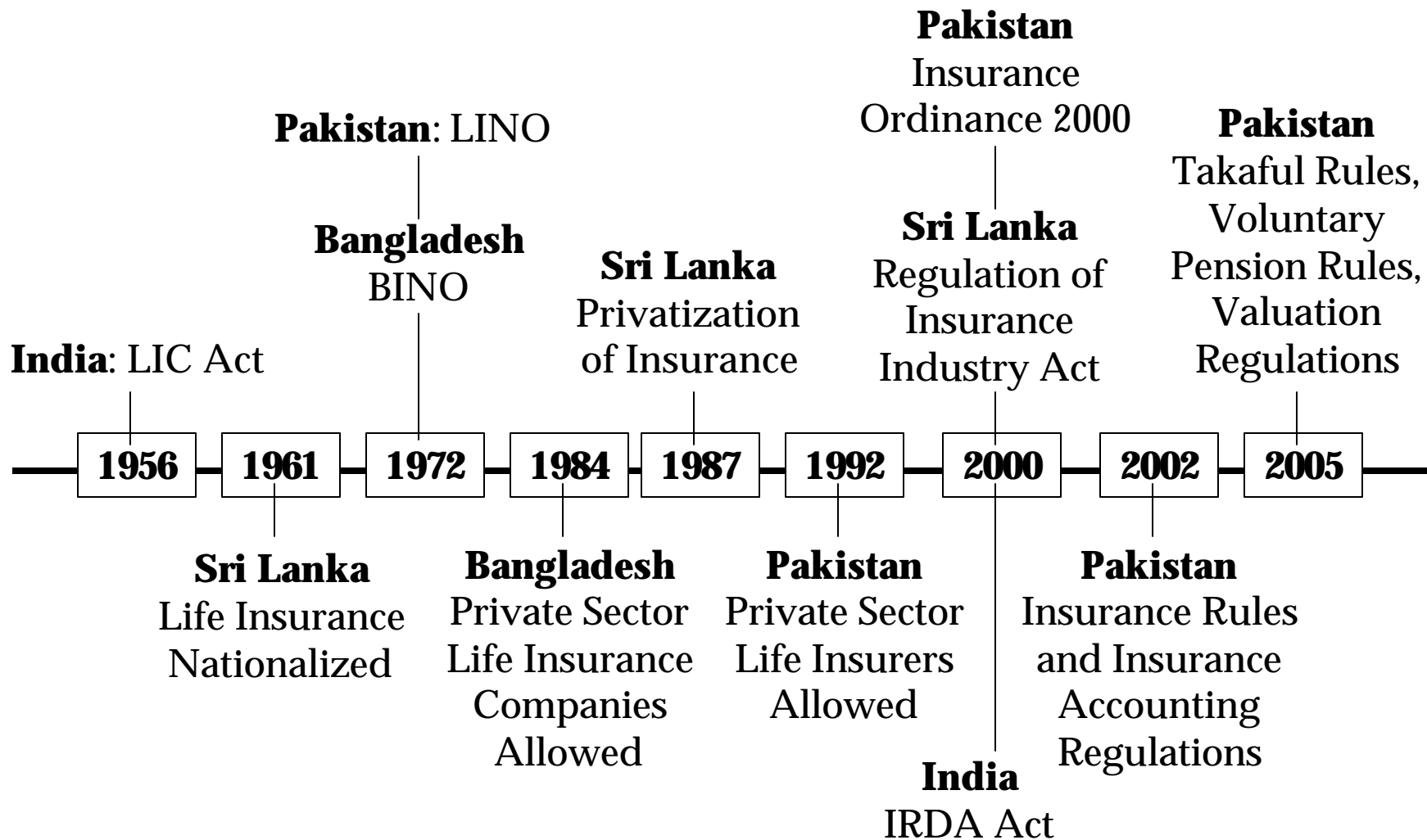
- 17 Fellows
- 16 Associates
- Fellowship and Associateship currently granted on basis of membership of the Institute of Actuaries or Society of Actuaries
- Plan to introduce limited examinations (e.g., on economic environment and/or taxation) in future



