

The sinking rupee

According to official Price Indices, the Pakistan rupee lost purchasing power as follows:

Period	Loss of purchasing power
Past 5 years	46%
Past 10 years	59%
Past 25 years	87%
Past 50 years	98%

The sharp fall in the past 5 years is due to high inflation, compared with the previous 5 years.

We get misled by the name. In real economic terms, if not in legal terms, the 2011 Pakistan rupee is a different currency from the Pakistan rupee 5, 10, 25 or 50 years ago.

The vanished rupee

“Rupee” means a silver coin. Traditionally, it contained one tola, or 11.6638038 grams, of 0.917 fine silver. The silver content was halved in 1942, during World War II.

Note: “Tola” in the gold trade is slightly different.

Sources: Wikipedia and others

The silver rupee has long since vanished from circulation, and is now a collector’s item.

IFRS 2 on Employee Stock Option Schemes (ESOP’s) needs review

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard No 2 (IFRS 2) on Share Based Payments in Feb 2004, revised in December 2009. On 6 Dec 2006, the SECP made this applicable to Pakistan.

We due respect to the IASB, we submit that there is room for an alternative view as to whether IFRS 2 achieves the object of correct measurement and accounting for ESOP’s.

We propose a different accounting procedure which (a) is easier to understand, (b) does not have the problems we perceive in IFRS 2, and (c) brings out the open ended risks taken by entities under ESOP’s.

This was presented by Samee-ul-Hasan at an Early Bird Seminar held at Karachi on 13 Jan 2011. If you would like a copy of his presentation, please contact Shabih at shabih@akhasan.com.

Prudent Management of Provident, Pension & Gratuity Funds

Samee-ul-Hasan made a presentation on this subject at the CFO Conference on 22 March 2011, arranged by the Institute of Chartered Accountants of Pakistan, at Karachi. Please contact Shabih if you would like a copy.

Life insurance policies sold through Bancassurance have unsatisfactory persistency

The typical individual life insurance policy sold in Pakistan has a term of 15 to 20 years. The policyholder gets full value only if the policy persists for its full term. Poor persistency, or early cessation, gives little or no return to the policyholder, because most of the first year’s premium goes on commissions to agents.

The insurance company also has an interest in good persistency, because “the business which stays is the business which pays”.

Persistency depends on the characteristics of the sale, and on after-sales service.

Pakistan had unsatisfactory persistency rates until 2000. State Life, Pakistan's largest life insurer, reformed its commission structure effective from 1 Jan 2002. Its persistency improved dramatically. One or two private sector life insurers also achieve good persistency on policies sold through their own agents.

During the last 4 years, there has been a sharp increase in policies sold through banks, on behalf of private sector life insurers. This system is called "bancassurance". Unfortunately, bancassurance persistency is disappointing. As a result, the aggregate persistency of private sector life insurers in 2009 was well below State Life. 2010 figures are not yet available.

Those involved in bancassurance should work hard to solve this problem.

US cancer survival and death rates

Early detection and treatment of cancers has improved in the US. This is indicated by the improvement in survival rates for the first 5 years after detection, shown in the Table.

Cancer site	5 yr survival rate, after detection	
	1975-77	1996-2004
Lung & bronchus	13 %	16 %
Prostate	70 %	99 %
Breast (females)	76 %	91 %
Colon	52 %	66 %
Rectum	49 %	67 %

Source: US Dept of Health & Human Services

Despite this improvement, half of cancer deaths among US men were due to 3 cancer groups:

Lung, bronchus and other respiratory (32%); Prostate (9%); Colon, rectum and anus (8%).

Half of cancer deaths among US women were also due to 3 cancer groups: Lung, bronchus and respiratory (27%); Breast (15%); Colon, rectum and anus (10%).

The high number of deaths, despite better early detection and treatment, is due to the high prevalence of cancers at these sites.

Aun Ali Farishta qualifies as ASA

We congratulate our colleague Aun on becoming an Associate of the US Society of Actuaries. He is our second ASA. Both are studying to become Fellows, Inshallah.

Salary comparisons cause unhappiness

Professor Gary Cooper is an expert in organisational psychology and health and the Lancaster University Management School. He says people who compare their salaries with others tend to be unsure of themselves.

Comparisons with school and university friends are probably more damaging than with comparison with work colleagues. If school friends have done much better, you may think 'I must be less competent'.

His advice is: don't compare yourself. Those you compare yourself with may not actually be more content. Count your blessings. Source: BBC

'Very intelligent leader not good for nation'

A nation should not have a very intelligent leader, because he will want them to do things they don't really want to do. The leader should be a person with whom people feel comfortable.

Ibn Khaldun's "Muqaddima"

Readers should take expert advice on legal, tax and investment matters

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