



21 MOVEMENT IN EQUITY OF STATUTORY FUND

21.1 Policyholders' liability

(Rupees in '000)

	Statutory Funds				Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Funds	Health Insurance Fund	2012	2011
Balance as at the beginning of year	259,363,992	5,652,088	154,068	-	265,170,148	228,032,655
Increase during the year	34,808,274	1,209,894	16,229	55,843	36,090,240	37,137,493
Balance at the end of year	294,172,266	6,861,982	170,297	55,843	301,260,388	265,170,148

21.2 Retained earnings attributable to policyholders (Ledger Account A)

Balance at the beginning of year	3,089,983	280,865	-	-	3,370,848	2,372,722
Surplus allocated in respect of the year	41,743,426	457,052	-	-	42,200,478	25,765,194
Bonuses allocated during the year	(30,026,368)	(331,105)	-	-	(30,357,473)	(24,767,068)
Balance at the end of year	14,807,041	406,812	-	-	15,213,853	3,370,848

21.3 Retained earnings on par business attributable to shareholders (Undistributable - Ledger Account B)

Balance at beginning of the year	-	-	-	-	-	-
Surplus allocated in respect of the year	1,070,344	11,719	-	-	1,082,063	660,646
Transfer to distributable profits	(1,070,344)	(11,719)	-	-	(1,082,063)	(660,646)
Balance at the end of year	-	-	-	-	-	-

21.4 Retained earnings on par business attributable to shareholders (Distributable-Ledger Account C)

Balance as at beginning of the year	-	-	-	-	-	-
Transfer from undistributable profit	1,070,344	11,719	-	-	1,082,063	660,646
Surplus appropriated to shareholders' fund	(1,070,344)	(11,719)	-	-	(1,082,063)	(660,646)
Balance at end of the year	-	-	-	-	-	-

21.5 Retained earnings on other than participating business (Ledger Account D)

Balance at the beginning of year	-	-	38,595	-	38,595	16,152
Surplus allocated in respect of the year	-	-	14,141	403,011	417,152	22,443
Bonuses allocated during the year	-	-	-	-	-	-
Balance at the end of year	-	-	52,736	403,011	455,747	38,595



22 POLICYHOLDERS' LIABILITIES

(Rupees in '000)

	Statutory Funds				Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Funds	Health Insurance Fund	2012	2011
Gross of Reinsurance						
Actuarial liability relating to future events	289,189,398	7,091,425	170,297	53,111	296,504,231	261,901,761
Provision for outstanding reported claims payable over a period exceeding 12 months	2,041,277	787	-	-	2,042,064	1,760,986
Provision for incurred but not reported (IBNR) claims	4,025,526	20,569	-	2,732	4,048,827	2,799,804
	<u>295,256,201</u>	<u>7,112,781</u>	<u>170,297</u>	<u>55,843</u>	<u>302,595,122</u>	<u>266,462,551</u>
Net of Reinsurance						
Actuarial liability relating to future events	288,105,463	6,840,626	170,297	53,111	295,169,497	260,609,358
Provision for outstanding reported claims payable over a period exceeding 12 months	2,041,277	787	-	-	2,042,064	1,760,986
Provision for incurred but not reported (IBNR) claims	4,025,526	20,569	-	2,732	4,048,827	2,799,804
	<u>294,172,266</u>	<u>6,861,982</u>	<u>170,297</u>	<u>55,843</u>	<u>301,260,388</u>	<u>265,170,148</u>

23 BRANCH OVERHEADS

(Rupees in '000)

	Statutory Funds				Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Funds	Health Insurance Fund	2012	2011
Salaries	644,500	6,518	-	-	651,018	552,610
Traveling expenses	432,558	753	-	-	433,311	395,463
Printing and stationeries	9,791	191	-	-	9,982	9,120
Medical expenses	32,690	1,972	-	-	34,662	32,023
Gratuity contribution	-	-	-	-	-	11,635
Pension	42,518	-	-	-	42,518	-
Group insurance contribution	7,255	-	-	-	7,255	14,345
Postage and telegram	24,189	727	-	-	24,916	25,489
Utilities	13,920	-	-	-	13,920	12,690
Rent	23,182	10,472	-	-	33,654	30,254
Prize and awards	13,330	866	-	-	14,196	12,589
Conference and meetings	23,433	914	-	-	24,347	30,135
Repairs and maintenance	2,535	-	-	-	2,535	2,222
Incentive bonuses	360,524	5,132	-	-	365,656	328,909
Persistency bonuses	22,550	-	-	-	22,550	20,835
Others	4,418	2,977	-	-	7,395	-
Overriding commission of area manager	-	41,521	-	-	41,521	30,285
	<u>1,657,393</u>	<u>72,043</u>	<u>-</u>	<u>-</u>	<u>1,729,436</u>	<u>1,508,604</u>