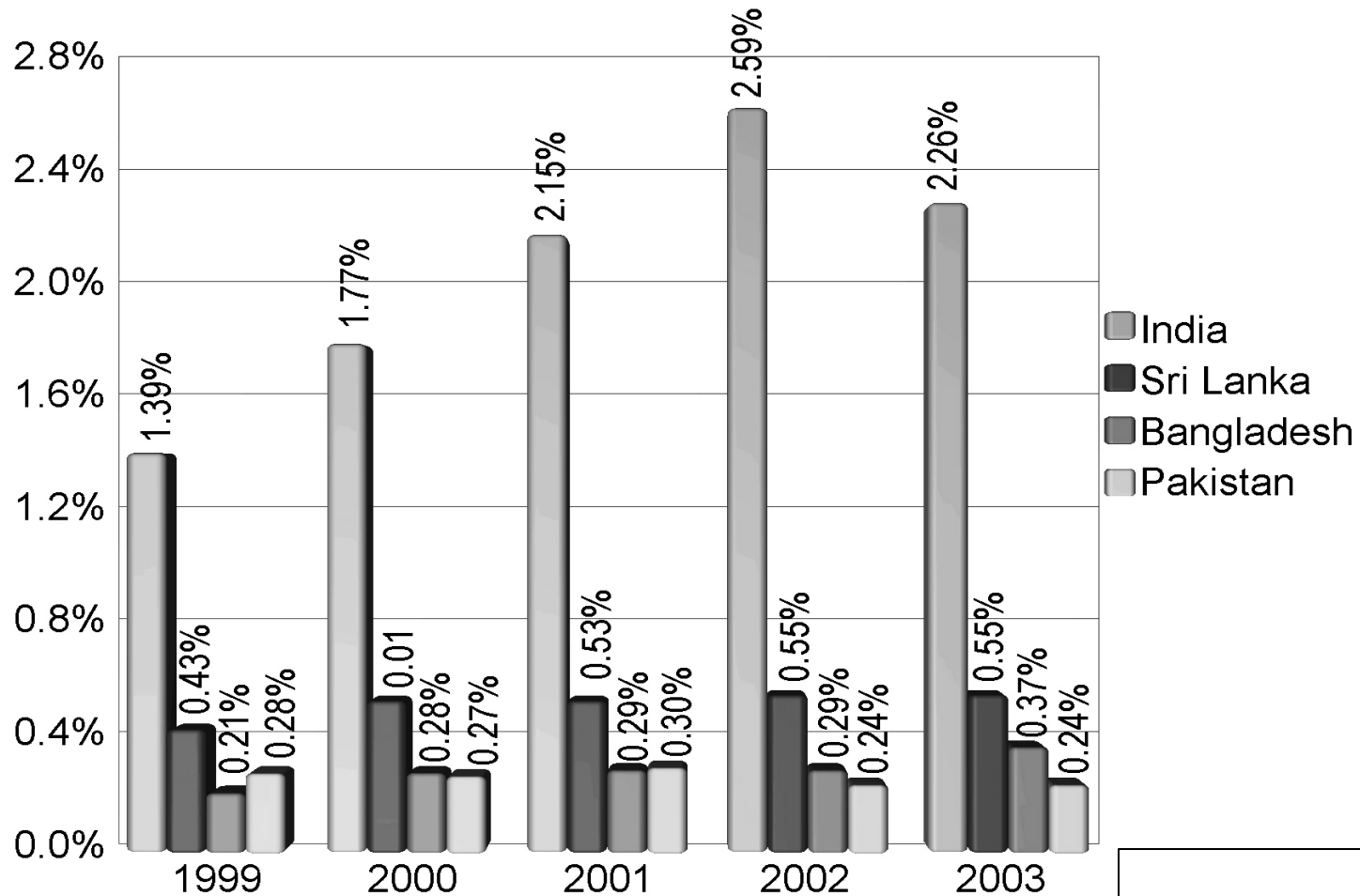
# PART 2

## Overview of Life Insurance business Indian Subcontinent

# Life Insurance history in Indian subcontinent

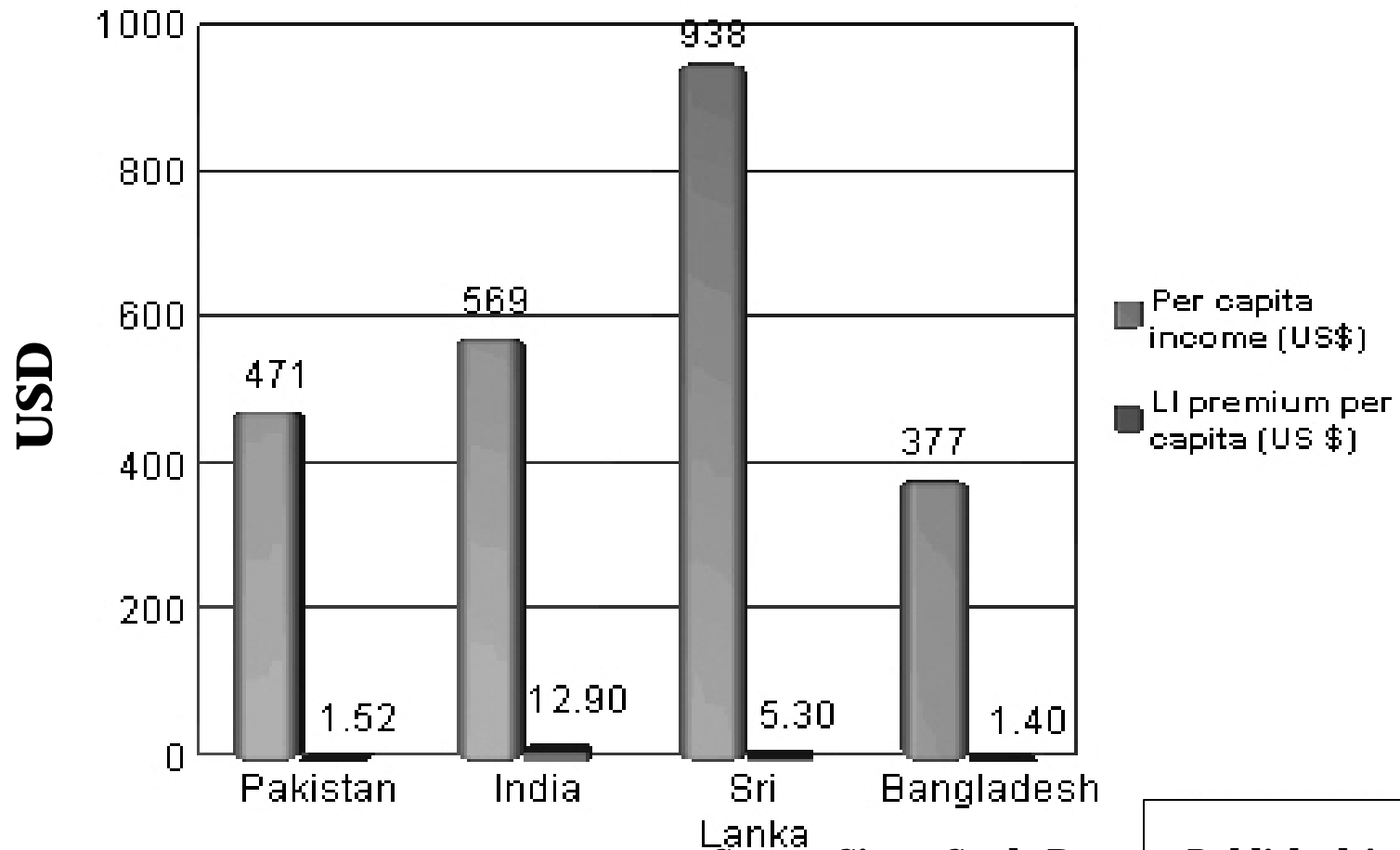


# Life Insurance as % of GDP



Source: Sigma Study Reports

# Per Capita Life Insurance premium



Source: Sigma Study Reports, Published Accounts

# PART 3

## Overview of Life Insurance business Pakistan

# Market Structure - Pakistan

Present market structure of the life insurance - oligopoly.

This market structure has evolved as a result of:

- Monopoly of life insurance prior to 1992
- Lack of specialized expertise for life insurance in Pakistan
- Long gestation period of shareholders' investment
- The captive insurance agency distribution system
- Lack of independent insurance brokers
- Lack of foreign investment

# Market Structure

Life Insurance Companies:

Public Sector:

State Life Insurance Corporation of Pakistan

Private Sector:

