

*We wish you a Happy and Prosperous 2013*

## Advice of an actuary required from 31 Dec 2012 onwards

### on reserves of Accident and Health (A & H) business of Non-Life companies

From 31 Dec 2012 onwards, Non-Life insurance companies must take an actuary's advice on Technical Reserves of their A & H Business.

Life companies were already required to take actuarial advice on A & H Technical Reserves. Akhtar & Hasan are active in this field.

### Muhammad Hussain has become a Fellow of the US Society of Actuaries (FSA)

Our colleague Muhammad Hussain became an FSA on 5 Dec 2012, after attending a Fellowship Admission Course in Fort Worth, Texas.

### The sinking rupee

According to official Indices, by June 2012, the Pakistan rupee lost purchasing power as follows:

Period	Loss of purchasing power
Past 5 years	48 %
Past 10 years	62 %
Past 25 years	89 %
Past 35 years	95 %
Past 50 years	98 %

(Basis: Average 12 months CPI to June)

In real terms, the 2012 Pakistan rupee is a different currency from the Pakistan rupee 5, 10, 25, 35 or 50 years ago. In fact, this is true of most currencies, but in varying degrees.

## Comparison of Consumer Price Index (CPI) with World Bank GDP Deflator

The CPI is compiled by the Bureau of Statistics on the basis of prices of a "basket". The basket is revised from time to time according to changes in consumption practices.

The GDP (Gross Domestic Product) deflator aims to measure the real growth of the GDP, compared with the nominal growth in money terms. It is an alternative measure of inflation. Unlike the CPI, it is an estimate for the whole economy, not based on a particular basket.

The Table compares CPI with Pakistan's GDP deflator on the World Bank's website.

Year	CPI	GDP deflator
1997	11.80 %	13.4 %
1998	7.80	7.5
1999	5.74	5.9
2000	3.58	24.9
2001	4.41	7.9
2002	3.54	2.5
2003	3.10	4.4
2004	4.57	7.7
2005	9.28	7.0
2006	7.92	10.5
2007	7.77	7.7
2008	12.00	16.2
2009	20.77	19.9
2010	11.73	12.4
2011	13.66	18.3

There are sharp differences in some years.

### "Institutional" investments in National Savings Schemes

The Central Directorate of National Savings (CDNS) stopped "institutional investments" in

National Savings Schemes (NSS) on 26 April 2011. National Savings Centres implemented this immediately. But banks continued issuing them upto 11 Aug 2011, when the relevant notifications were issued by the Finance Division's Budget Wing. (Ref: Akhtar & Hasan Letter No 96 of December 2011).

On 10 April 2012, the CDNS issued a circular that on 5<sup>th</sup> April 2012, the ECC "approved the proposal of institutional investment from ... pension, gratuity, superannuation, contributory provident funds and trusts etc in NSS". National Savings Centres immediately started issuing NSS to these funds and trusts. Enquiries indicate that they are still doing this.

But as far as we know, the Finance Division has not yet issued the relevant Notifications. So banks do not permit these funds and trusts to invest in NSS. We request readers to inform us if they have further information on this subject.

### **Non-competitive bids at auctions of Treasury Bills (TB's) and Pakistan Investment Bonds (PIB's)**

These are described in Akhtar & Hasan Letter No 96. The Government has issued ads encouraging such non-competitive bids.

NSS yields are periodically re-aligned with TB and PIB yields. Both constitute government borrowing. Compared with NSS, the advantages to Government of TB's and PIB's are:

- (a) TB's and PIB's are not "on tap". Government can regulate borrowing at auctions.
- (b) If TB and PIB holders want money before maturity, they have to sell on the open market. This helps government to plan its cash flows.

(c) Under NSS, if the rate of return on new investment increases, existing holders can encash and re-invest at a higher yield. TB's and PIB's give no such option against Government.

### **Could coffee reduce prostate cancers?**

Prostate cancer is the most common male cancer. The Journal of the National Cancer Institute reported a study of 48,000 US male health professionals. Every 4 years between 1986 and 2006, they stated their average daily intake of coffee. In these 20 years, 5,035 developed prostate cancer, 642 proving fatal.

Those who drank six or more cups of coffee a day were 20% less likely to develop any form of prostate cancer. They were also 60% less likely to develop an aggressive form which can spread to other parts of the body.

Even one to three cups per day were found to lower the risk of lethal prostate cancer by 30%.

No difference was seen between caffeinated and decaffeinated coffee, which suggests that caffeine itself was not the cause. The researchers think there may be unknown compounds in coffee that protect against the disease.

However, some authorities say the evidence is not clear, and do not recommend that men start drinking coffee in the hope of preventing prostate cancer. (Source: BBC Health)

These conflicting views indicate that men should consult a doctor on whether coffee helps.

### **George Soros's view on financial markets**

Economic theory claims that market movements reflect all available knowledge. But reality is far different. In fact, financial markets are ruled by impressions and emotions, and they abhor uncertainty.

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

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