**24 AUDITORS' REMUNERATION**

	(Rupees in '000) Aggregate	
	2012	2011
Business within Pakistan		
Audit Fee		
Riaz Ahmad & Company	990	900
Anjum Asim Shahid Rahman	990	900
	1,980	1,800
Out of Pocket Expenses		
Riaz Ahmad & Company	500	500
Anjum Asim Shahid Rahman	500	500
	1,000	1,000
	2,980	2,800
Business Outside Pakistan		
Audit Fee		
Sajjad Hyder & Company	1,011	938
Out of Pocket Expenses	253	234
	1,264	1,172
	4,244	3,972

25 INVESTMENT INCOME - Others

An amount of Rs. 519.172 million (2011: Rs. 252.133 million) appearing under Overseas Life Fund represents the resultant effect of translation of income, expenses, assets and liabilities of overseas operations business to Pak Rupees.

26 PROVISION FOR IMPAIRMENT IN SHARES

This includes provision against investments in shares of certain companies in default counter and unlisted companies.

27 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**27.1 Financial risk management, objectives and policies**

The Corporation is exposed to variety of financial risks: market risk (comprising interest rate risk, currency risk, and other price risk), credit risk and liquidity risk in relation to the financial statements on its balance sheet. The Corporation's risk management program is geared to ensure the survival of the Corporation as a going concern in the face of all sources of significant identifiable financial risks. It focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation's financial performance.

Management has the overall responsibility for establishment and oversight of the Corporation's risk management framework and is responsible for developing risk management policies and its monitoring.



27.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements of prices of financial instruments and securities. Such price movements can arise due to variation of market interest rates, currency exchange rates, industry profitability and other economic factors.

The Corporation's investments are primarily in long term Government bonds. In addition, the Corporation also has a significant exposure to the equity market and invests some funds in corporate term finance certificates. Funds awaiting long term investment are kept in short duration fixed deposits with banks.

27.2.1 Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk since it issues insurance policies which are long term in nature. These policies are essentially backed by long term Government bonds and cash at bank.

It is the policy of the Corporation to match the average duration of its investments in Government bonds with the average duration of its policyholders liabilities as much as possible but this is not always possible due to market limitations. This is because sufficient quantities of Government bonds of longer durations are not available in the market. As a result some mismatch in the average duration of the Corporation's liabilities and assets is possible.

Interest rate risk exposures from options and guarantees embedded in insurance liabilities

The Corporation's deposit administration pension contracts have certain guarantees that transfer interest rate risk to the Corporation. These guarantees include a minimum guaranteed investment return of 0.375% per month on the pension funds being managed by the Corporation. The pensions liabilities of the Corporation are a very insignificant proportion of overall liabilities of the Corporation and historically investment return earned on the assets backing these liabilities has never been below the amount of the guaranteed return.

27.2.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. This risk arises if there is a currency mismatch between the assets and liabilities.

All assets and liabilities of the Corporation within Pakistan are in Pakistan rupees. This business is therefore not exposed to any currency risk.

The Corporation's Overseas Life Fund undertakes business in US Dollars and UAE Dirhams. It is policy of the Corporation to ensure the maximum possible currency matching between its assets and liabilities in each currency. Historically, UAE Dirham has remained pegged to US Dollar, hence any inadvertent mismatch between these two currencies is not expected to entail any significant currency risk.