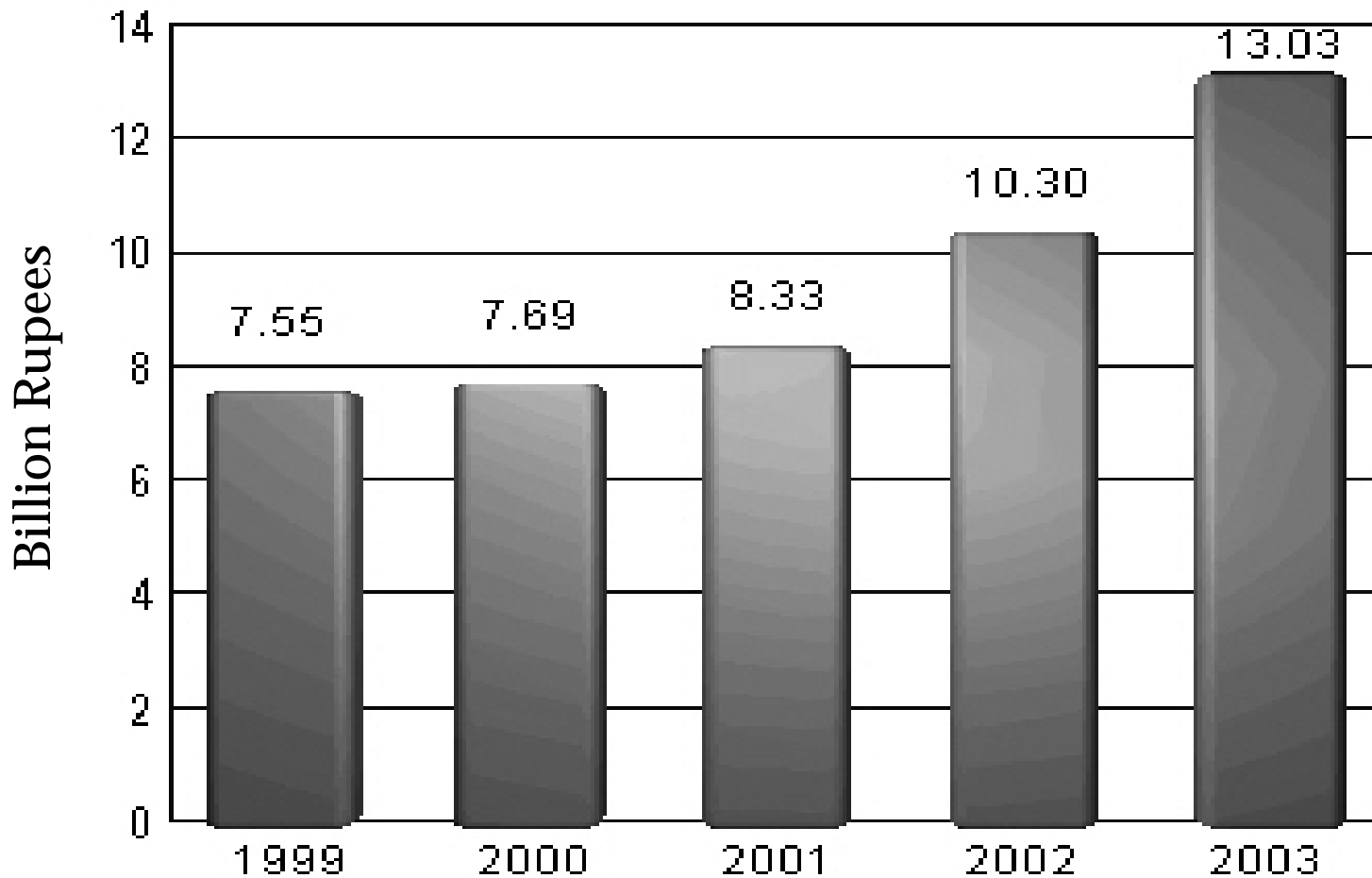
EFU Life Assurance Ltd

New Jubilee Life Insurance

American Life Insurance Company

Metropolitan Life Insurance Company

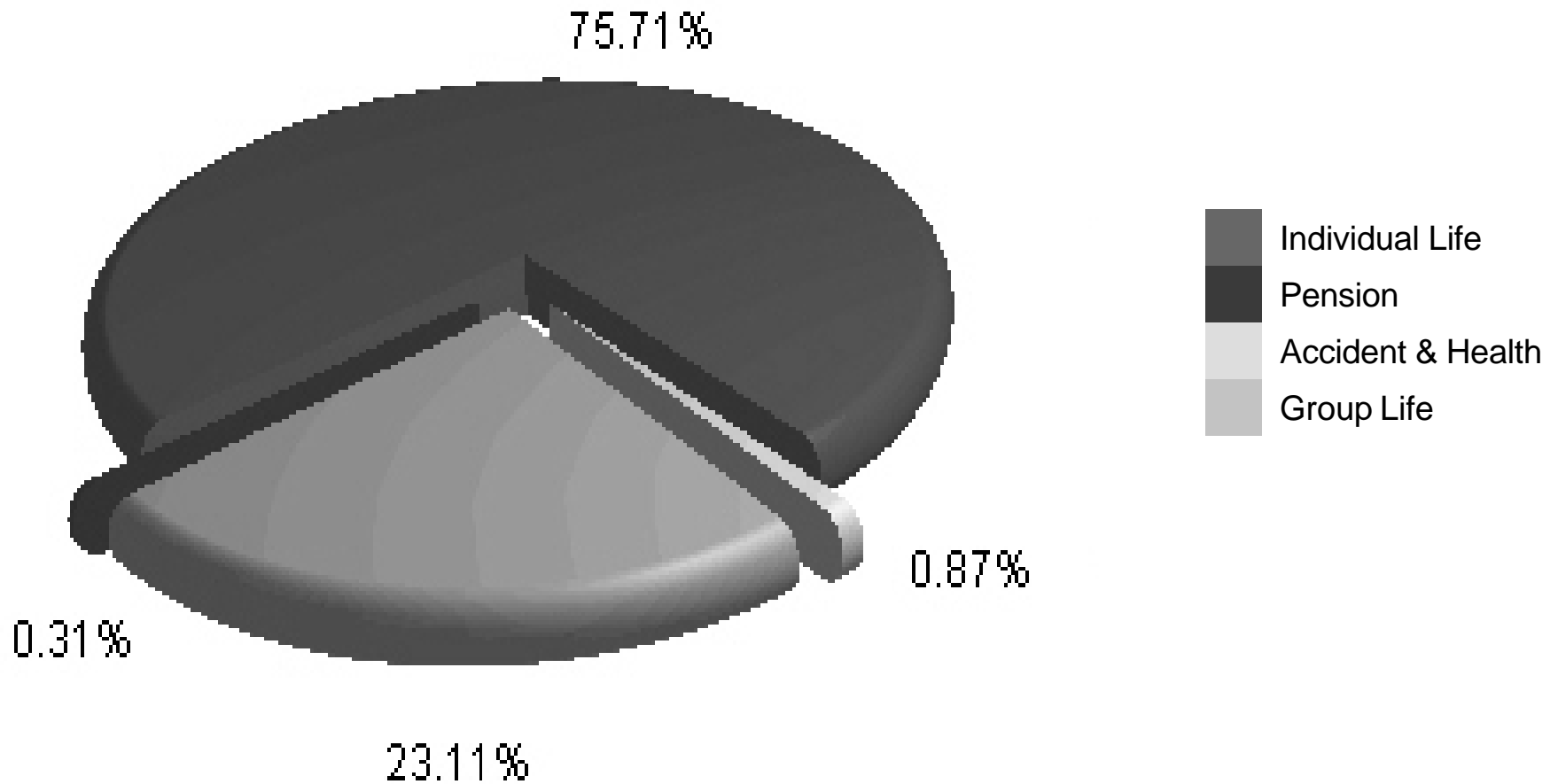
