

Changes in EOBI from 1 July 2010

From 1 July 2010, the Minimum Wage has been increased to Rs 7,000 pm, compared with Rs 6,000 pm up to 30 June 2010. This means that Employer contributions to EOBI @ 5% are now Rs 350 pm, and Employee contributions @ 1% are now Rs 70 pm.

The Minimum EOBI Pension has been raised to Rs 3,000 pm, compared with Rs 2,000 pm up to 30 June 2010.

Prudential's deal to buy AIG's AIA is off

The large US insurance group AIG ran into difficulties in 2008. The US Government gave US \$ 182 billion to bail it out. To repay this, AIG started selling some operations.

One of its two large life insurance operations is American International Assurance (AIA). On 1st March 2010, AIG entered into "a definitive agreement" to sell AIA to the UK's Prudential plc. The price was US\$ 35.5 billion. The Pru announced a rights issue of US\$ 20 billion to finance the purchase.

However, the deal fell through, because the Pru was unable to raise the necessary finances.

The 5X Whammy that will hit retirees: Early Bird Seminar on 1 June 2010

Akhtar & Hasan has done research on the problems that Pakistan retirees will face. To present the results, an Early Bird Seminar was held at Karachi on 1 June 2010.

Retirees will be hit by a 5X Whammy:

- (1) Longevity
- (2) Inflation
- (3) Taxation
- (4) Medical Costs
- (5) Investment Management Expenses

The research indicated that in the great majority of cases, the 5X Whammy will exhaust the

retiree's funds over a period much shorter than the expectation of life.

Fore-warned is fore-armed. This serious problem should be addressed by the person during working life, and by employers. In fact, it is a national problem, with no easy solutions.

Please contact us if you would like a copy of our presentation. Please state whether you want it to be emailed, or whether you prefer a hard copy.

From Jan 2013, financial advisers in the UK will be banned from receiving commission for selling investment policies

An "adviser" who stands to get commission as a result of his "advice" is not really an adviser. He is a salesman. To resolve this problem, the UK Financial Services Authority (FSA) has decreed that from Jan 2013, such an adviser cannot get commission. He must charge a fee.

The FSA said that the "new rules ... will remove commission bias from the sale of retail investment products".

They speak of "sales", and yet consider these people "advisers". There is an inherent contradiction here. It will be interesting to see whether the new rules work well. Time will tell.

The picture is not totally clear. Many details will have to be sorted out between now and 2012.

The new rules will not apply to "pure protection" policies. In life insurance, most pure protection policies are bought in conjunction with house purchase or other loans. They pay the outstanding balance if the borrower dies.

Basic problem with UK FSA approach

Policies with an investment content provide a combination of protection and systematic long term saving.

Suppose they are (a) honestly sold, (b) the company's charges built into the premiums are fair and reasonable and (c) the policy holder

pays renewal premiums. Then they are good for the public, and for the economy of the country.

Pakistan needs this business to expand. Like any business, the company is entitled to a profit. The industry provides employment to thousands of field workers and office employees.

But left to themselves, few would buy such policies. They have to be sold. So salesmanship remains essential. Very few will seek "advice".

Typically, out of 10 persons contacted by an agent, only 1 sale would be made. It's a tough business. Insurance agents need the stimulus of commission. The UK FSA's approach seems purist, and takes no account of human nature.

It would be wrong --- at least in Pakistan --- to designate life insurance agents as "advisers". They should be considered salesmen, for that is what they are. And commission is the only practical way to reward them.

The emphasis should be on good selling. The proof of the pudding should be in the eating. If 80% or more of policies sold by an agent pay the second year's premium, we should assume that the sale was properly made.

Secondary trading in National Savings Bonds (NSB's) not off the ground

When NSB's were launched in Jan 2010 (The Akhtar & Hasan Letter No 89, Jan 2010), the Central Directorate of National Savings announced that they would be listed and traded on all three Pakistani Stock Exchanges.

It seems this secondary trading has not really got going yet.

Football World Cup in South Africa

Pakistan's murder rate is 6.3 pa per 100,000 population. The murder rate in South Africa is more than 10 times higher. It is 69 pa per 100,000, the highest in the world. (The Akhtar & Hasan Letter No 87, July 2009).

This did not stop the World Cup being held in South Africa. It did not deter tens of thousands from attending it. But foreigners are afraid of coming to Pakistan. This proves the truth of the Urdu saying "*bad se badnaam bura*".

Sharp ups and downs in deficits in UK Defined Benefit (DB) Pension schemes

Deficits in UK DB Pension Schemes have fluctuated widely. Here are some figures from 6,653 schemes surveyed

<u>June 2009</u> : Deficit	£ 149 billion
<u>May 2010</u> : Surplus	£ 12 billion
<u>June 2010</u> : Deficit	£ 22 billion

These swings are the result of changing market values of ordinary shares. (Source: BBC)

Weaknesses in PUC actuarial cost method

IAS 19 followed the US FAS 87, and adopted the Projected Unit Credit (PUC) cost method. PUC produces unstable results. The Entry Age Normal (EAN) cost method, widely used before these accounting standards, is much stabler.

Also, EAN recognises that a DB pension scheme promises a pension based on total service, both past and future, and produces a long range cost figure. It is a conceptual weakness that PUC ignores future service, though that is part of the "deal" between Employer and Employee. Moreover, PUC does not produce a long range cost figure, which is vital missing information.

The gradual demise of DB - caused by some valid concerns, but partly because PUC asks the wrong questions - may make the issue irrelevant.

Name change ad in Pakistani newspaper

"I, David Arul Norman Ripley, son of Charles Norman Ripley, have changed my name to Oswald Augustus David Arul Norman Ripley-Peterson-McDonald III. I should be referred to as and called Oswald Augustus David Arul Norman Ripley-Peterson-McDonald III."

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

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