Carrying amounts of the Corporation's foreign currency denominated assets, liabilities and reserves are as follows:



(Rupees in '000)

	2012		2011	
	UAE Dirhams	US Dollars	UAE Dirhams	US Dollars
Assets	67,341,132	95,325,019	61,638,812	83,677,323
Liabilities	10,930,633	35,377,013	14,091,353	30,102,266
Reserves	56,410,499	59,948,006	47,547,459	53,575,057

27.2.3 Other price risk

Other price risk is the risk that equity prices can fluctuate due to speculative investment activity, variations in the profit outlook of industries, interest rates prevailing in the market and general market sentiment, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Corporation's listed securities are exposed to market price risk arising from uncertainties about the future value of investment securities. The Corporation limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity. In addition, the Corporation actively monitors the key factors that affect stock market.

27.3 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the Corporation. The key areas of exposure to credit risk for the Corporation are in relation to its investment portfolio, reinsurance program and to a lesser extent amounts due from policyholders and intermediaries.

The Corporation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Corporation only transacts with entities that are rated the equivalent to investment grade and above.

This information is supplied by independent rating agencies where available and if not available the Corporation uses other publicly available financial information and its own trading records to rate its major policyholders and reinsurers.

The Corporation's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. The Corporation extends policy loans to its policyholders. These loans are entirely backed by the cash values of their policies.

The Corporation does not have any significant credit risk exposure to any single counterparty or any group of counterparties. Concentration of credit did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings. The Corporation does not invest in derivative financial instruments.



The carrying amount of financial assets represents the maximum credit exposure, as specified below:

		(Rupees in '000)	
	Note	2012	2011
Bank deposits	10	30,638,191	30,222,602
Loans		27,525,241	23,018,300
Investments	13	32,011,426	29,150,838
Premium due but unpaid		8,021,001	6,865,373
Amount due from other insurers / reinsurers		208,239	156,212
Agents balances		208	208
Investment income due but outstanding		391,445	325,501
Accrued investment income		12,129,962	9,239,586
Sundry receivables	14	40,316	215,104
Others		37,960	30,524
Total		111,003,989	99,224,248

Provision is made for receivables against premium due but unpaid in accordance with the Corporation's policies. The remaining past due balances were not impaired as they relate to a number of policyholders from whom there is no history of default.

		(Rupees in '000)	
	Note	2012	2011
The age analysis of premium due but unpaid:			
Up to 1 year		7,540,074	6,582,133
1 -2 years		234,318	65,445
2 -3 years		236,265	201,926
Over 3 years		10,344	15,869
		8,021,001	6,865,373



The credit quality of the Corporation's bank balances can be assessed with reference to external credit ratings as follows:

(Rupees in '000)

Bank	Rating		agency		
	Long term	Short term		2012	2011
Askari Commercial Bank Limited	AA	A1+	PACRA	-	234,123
Bank Alfalah Limited	AA	A1+	PACRA	725,183	725,751
MCB Bank Limited	AA+	A1+	PACRA	2,100,001	2,623,380
Habib Bank Limited	AAA	A-1+	JCR-VIS	11,047,916	7,697,099
National Bank of Pakistan	AAA	A-1+	JCR-VIS	5,000,178	4,033,843
United Bank Limited	AA+	A-1+	JCR-VIS	6,637,344	10,388,529
The Bank of Punjab	AA-	A1+	PACRA	107,319	16
Habib Metropolitan Bank Limited	AA+	A1+	PACRA	-	1
KASB Bank Limited	BBB	A3	PACRA	-	45
Kenya Commercial Bank	-	-	-	-	712
Bank of Ceylon - Srilanka	-	AA(lka)	Fitch Ratings	-	86
Al Baraka Bank (Pakistan) Limited	A	A2	JCR-VIS	320,004	556,932
Grindlays Bank Limited - Srilanka	-	-	-	-	162
ABN Amro Bank Limited	-	-	-	94,099	-
Allied Bank of Pakistan	AA+	A1+	PACRA	1,404,580	958,553
Soneri Bank Limited	AA-	A1+	PACRA	200,006	509,548
Faysal Bank Limited	AA	A1+	PACRA	1,200,001	900,196
Summit Bank Limited	A-	A2	JCR-VIS	500,000	200,000
Standard Chartered Bank (Pakistan) Limited	AAA	A1+	PACRA	-	25,000
Others	-	-	-	1,301,560	1,368,626
				<u>30,638,191</u>	<u>30,222,602</u>

The credit quality of the Corporation's investments in Term Finance Certificates can be assessed with reference to external credit ratings as follows:

(Rupees in '000)

Term Finance Certificates:	Note	2012	2011
Orix Leasing Pakistan Limited	AA+ PACRA	-	33,307
Pakistan Mobile Communication Limited	AA- PACRA	245,140	308,736
Engro Fertilizers Limited	A PACRA	199,403	199,282
Pak Arab Fertilizer Limited	AA JCR VIS	64,729	158,881
		<u>509,272</u>	<u>700,206</u>

The credit quality of amount due from other insurers and reinsurers can be assessed with reference to external credit ratings as follows:

(Rupees in '000)

Amount due from other insurers/reinsurers	Note	2012	2011
A or above		<u>208,239</u>	<u>156,212</u>

27.4 Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet its obligations associated with financial liabilities as they fall due.

The Corporation has adopted an appropriate liquidity risk management framework for the management of the Corporation's liquidity requirements. The Corporation manages liquidity risk by maintaining banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The Corporation is exposed to liquidity risk arising from clients on its insurance and investment contracts. The Corporation maintains adequate liquid reserves to meet any eventuality arising from a catastrophe.



Liquidity management ensures that the Corporation has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities. In practice, most of the Corporation's assets are marketable securities which could be converted into cash when required.

The table below gives a break up of the Corporation's assets and liabilities with respect to asset-liability matching allocated to various classes of policyholder liabilities:

	(Rupees in '000)						
	Shareholders' Fund	Statutory Funds				Aggregate	
		Pakistan Life Fund	Overseas Life Fund	Pension Fund	Health Insurance Fund	2012	2011
Debt securities							
<i>Available for Sale</i>							
Listed Securities	-	-	886,569	-	-	886,569	838,873
<i>Held to Maturity</i>							
Listed Securities	-	509,272	-	-	-	509,272	700,206
Un Listed Securities	1,066,290	227,446,063	3,860,273	194,191	329,208	232,896,025	191,430,307
Equity securities							
<i>Available for Sale</i>							
Listed Securities	-	27,366,818	-	-	-	27,366,818	24,006,774
Un Listed Securities	-	1,225,324	-	-	-	1,225,324	1,175,568
<i>Loans and Receivables</i>							
Loans	414,475	26,482,899	627,867	-	-	27,525,241	23,018,300
Reinsurance Assets	-	208,239	-	-	-	208,239	156,212
Cash and bank deposits	25,673	28,478,112	2,063,257	-	154,842	30,721,884	30,425,683
Other Assets	971,970	26,421,195	363,499	61,694	12,573	27,830,931	21,955,240
Total Assets	2,478,408	338,137,922	7,801,465	255,885	496,623	349,170,303	293,707,163
Liabilities							
Fixed Term	-	279,421,482	6,800,330	-	-	286,221,812	251,306,648
Whole of Life	-	4,762,520	9,923	-	-	4,772,443	5,040,558
Short Term Insurance Contracts	-	5,592,105	-	-	-	5,592,105	4,925,443
Riders	-	4,320,389	51,728	-	-	4,372,117	3,668,447
Annuities	-	75,770	-	-	-	75,770	74,984
Granted Investment Contracts	-	-	-	170,297	-	170,297	154,068
Accident and Health Contracts	-	-	-	-	55,843	55,843	-
Others	2,478,408	43,965,656	939,484	85,588	440,780	47,909,916	28,537,015
TOTAL	2,478,408	338,137,922	7,801,465	255,885	496,623	349,170,303	293,707,163



The following are the contractual maturities of financial liabilities other than policyholders' liabilities, including estimated interest payments on an undiscounted cash flow basis:

(Rupees in '000)

	2012			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
Financial liabilities				
Amounts due to other insurers / reinsurers	205,998	205,998	205,998	-
Amount due to agents	3,546,628	3,546,628	3,546,628	-
Accrued expenses	1,908,409	1,908,409	1,908,409	-
Others	2,612,359	2,612,359	2,612,359	-
	8,273,394	8,273,394	8,273,394	-

	2011			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
Financial liabilities				
Amounts due to other insurers / reinsurers	230,458	230,458	230,458	-
Amount due to agents	2,904,371	2,904,371	2,904,371	-
Accrued expenses	1,692,396	1,692,396	1,692,396	-
Others	2,115,396	2,115,396	2,115,396	-
	6,942,621	6,942,621	6,942,621	-