# Growth of Life Insurance



Source: Published Accounts

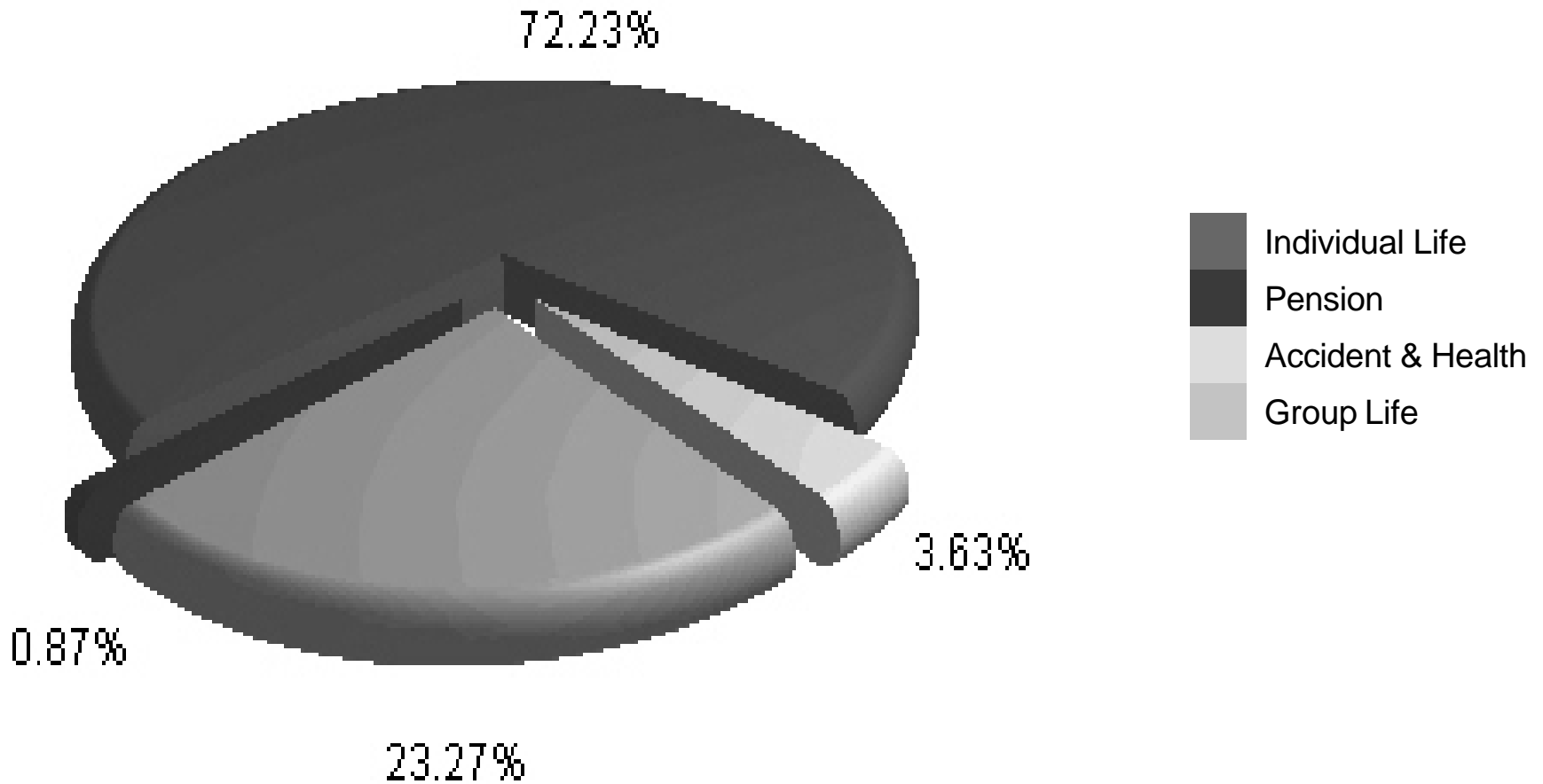


# 2003 - Type of Business



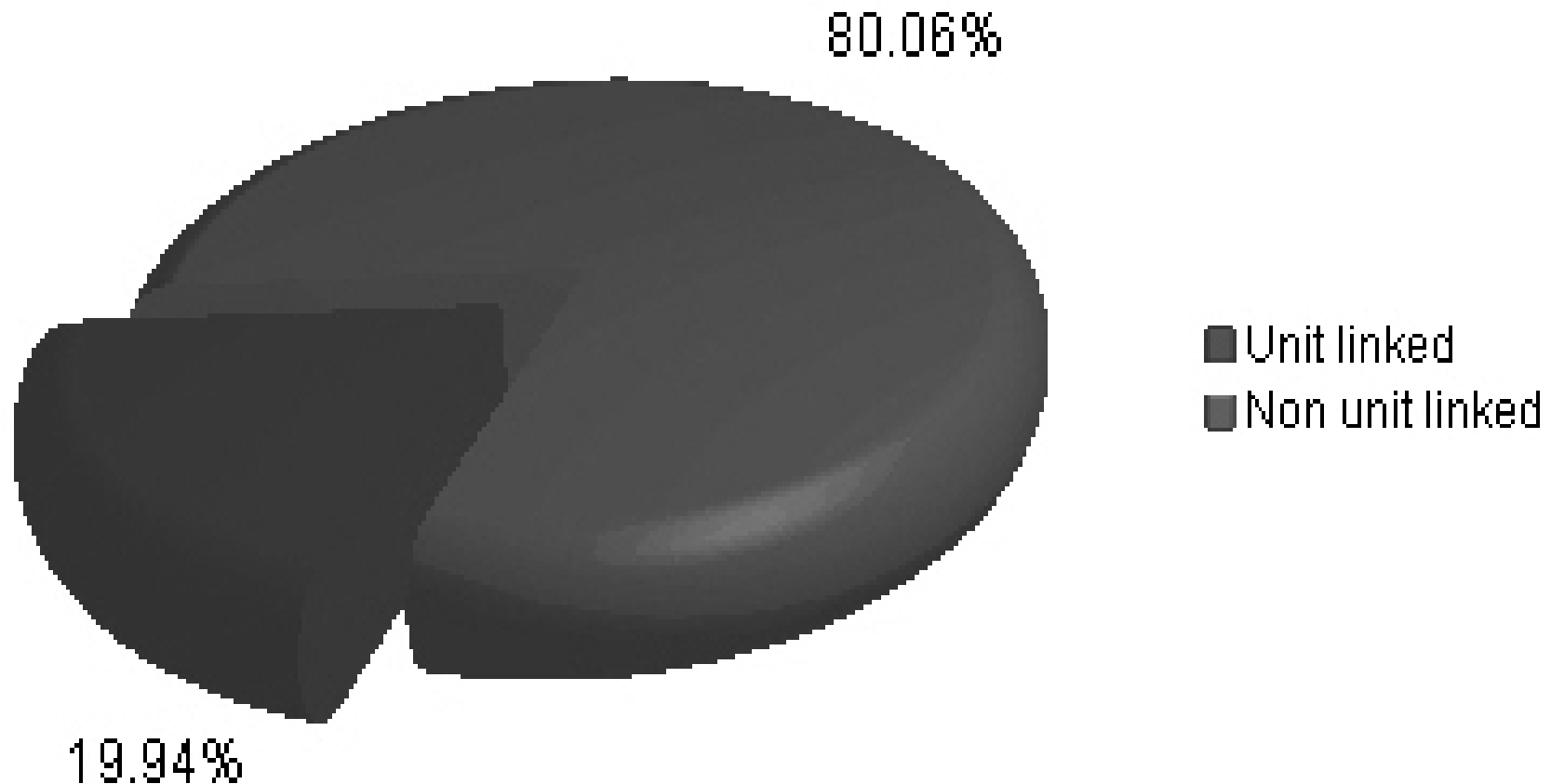
**Source: Published Accounts**

# 2003 - Type of Business-Private Sector



