

PRESS RELEASE

Maximum Illustrative Return by Life Insurance Companies Capped at Eight Percent

ISLAMABAD – 15 January 2004: With a view to curbing the tendency of illustrating unrealistic and excessively optimistic rates of return by life insurance companies to boost their sales of unit linked policies, the Securities and Exchange Commission of Pakistan (SEC) has capped the maximum illustrative return to eight percent with effect from 1 February, 2004.

While publicizing their unit linked policies, insurance companies, in order to attract their prospective policyholders, have been projecting expected rates of returns as high as fourteen percent, which are not sustainable in the present scenario of falling yields on corporate and government bonds where these insurance companies invest the funds so collected.

In order to check this practice and to bring uniformity and make projections more realistic, the SEC has capped the maximum illustrative return for all marketing illustrations (or publicity material) at eight percent with effect from 1 February, 2004. The projected/illustrative return will however be reviewed by SEC from time to time based on the movement in interest rates and other investment options.

The SEC after reviewing the publicity material of the insurance companies issuing unit linked policies felt the need for using an appropriate rate of growth instead of the growth rates used by them in their publicity material and illustrations.

Unit linked life insurance policy is a new concept in Pakistan and was introduced first time by private life insurance companies after 1992. The distinguishing feature of a unit-linked policy is that the maturity benefits under the policy are determined by the number of units credited to the policyholder and price of the unit at the date of payment. Life insurance companies, in their illustrations for the prospective policyholders, project different rates with which the price of unit would grow based on the investment performance of the fund. Although the companies indicate that the illustrations do not represent a guarantee regarding the future returns but the prospective policyholders may not be equipped enough to understand this aspect.