27.5 Fair value

The fair values of all major financial assets are estimated to be not significantly different from their carrying values except for the following:

(Rupees in '000)

	Carrying value	2012
		Fair value
Government securities	227,304,752	236,913,464
Other fixed income securities	509,272	484,680
Listed equity securities	27,366,818	64,752,712

28 CAPITAL RISK MANAGEMENT

The Corporation manages its capital to ensure that it remains financially solvent while maintaining adequate financial strength to sustain business growth. It also complies with the minimum capital requirements of the SECP. The capital structure of the Corporation consists of equity attributable to the Government which is the sole shareholder of the Corporation and retained earnings.

The Corporation is also subject to capital requirements of United Arab Emirates (UAE) where it maintains a branch office that issues insurance contracts. The Corporation complies fully with the minimum capital requirements imposed by insurance supervisory authority in UAE. The UAE Cabinet has issued cabinet resolution No. 42 of 2009 which came into force on January 31, 2010, requiring the insurance companies to increase their minimum paid-up share capital to AED 100 million within three years from the date of this resolution. The Corporation has taken up this matter with Ministry of Finance through Ministry of Commerce for enhancing the capital. Ministry of Finance advised the Corporation to approach the UAE Government for seeking permission to raise the required paid up share capital by the end of December 2014.



In pursuance of this requirement, the Corporation has obtained approval from Ministry of Commerce for increase in the Authorized Capital from Rs. 1,500 million to Rs. 3,000 million and paid up capital from Rs. 1,100 million to Rs. 2,700 million and for the purpose, the Corporation has set-aside the profit for the year ended December 31, 2011 amounting to Rs. 570.223 million to reserve for issue of share capital.

The paid up capital of the Corporation is currently Rs. 1,100 million.

There were no changes made to the capital base nor to the objectives, policies and processes for managing capital.

Further details are given in the table below:

	(Rupees in '000)	
	2012	2011
Accumulated Surplus	808,902	520,223
Reserve for issue of share capital	457,796	-
Issued, subscribed and paid-up capital	1,100,000	1,100,000
Shareholders' equity	<u>2,366,698</u>	<u>1,620,223</u>

29 INSURANCE RISK

29.1 Insurance contracts

29.1.1 Classification

The Corporation maintains four statutory funds which are as follows:

- Pakistan Life Fund
- Overseas Life Fund
- Pension Fund
- Health Insurance Fund

Within the Pakistan Life Fund the business can be further classified as individual life conventional business, individual universal life business, group insurance business and a small amount of annuity business.

Most of the new individual life conventional policies written by the Corporation contain a discretionary participation feature (DPF).

The Overseas Life Fund entirely consists of individual life conventional business. Most of the new business written under the overseas life fund contains a DPF.

The Pension Fund consists of funds on account of group pension deposit administration contracts.

The Health Insurance Fund consists of Group Health and Accident Insurance Contracts.

Considering all the four statutory funds together, the bulk of Corporation business consists of individual life conventional policies. Most of the remaining business consists of group insurance business. Individual universal life business and pension fund business are relatively less significant classes of business in terms of weight of their policy liabilities. Group Health and Accident is a new venture of the Corporation that has yet to register any significant growth. The Corporation also offers some supplementary benefits attached in the form of riders to the individual life policies and the group life contracts. Each of these classes of business are described in greater detail below:



29.1.2 Contract details and measurement

The insurance contracts offered by the Corporation are described below:

29.1.2.1 Individual life policies

Individual life conventional products

These are long term contracts with either level or single premiums. These plans generally provide for some death benefit on death during the currency of the policy and a survival benefit either on the happening of certain contingencies or on the maturity of the policy. The premiums are payable only in the life time of the policyholder. In case of term insurance products there is no survival benefit.

Universal life policies

Under these plans a certain amount is set aside from the premium for expenses and meeting the mortality cost and the remainder of the premium is invested to earn some investment return. Investment return is allocated to these products on an annual basis keeping in view the investment earnings of the Pakistan Life Fund.

Term insurance policies

A few products of the Corporation are term insurance providing benefits only in case of death benefits. Under these policies no benefit is due if the policyholder survived in the duration of the policy. The Corporation sells both level term insurance and decreasing term insurance also known as mortgage protection plans.