**Source: Published Accounts**

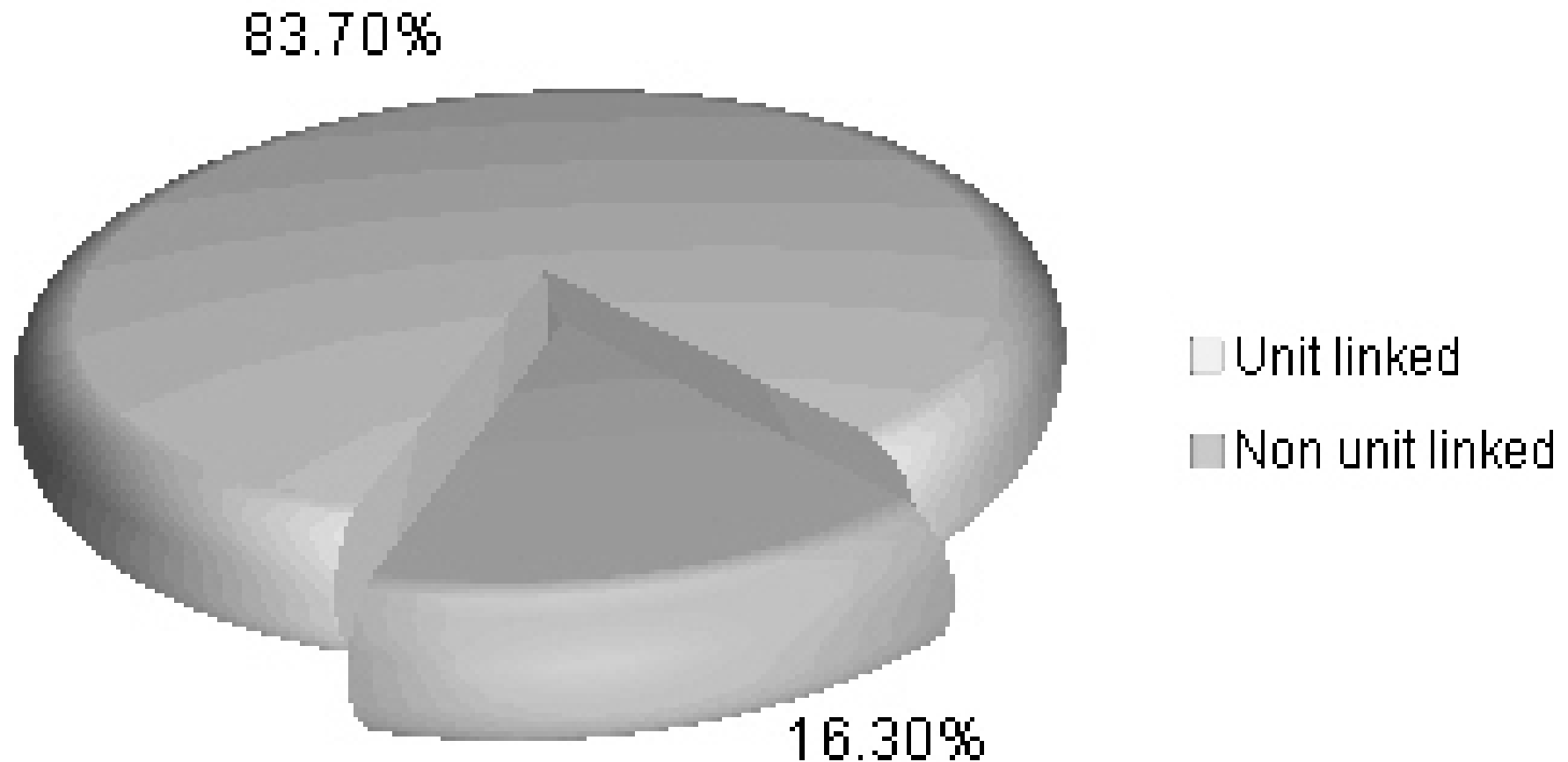
# 2003 - Unit Linked vs. Non Unit Linked



**Source: Published Accounts**

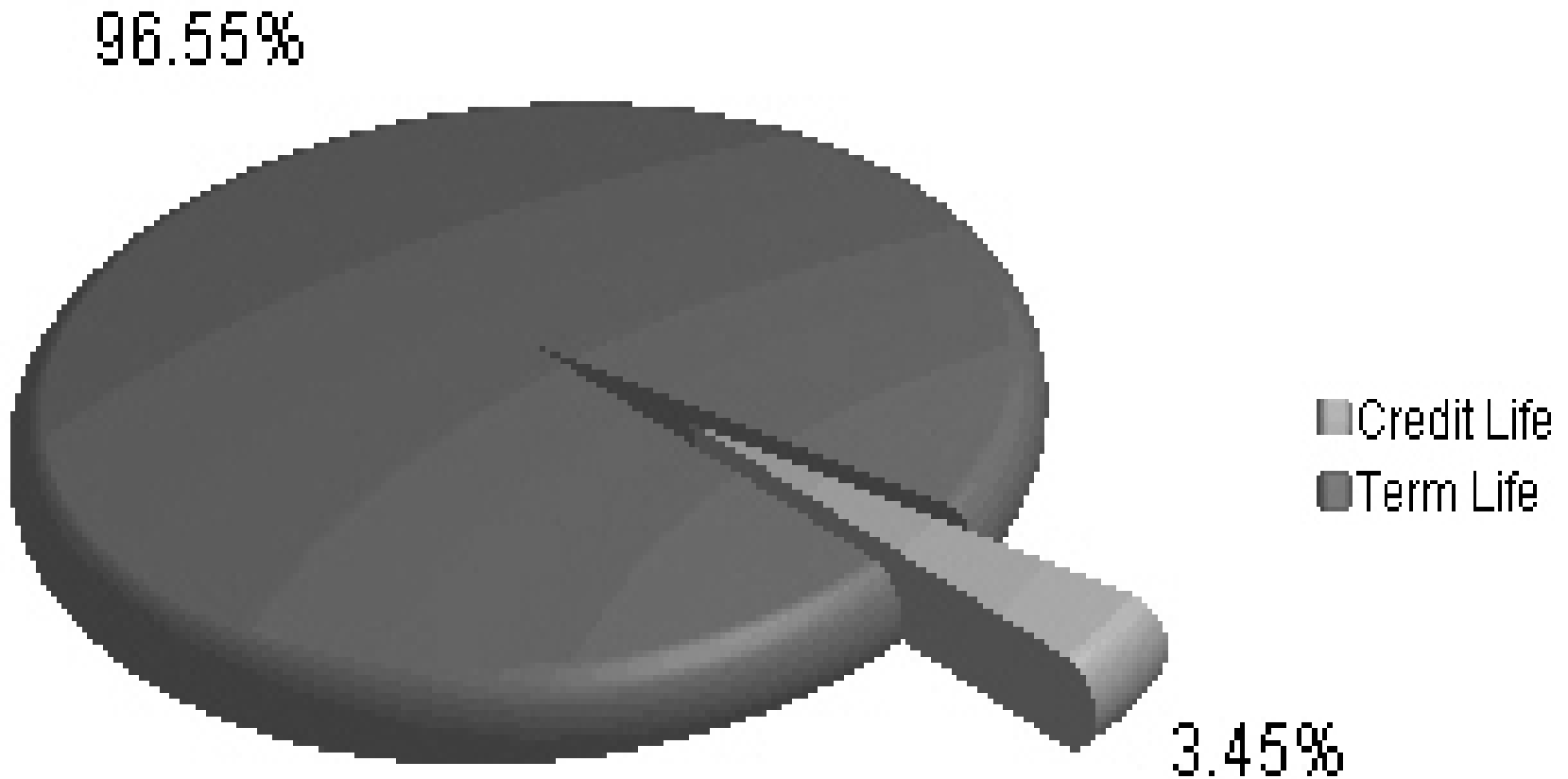
# 2003 - Unit Linked vs. Non Unit Linked

