

PAKISTAN SOCIETY OF ACTUARIES

WORKSHOP ON THE ROLE OF APPOINTED ACTUARY

Monday, 05 January 2009

Venue: EFU Life Insurance

Start Time: 09:30 am

Duration: 4.0 Hours

Speakers:

- Mr. Shoaib Soofi
- Mr. Omer Morhsed
- Mr. Nauman Cheema

Participant:

Fellow

Abdul Rahim
Agnes Paul
Amin Nizar Ali
Arif Rasool
Faisal Mumtaz

Hussain Feroz
Irfan Ali
Khurram Amin
Omair Alvi
Shujaat Siddiqui

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Associate

M Arif Khan
Muhammad Hussain
Noman Muhammad
Nurallah Merchant
S Nayyar Hussain

Shahrukh Sabzwari
Syed Abdul Moiz
Zain Ibrahim

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Student

Amir Azeez
Ghayas Hassan
Jalal M
Maaz Mushir Ahmed Khan
Muhammad Ali Syed

Muhammad Altaf
Naveed Shahid
Wajiha Malik

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Summary of Discussion:

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Discussion

1 The membership of PSOA should be made mandatory for all practicing Fellows in Pakistan

- The prevailing regulations specifically defined the scope of Appointed Actuary (“AA”). In order to fulfill his responsibilities, sometimes AA is required to carry out task beyond what is listed in regulations.
- For example, the current regulations require AA to certify premium rates and terms & conditions for any product going to be introduced in market. If a product is very complex and AA feels that he should analyze administration system and procedures to make sure that the Company can administer the product properly. Since this function is not defined in regulation, there could be a potential conflict between management and AA if AA asks for system analysis.
- It was also discussed that it will be difficult for SECP to specifically layout all such responsibilities therefore it was decided that PSOA should prepare guidance notes for AA which all will have to follow
- Currently SECP do not require AA to be member of PSOA and therefore any code of conduct designed will be implemented on a voluntary basis. Therefore it was discussed and recommended that all Fellows practicing in Pakistan (whether or not they are acting as Appointed Actuary) should be required to become member of PSOA by SECP.

2 Proper Procedure to record reservations of Appointed Actuary

- Currently AA can record his reservation in Financial Condition Report. It was discussed that this step should be considered as an extreme measure and there should be other options available to record any reservation by the AA.
- It was discussed that AA can discuss the issue with PSOA to take their opinion and ask for an appropriate course of action in case of reservation.
- The ideal course of action could be to take up the matter first with the Management and then with the Board of Directors. If the matter is not resolved the AA should consult SECP however this measure should be used as the last resort.

3 Product Certification- a one time or continued process?

- An AA is required to certify products at the time of introduction as well as annually in FCR. It is not clear whether the annual product certification in FCR is required for each product separately or groups of products combined
- It was discussed that profit testing can be done at model points representing the portfolio and an AA can certify on a broad level. The general consensus was that profit testing needs to be done for all variations in product for which AA has provided a certificate of workability and soundness.
- However while making model points care needs to be taken. For example average premium/term used in model point should represent actual portfolio average premium/term.

4 Certification of premium rate for Group cases above 1 million?

- As per SECP circular, the AA is required to certify all Group cases above Rs. 1 million. The circular does not specify whether it relates to only Group Life or both Group life and Group Health. It was pointed out that the original intent of circular was to include only Group Life, however, the word "Life" was removed so as to allow riders attached with Group Life to fall in this regulation. If Group Health is to be included, it will create arbitrage with general insurers
- It was also discussed that it is difficult for AA to certify all such cases on a day to day basis
- An alternate approach was suggested and discussed during the session. The AA can certify pricing program which contain all parameters including credibility factors etc. An AA can specify ranges within which the Company can give the quote on its own (after certifying the rate from the internal Actuary). However no conclusion was arrived at for this particular issue.
- It was discussed and agreed that responsibility of AA for large group pricing soundness is on per group basis. If the insurer quotes a rate below his worked out minimum rate, the insurer should mention this in the relevant certificate.

5 Maximum Expense Limit Certification

- In supplemental statements for investment contracts, compliance should be demonstrated at the level at which the product certificate was given.
- If the changes of any investment product version exceed the maximum allowed charges, the actuary will test if excess is for that particular year or for the lifetime of the product. AA will amend the product certificate accordingly.
- To determine applicable expense limits, Deposit Administration contracts will be treated as Group contracts.

6 Greater Collaboration between PSOA and SECP

- There is a need for greater collaboration between PSOA and SECP for introducing good governance.