Annuities

The Corporation also has a small number of individual and group annuities on its books. Under these contracts a periodic income benefit is payable to the insured life for as long as annuitant is alive.

Supplementary riders

The Corporation offers various types of supplementary riders. Some of these riders offer additional life coverage, in some cases they offer accidental death and disability benefits. The benefits can take various forms such as lump sum payment or an income benefit or waiver of premiums due under the host policy contract.

Insured event

Under the individual life insurance policies in most cases the insured event is either death or survival until the maturity date of the policy, except in case of term insurance where there is no maturity benefit. Under the annuity policies the Corporation is exposed to the risk of longevity. In this case the insured event is survival of the life insured for a long duration, exceeding the period normally expected under standard mortality tables.

In case of supplementary rider the insured event is either death or just accidental death or disability whether accidental or natural or both.

Distribution channel

The individual life business of the Corporation is sold through its dedicated sales force which is present all over the country. This field force is organised under a three tier system consisting of sales representatives, sales officers and sales managers. Each sales sector headed by a sector head is further grouped under nearly 900 area officers, more than 1200 sector/agencies offices, 26 zones and 4 regional offices in addition to one zone for the Gulf Region. The Gulf zone has its own marketing team of sector heads, area managers and sales force.

The individual life policyholders of the Corporation come from all strata of society, with greater representation of the rural areas due to wider outreach of its field force. In most cases the new policyholders are below age of 56.



29.1.2.2 Group life policies

Basic coverage

The group life policies are generally one year renewable term insurance contracts. In most cases they provide group coverage to the employees of an employer. Some times the coverage is tied up with loans extended by the employer for house building or purchase of motor vehicles or other household items. In some cases group policies are issued to lending agencies such as banks to provide group coverage to their borrowers. There are also a small number of group endowment policies which provide benefits identical to individual life policies but under the umbrella of a group contract.

Supplementary coverage

In many cases the group policies also provide supplementary coverage which may include accidental or natural disability benefits and additional accidental death benefit. These riders also take the form of one year renewable term insurance policies.

Insured event

Under the group life insurance policies in most cases the insured event is either death due to any cause. In case of supplementary coverage the insured event can include accidental death or disability or natural disability.

Distribution channel

The group insurance business is sold through four group and pension zones of the Corporation. Each zone has its own marketing force consisting of sector heads who are full time salaried employees of the Corporation, however, some of the group business is also procured through individual life field force of the Corporation.

Most of the lives covered under the group insurance consist of industrial and office workers, civil servants and employees of Corporations, banks, other financial institutions, army, navy etc.

29.1.2.3 Pension business

The pension portfolio of the Corporation consists of group deposit administration pension contracts. These are long-term contracts providing pension benefits to the employees of the policyholder. Under these contracts, the Corporation does not retain any insurance risk apart from a nominal investment return guarantee. The services offered by the Corporation include benefit administration, funding advice and investment of the funds.

These contracts do not transfer any significant insurance risk from the policyholders to the Corporation. These are therefore by nature similar to investment contracts.

The distribution channel employed for the pension business is the same as for the group insurance business.

The target market for this business is also similar to the target market for group insurance business.

29.1.2.4 Group Health Business

During the year, the Corporation has entered Health Insurance market by signing an agreement with the Benazir Income Support Programme (BISP) authorities for providing health insurance to beneficiaries enrolled under BISP Waseela Sehat Programme. Currently, the scheme is running on a pilot basis in Faisalabad District.

Insured event

The scheme is aimed at providing the underprivileged sector of the society the access to health care to cope with a variety of health shocks. The scheme provides health insurance facilities up to Rs. 25,000 per family enrolled under BISP Waseela Sehat Programme.

29.1.2.5 Group Accident Business

The Corporation started this business from October 2012. The Corporation is providing Accidental Life Insurance Coverage for a period of two years to persons applying for the Smart Card as a result of an agreement signed between the Corporation and NADRA.



Insured event

The insured event covered under this contract is accidental death.