## Private Sector



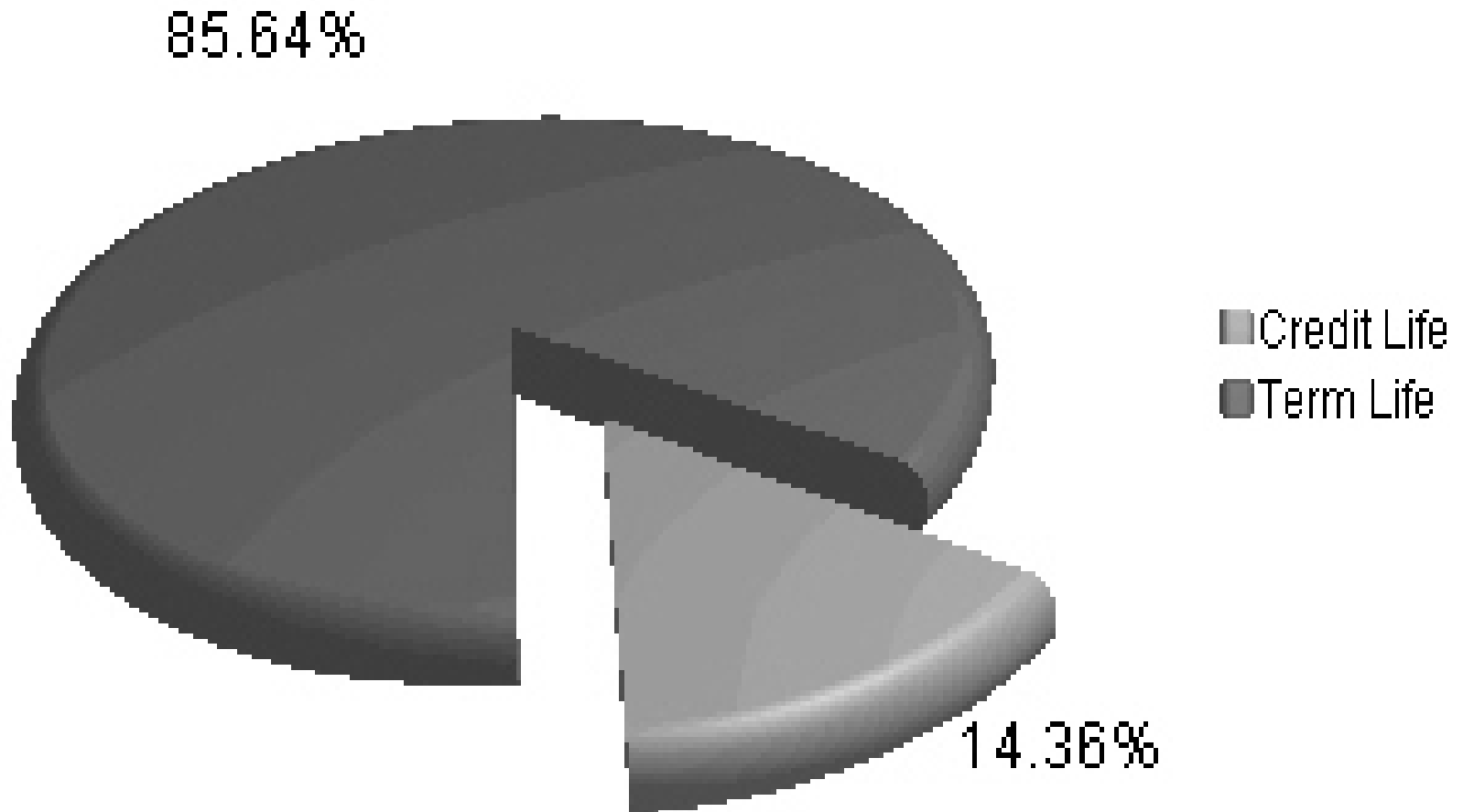
**Source: Published Accounts**

# Group Life - 2003



**Source: Published Accounts**

# 2003 – Group Life Private Sector



Source: Published Accounts

# PART 4

## Evolution of Life Insurance Products 1947 - 1972

# Product Development 1947 - 1972

The only type of products available were those that we now call

## **“Traditional Products”**

### **Some market players:**

Eastern Federal Union

American Life Insurance Company

Muslim Insurance

Norwich Union



# Product Development 1947 - 1972

## **Dominant type of plans:**

Whole Life Assurance

Endowment Assurance

- Limited payment
- Anticipated endowments

Annuities were also offered

# Product Development 1947 - 1972

Any innovation or new idea revolved around

**“Endowment Assurance”**

## Examples

Pay Back Plans – also called Anticipated Endowments



25 : 25 : 50

20 : 20 : 60

Progressive Premium Plans

Optional Maturity Plans

Guaranteed payment annuities

# Product Development 1947 - 1972

Pricing of products - Formula based approach

Non existent computing power

Manual development of premium rates

Charts of “A” and “a” factors used

Marketing – agency system

# PART 4

## Evolution of Life Insurance Products

1972 – 1992

## Government Monopoly

# Product Development 1972 - 1992

Life insurance business nationalized in 1972

Life Insurance Nationalization Order – LINO – 20  
March 1972

Preamble

**“WHEREAS it is expedient in the public interest to provide for the nationalization of life insurance business in Pakistan”**

# Product Development 1972 - 1992

All life insurance business taken over by the Government

State Life Insurance Corporation established on 1 November 1972

All assets and liabilities of insurers were transferred to State Life

# Product Development 1972 - 1992

Product “**basket**” initially offered by State Life – based on plans offered by the pre-nationalisation companies

