



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Circular No. 6 of 2006

ID-SECP/2/06

April 28, 2006

Subject: Maximum Management Expense Limits for Life Insurers under S.22(9) & S.23(9) of the Insurance Ordinance 2000.

1. Securities and Exchange Commission of Pakistan (SECP) is pleased to prescribe, in a phased-manner, the maximum management expense limits under S.22(9) and S.23(9) of the Insurance Ordinance, 2000 for life insurers as given in para 2 below. These limits shall start with application to the year 2007 and shall be fully implemented with application to the year 2012 and later.
2. The maximum limit of management expenses brought into account in determining the surplus on participating contracts under S.22(9), or the maximum amount charged to policies under S.23(9), in any statutory fund shall be the total of the following items:

Item	Year					
	2007	2008	2009	2010	2011	2012 & later
	Maximum Management Expenses under S.22(9) and S.23(9) of the Insurance Ordinance, 2000					
(1) Single Premium Policies including immediate and deferred annuities	7.50%	7.00%	6.50%	6.00%	5.50%	5.00%
(2) Group Insurance Policies	10.00%	9.50%	9.00%	8.50%	8.00%	7.50%
<u>(3) Regular Premium Annuities</u>						
First Year Considerations	15.00%	14.00%	13.00%	12.00%	11.00%	10.00%
Renewal Year considerations	6.00%	5.50%	5.00%	4.50%	4.00%	4.00%

(4) Annual Average Sum Assured of in-force policies where no further premium is payable	0.10%	0.09%	0.08%	0.07%	0.06%	0.05%
(5) All annuities paid during the year	2.00%	1.80%	1.60%	1.40%	1.20%	1.00%
<u>(6) Premium other than referred in (1), (2) and (3) above</u>						
<u>First year's premium</u>						
During first six years of insurer's life insurance business in Pakistan	135.00%	130.00%	125.00%	120.00%	115.00%	110.00%
During seventh to tenth years of insurer's life insurance business in Pakistan	130.00%	125.00%	120.00%	115.00%	110.00%	105.00%
After the tenth year of insurer's life insurance business in Pakistan	125.00%	118.00%	111.00%	104.00%	98.00%	90.00%
<u>Renewal year's premium</u>						
During first six years of insurer's life insurance business in Pakistan	30.00%	29.00%	28.00%	27.00%	26.00%	25.00%
During seventh to tenth years of insurer's life insurance business in Pakistan	27.00%	26.00%	25.00%	24.00%	23.00%	22.00%
After the tenth year of insurer's life insurance business in Pakistan	25.00%	23.00%	21.00%	19.00%	17.00%	15.00%

All items in the above table shall be gross before reinsurance. Under Paras 2 and 3, the management expenses to be compared with the maximum limit shall also be gross, without taking into account the cost of reinsurance, or expense or other recoveries from reinsurers.

- Under S.22(9), for the purpose of comparing management expenses with the maximum limit computed under the above Table, management expenses shall include all expenses whatsoever brought into account in determining the surplus earned on participating contracts, including but not limited to commission, other acquisition costs, surrender charges and administrative expenses. If any immovable assets of a statutory fund

attributable to participating business, are used by the insurer for carrying out participating business of the same statutory fund, whether directly or through agents and/or others, a fair rent for such use shall be added to management expenses for the purpose of S.22(9), if it has not already been brought into account. Provided that expenses which may properly be regarded as a reduction of investment income (such as CDC charges, and expenses which reduce the net rental income from immovable property) shall be excluded from management expenses for the purpose of S.22(9).

4. Under the second proviso to S.23(9), for the purpose of comparing management expenses charged to policies with the maximum limit computed under the above Table, the management expenses charged to policies shall include expenses charged under all heads whatsoever, whether directly or indirectly. The comparison of the management expenses charged to policies with the maximum limit computed under the above table, shall be done on aggregate basis for each statutory fund. In particular, and without prejudice to the generality of the foregoing:

(a) In the case of investment-linked ("unit-linked") contracts, management expenses charged to policies shall include:

- (i) bid-offer spreads,
- (ii) portions of premiums not used to purchase units,
- (iii) policy fees and administration charges by whatever name and howsoever calculated including (but not limited to) surrender charges,
- (iv) charges for investment management by whatever name and howsoever calculated in excess of 1.50% of fund value,
- (v) the excess of mortality charges and other charges for risk over the expected claims. The basis of expected claims shall be advised by the appointed actuary and shall be realistic including provision for mortality improvement.

(b) In the case of investment contracts which are not investment-linked "(for example "universal life"), management expenses charged to policies shall include:

- (i) the proportion of premiums not credited to the "running account" of the policy
- (ii) policy fees and administration charges by whatever name charged to the "running account" including (but not limited to) surrender charges,
- (iii) charges for "investment management" by whatever name and howsoever calculated in excess of 1.50% of fund value,
- (iv) the excess of mortality charges and other charges for risk over the expected claims. The basis of expected claims shall be advised by the appointed actuary and shall be realistic including provision for mortality improvement.

Provided that expenses which may properly be regarded as a reduction of investment income (such as CDC charges, and expenses which reduce the net rental income from immovable property) shall be excluded from management expenses charged to policies for the purpose of S.23(9).

5.
 - (a) In respect of investment contracts, whether investment-linked or not, written in any statutory fund, the Appointed Actuary shall, while preparing the Statement of Financial Condition, compute whether the mortality, expense and/or other charges previously certified by him resulted in management expenses charged to policies, computed in accordance with Para 4, exceed the maximum limit computed under the above Table. Subject to Para 5(b), these computations shall be for the aggregate of all policies.
 - (b) If there is more than one type or product of investment contract in a statutory fund, then the Actuary shall make the computation separately for each type or product, while aggregating all policies within each type or product. The comparison of the management expenses charged to policies with the maximum limit computed under the above table, shall be done on aggregate basis for each statutory fund.
 - (c) In case the management expenses charged to policies did exceed the maximum limit or limits, he shall appropriately revise his certificate or certificates regarding mortality, expenses and/or other charges under investment contracts.
 - (d) The revised certificate or certificates shall be filed with the SECP with the Statement of Financial Condition.
6. To enable the SECP to monitor the implementation of this circular, the following supplemental statements, separately for each statutory fund, shall be filed with the annual accounting returns for (i) participating business (ii) each type or product of investment-linked business and (iii) each type or product of investment contracts which are not investment-linked:
 - (a) an itemised computation of the maximum limit under the above Table.
 - (b) A statement of the management expenses, under various heads, brought into account in determining the surplus on participating contracts, computed in accordance with Para 3 of this circular.
 - (c) A statement of the management expenses, under various heads, charged to investment-linked and other investment contracts, computed in accordance with Para 4 of this circular.
 - (d) A statement of expenses, under various heads, excluded under the provisos to Paras 3 and 4.

These statements shall be signed by the same officers of the insurer who sign the accounting returns, certified by the external auditor, and counter-signed by the Appointed Actuary.

7. These limits shall not apply to following types of statutory funds:
- i. Statutory Funds which contain only non-participating contracts including group term insurance, group disability insurance, group health insurance and group accident insurance,
 - ii. Statutory Funds which contain investment contracts, not being participating contracts, under the terms of which expense charge structure is fixed and not changeable in any case during the term of the policy.
8. SECP believes that these expense limits shall go a long way towards policyholders' protection and increasing credibility of the life insurance industry.

Sd/-
(Shoaib Soofi)
Director

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