29.1.3 Reserving method

29.1.3.1 Individual life policies

The Corporation values its individual life policy liabilities by a modified net level premium method. Under this method the Corporation's future obligations in respect of guaranteed sums assured and declared bonuses are discounted using a conservative interest basis. The policy liabilities are calculated by deducting from this amount the discounted value of future net premiums receivable under the valued policies, using a conservative basis for calculating the net premiums.

29.1.3.2 Universal life policies

For universal life policies the amount of reserve is equal to the actual accumulated value of the portion of premiums invested in the Pakistan Life Fund after accounting for the investment return allocated to these policies.

29.1.3.3 Group life policies

Group life business consists of short duration one year renewable term insurance policies. Besides, it contains a two year life insurance scheme for emigrants. It is the Corporation's policy to record only the earned premium in the revenue account. The Corporation holds reserve for claims incurred but not reported up to the valuation date and provision for experience refunds where applicable.

The Corporation also holds a premium deficiency reserve for this block of business. This reserve is calculated on the basis of the unearned premium reserve. The amount of this reserve reflects the view of the Appointed Actuary regarding the eventual loss ratio expected under group insurance contracts.

29.1.3.4 Supplementary riders

For the supplementary riders attached to individual life policies the Corporation holds a reserve equal to one full year's premium due under these policies. On the other hand the supplementary riders attached to the group life policies are valued in the same way as the group life policies themselves.

29.1.3.5 Pension plans

The Corporation holds a reserve equal to the market value of the assets backing the pension business statutory fund. Classification of the Government bonds held by this statutory fund as Held to Maturity means that they are valued on an IRR basis, which is currently less than their market value. Consequently, no additional value arising from the adoption of IRR valuation is being held as a separately identifiable reserve within the pension statutory fund at present.

29.1.3.6 Group accident and health policies

Group Accident and Health business consists of short duration one year renewable term insurance policies. It is the Corporation's policy to record only the earned premium in the revenue account. The Corporation holds reserve for claims incurred but not reported up to the valuation date and provision for experience refunds where applicable.

29.2 Reserves for outstanding claims

The Corporation holds a reserve for all claims which have been reported but are still outstanding on the reporting date. Another estimated reserve is kept within the actuarial liability for claims which has been incurred but has not yet been reported. The pattern of time lag in reporting of claims observed in previous years is used as a means of estimating as accurately as possible the liability expected to arise from the incurred but not reported claims using the chain ladder method of estimation.

29.3 Liability adequacy test

The adequacy of liability held by the Corporation has been tested using an alternative reserving method based upon realistic estimates of future mortality, expenses, lapses and investment return. Based upon the results of this test the Appointed Actuary considers that the liability being kept by the Corporation is adequate.



29.4 Reinsurance contracts held

The Corporation reinsures its Pakistan business under a surplus treaty arrangement. Under this arrangement any insurance risk on a particular life which exceeds the retention is automatically ceded to the reinsurer. The retention level is fixed by the Corporation at a level which it considers that it can safely hold on its own account.

There is a similar surplus treaty arrangement for reinsurance of the Corporation's Gulf business. The retention level of the Gulf business is fixed by the Corporation which it deems to be safe for that business.

Under both these treaties the re-insurer is not under an obligation to reinsure certain high sum assured cases which exceed the obligatory limit of the re-insurer as specified in the respective treaty. Such cases are reinsured by the Corporation on a facultative basis.

The reinsurers of the Corporation are highly rated companies with a sound credit record.

Primarily, reinsurance assets are amounts due from reinsurers with respect to recoveries under claims and profit commission. Reinsurance recoveries are measured according to the terms and conditions of the reinsurance contracts.

Reinsurance liabilities consist of amounts due to reinsurers on account of reinsurance premiums due which are measured according to the terms of the arrangements.

The Corporation assesses impairment on its reinsurance assets on a regular basis to identify any losses in recoveries. As of now, the Corporation's all reinsurance assets are due from re-insurers with a credit rating of "A or above". The reinsurers maintain a sound credit history and hence no impairment provision is required for now.

29.5 Accounting estimates and judgments and process used for deciding assumptions

29.5.1 Mortality and disability

Due to nature of its business the Corporation is exposed to the risk of mortality. The reserving basis utilizes a conservative estimate of mortality. The Corporation carries out a continuous mortality investigation of its individual life and group life business to assess the actual level of mortality experienced by it. The results of this study are utilized to ascertain the safety margin built into its reserving basis and the mortality level to be utilized for testing the adequacy of its liability.