**Whole Life**

**Endowment Assurance**

**Anticipated Endowment**



**Progressive Premium**

**Optional Maturity**

# Product Development 1972 - 1992

## New Products offered:

- Shadabad Plan
- Jeevan Saathi Plan
- Big Deal
- Nigheban Plan
- Refund of Premium rider



# Product Development 1972 - 1992

Pricing – formula based approach

Valuation – prospective methods

More computing power became available during the 80s

“Micro computer” introduced

Marketing – commission based sales force

# PART 4

## Evolution of Life Insurance Products

1992 onwards

Private Companies re enter

# Private Companies Re-Enter

**1990-91** – Government re-opens the life insurance sector for private companies

End of Government monopoly

EFU Life

American Life

Commercial Union

New Jubilee

Metropolitan Life



# Innovations

Market was dominated by one life insurance provider

Private companies had to be different – innovative approach

Products

Operations



Image

Culture

# Innovations

Innovations in the **Pakistani** insurance market

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Unit linked **Products**



**Critical Illness Product**

**Education Planning Service**

**Inflation Protection**

**Computer Illness**

**Investments for Benefits**

# PART 5

## Evolution of Regulatory regime

# Insurance Regulatory environment

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- Since creation of Pakistan insurance business was regulated under the “Insurance Act 1938”
- Insurance sector reforms in 1990s
- Securities and Exchange Commission formed in 1999
- Insurance sector reforms in collaboration with the **Asian Development Bank**
- New Insurance Law – Insurance Ordinance 2000
  - Insurance Rules 2002
  - Accounting Regulations 2002

# Insurance Regulation

## **Insurance Act 1938**

Year 1938 – many new product concepts were non-existent in the region, for example the Act did not address unit linked products

No direct regulations on financial reporting, actuarial valuation, other key operational areas

Companies had to use prudent judgment in their operations





# Insurance Ordinance 2000

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Promulgated on August 19<sup>th</sup>, 2000

**To regulate the business of the insurance industry to ensure the protection of the interests of insurance policy holders and to promote sound development of the insurance industry...**

# Shareholders Fund

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- Ordinance specifies a firewall between the interest of shareholders and policyholders
- Funds of the life insurer is broadly bifurcated in two funds

Shareholders Fund  
Statutory Fund

- Shareholders Fund reflects the assets, liabilities and capital of shareholders

# Statutory Funds

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- A separate account for each class of business
  - segregating Assets, Liabilities, Revenue, Expenses and all cash flows for each class
- One class of business should not subsidize the other
- Classes of business:
  - Ordinary Life
  - Investment Linked
  - Capital redemption
  - Pension
  - Accident and Health
- SECP must be informed of the Statutory Funds that an insurer maintains.
- All policies to refer to a specific statutory fund

# Capital and Solvency Margin

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- Life Insurer:  
Paid-up Capital of Rs 150M
- General Insurer  
Paid-up Capital of Rs 80M
- Solvency Margin – Admissible assets over liabilities  
  
Rs 30 m until 31 December 2004  
Rs 75 m thereafter
- Minimum Statutory deposit with State Bank of Pakistan

# Admissible Assets

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- Assets classified into Admissible & Non-admissible
- Only admissible assets are allowed to be counted for solvency requirements - encourage insurers to adopt a desired investment policy
- Some Assets are admissible only up to a percentage of the total investments of the relevant statutory fund

# Appointed Actuary

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- Every life insurer **must** have an Appointed Actuary
- Appointed Actuary is responsible for monitoring the financial health of the insurer
- Responsibilities are listed, such as
  - Actuarial investigation
  - Designing and certifying/approving new products, etc.
- Appointed Actuary is entitled to bring to the notice of the Board any matter he deems appropriate

# Financial reporting

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- Financial reporting system – prime source of monitoring the insurer
  
- Requirements for an effective reporting system
  - Accuracy  
Failure to file an accurate statement constitutes a *violation* of Law  
Statements are required to be audited  
Statements are required to be signed by the Principal Officer and Directors
  
  - Timeliness  
Annual statement should be filed within 4 months.  
Quarterly statements should be filed within 1 month.

# Financial reporting

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- Financial statements format prescribed in Insurance Accounting Regulations developed jointly by PSoA, ICAP and SECP.
  
- Statements required to be filed
  - a statement of assets and liabilities for each statutory fund & shareholders' fund
  - a statement of profits and losses for the shareholders' fund
  - a statement of cash flows for each statutory fund & shareholders' fund
  - a revenue account for each statutory fund
  - a statement of premiums for each statutory fund
  - a statement of claims for each statutory fund
  - a statement of expenses for each statutory fund
  - a statement of investment income for each statutory fund



# Financial Condition report

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- Actuarial Valuation to be carried out at least once every year for life insurers
- Minimum valuation basis to be determined by Commission
- Financial Condition Report to be submitted to SECP after actuarial valuation
- Details of FCR prescribed in Insurance Rules 2002

# Market Conduct

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- Insurance Contract – good faith principle
  - Each party to act towards the other with Utmost Good Faith
- Insurer may not engage in misleading or deceptive conduct
- Ambiguities not construed contrary to policyholder interest
- Policy not to be called in question for misstatement after 2 years, except for special circumstances

# Intermediaries

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- Licensing of agents – responsibility of insurer
- Acts of agent construed as acts of insurer
- Conditions for ineligibility to act as agent
- Qualification and training of agents –
  - Education - Matriculate
  - Training – 3 months foundation course
- Insurer to maintain records of agents
- Payments by and to agents; Restrictions on agents
- Insurance brokers
  - Licensing
  - Restrictions

# Other market conduct laws

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- Statement of surrender values
  - For a period of not less than 10 years
  - Assumptions on which surrender value is based
- Non-forfeiture options available to the policyholder
- Unit valuations – unit values to be published monthly in newspapers

# Insurance Tribunal

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- Insurance Tribunal
- Insurance Ombudsman
- Small Disputes resolution committee