The Corporation also has a small exposure to disability risk covered by some of its supplementary contracts. The Corporation constantly monitors its disability experience and an investigation is carried out whenever it feels that there is an adequate data for arriving at credible results.

29.5.2 Investment income

Due to long term nature of its individual life policies the Corporation is exposed to the risk of adverse fluctuation of interest rates. In particular a long term declining trend in the interest rates can produce a financial strain for the Corporation. To some extent this risk is mitigated by the Corporation's policy to match the duration of its assets with the duration of its liabilities, whenever this is possible. The reserving basis employed by the Corporation for valuing its liabilities contains adequate safeguards to counter any residual interest rate risk.

The past trend in returns available on Government bonds and the relationship of these returns to other financial variables such as inflation rate and short term interest rates is constantly analysed to form an opinion regarding the investment returns expected to be earned in the future on a medium term and long term basis. These estimates are utilized in testing the adequacy of liabilities on a realistic basis.

29.5.3 Expenses

The Corporation is also exposed to the risk of management expenses being beyond the permissible limits or increase in expenses at a pace faster than expected. The Corporation carries out an annual expense analysis to keep track of its expenses. The results of this study are utilized in the estimation of liability under realistic assumptions to ensure the adequacy of the reserves being held.



29.6 Frequency and severity of claims

29.6.1 Frequency

Since the Corporation covers a large number of lives from diverse backgrounds, which are geographically spread all over the country, the frequency of claims is normally expected to remain relatively stable over time due to the law of large numbers. However, the frequency can be affected in case there is a variation in the mortality rates experienced by the group of lives insured by the Corporation. An unusual catastrophic event such as a disease epidemic, flash floods or a major earthquake can produce a sudden spike in the frequency.

29.6.2 Severity

To some extent the Corporation is protected from isolated large claims because the liability for any claim exceeding its retention level is automatically passed on to the reinsurer under the existing treaty arrangements. However, there is also the risk of a large number of small claims occurring due to a catastrophic event. Exposure to catastrophic events is also dependent upon the concentration of risk.

The Corporation is represented by 26 zones which are spread out all over the country. However, as the population of the country is concentrated more in the Punjab and Sindh provinces, the business distribution of the Corporation naturally reflects the same pattern. Nearly 89 % of the Corporation's business emanates from these two provinces.

In addition, there is also some concentration of risk due to the nature of group business. These policies are typically issued to an employer for coverage of all the persons in their employment. Normally, the employees of an employer are distributed over one or more establishments maintained by the employer's business. This produces local concentration of risk wherever such establishments happen to exist. Furthermore, a large number of such establishments can exist in a small geographical area such as an industrial zone or the business district of a major city.

29.6.3 Claims development

The development of claims against insurance contracts issued is not disclosed as uncertainty as to the timing and amount of claims is usually resolved within a period of one year.

29.7 Sources of uncertainty in estimation of future benefit payments and premium receipts

There are many theoretical reasons giving rise to uncertainty in estimation of future benefit payments and premium receipts.

Generally, mortality rates for a large segment of the population are quite stable from year to year but mortality is dependent upon a number of factors. Unhygienic living conditions, inadequate health care facilities, prevalence of general stress in society or emergence of epidemic disease are some socio-economic reasons which may give rise to an adverse trend in mortality rates.

Life insurance also serves as a channel for savings. However, in times of economic recession the savings rate can fall. This can reflect upon the Corporation in the form of lower new business growth and higher lapse rates of existing policies.

29.8 Management of insurance risk

The insurance law has laid down some minimum criteria for insurance risk management, which is mandatory for all insurers. This includes guidance regarding minimum capital requirement for insurers, requirement to submit a financial condition report on an annual basis, minimum reserving basis for the financial condition report, minimum solvency requirements and requirement to match the currency of assets and liabilities. Also the law lays down certain restrictions on the assets that may be counted as admissible assets, prescribes guidelines for valuation of assets and liabilities, prescribes reinsurance arrangements and prescribes guidelines for investment of funds.

The Corporation's strategy for management of insurance risk meets the minimum standards laid down by the law in addition to certain other practices which are the Corporation specific.