# Insurance Regulation

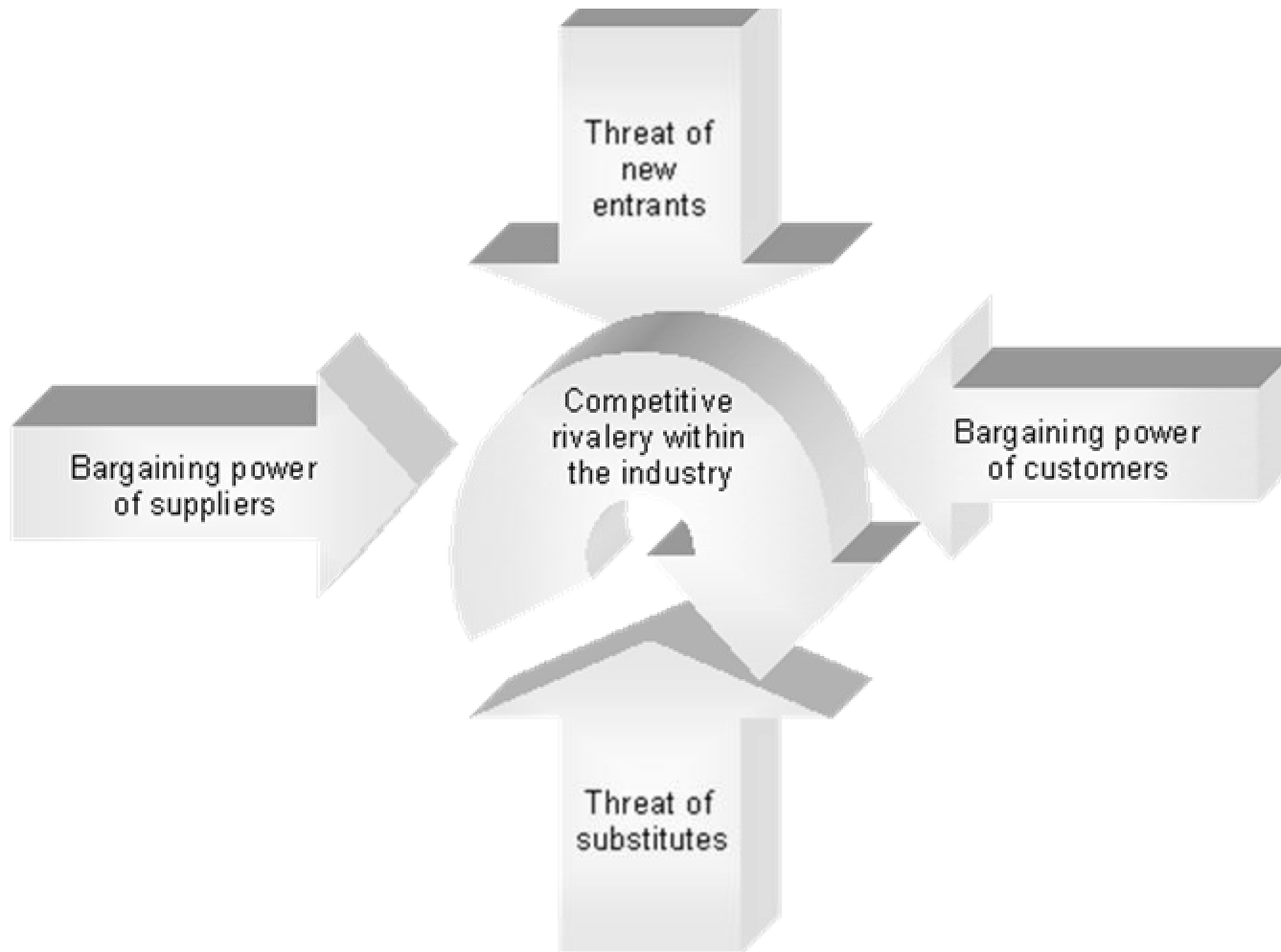
## Issues to be addressed

- Valuation regulations
  - exposure draft prepared by PSoA
  - actuarial guidelines of PSoA to play a key role
  
- IFRS 4
  - joint committee of PSoA, ICAP, SECP
  
- Anomalies in Insurance Ordinance 2000
  - PSoA comments submitted to SECP
  
- In-house actuarial expertise at SECP

# PART 6

## The way ahead

# Competitive Forces





# The Future

## Takaful

- Government has taken keen interest in promoting Islamic modes of banking, investment and insurance
- Recently the SECP created a Task Force to draft Takaful Rules – current regulations do not cater to Takaful products.
- Individual life Takaful products will primarily follow the unit linked structure

# Draft Takaful Rules

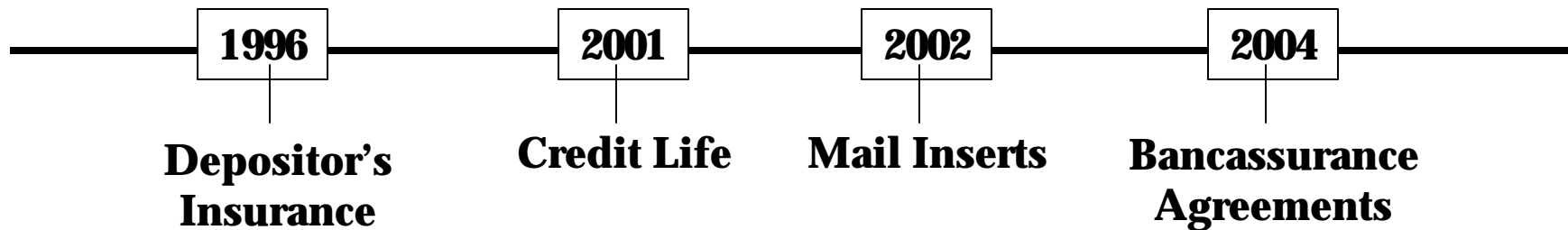
- Window operations for Family Takaful allowed - separate statutory fund required
- Separate Company for General Takaful
- Takaful operational model based on the principle of Wakalah. The Participants Takaful Fund may be based on the principle of Waqf. The investment of funds in the Participants Investment Fund may be based on the principle of Wakalah, Modarbah or combination of both
- Prescribed investment limits and guidelines

# Draft Takaful Rules

- Product to be developed by operator and has to be approved by its Shariah Board.
- SECP to have a Central Shariah Board
- Retakaful placement with conventional reinsurers allowed in case sufficient capacity not available
- Requirement to have a certain percentage of business from rural areas

# The Future

## Bancassurance evolution



# **Bancassurance**

5 banks offering credit life on group basis - premiums either explicitly charged from customer or paid by the bank from product margins.

2 banks have commenced telemarketing of insurance products – personal accident and critical illness products.

2 banks have entered into bancassurance agreements – products offered: personal accident, unit-linked life assurance

Agency system of bancassurance model being followed

Expected to grow rapidly in 2005

# The Future

## Voluntary Pensions System

SECP has drafted Voluntary Pension Rules

Life Insurers and Mutual Funds allowed to operate as Pension Fund Managers

Main competition in this market with Mutual Funds

Currently mutual fund industry has assets over Rs. 1 trillion

# **Voluntary Pension System Rules**

Seed capital requirement of Rs 100 million

Cap on front end fee (3%) and investment management charge (1.5%)

Contribution limit and tax allowance to be set in income tax rules

Penalty on withdrawal before age 60

After age 60, can withdraw 25% as lump sum and the remaining to be paid as an annuity purchased from a life insurance company

# **Voluntary Pension System Rules**

Two sub funds to be created – Equity and Debt

Limits on investments prescribed

Prescribed percentage bands for contributions to be invested in each of the sub-funds - depending on age

Benchmark for investment performance – weighted average of all sub funds less 2.5%

Publication of comparative statement of pension schemes



# **The Future**

## **New Life Companies**

Major banking groups intend launching life insurance companies

Already have a viable distribution channel

Takaful companies

# **Role of Actuaries in a changing market**

- Active involvement of the actuarial profession
- In an evolving market actuaries have to be broad based business professionals and cannot confine themselves in “specialization” silos
- Critical role for the actuarial profession to act as a bridge between the industry and the regulator
- More communication and interaction between regional actuaries bodies

Thank  
you