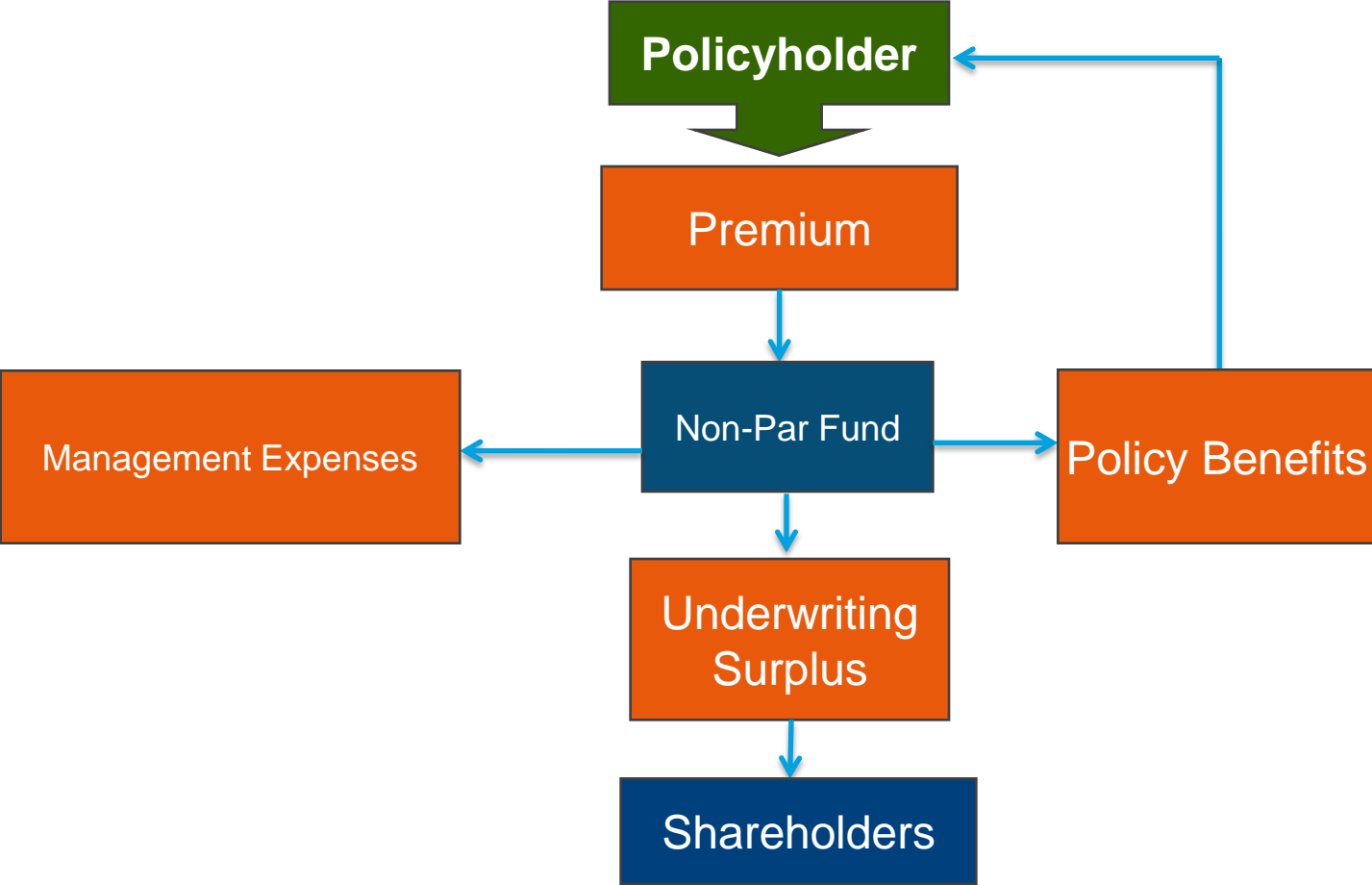


29 November 2012

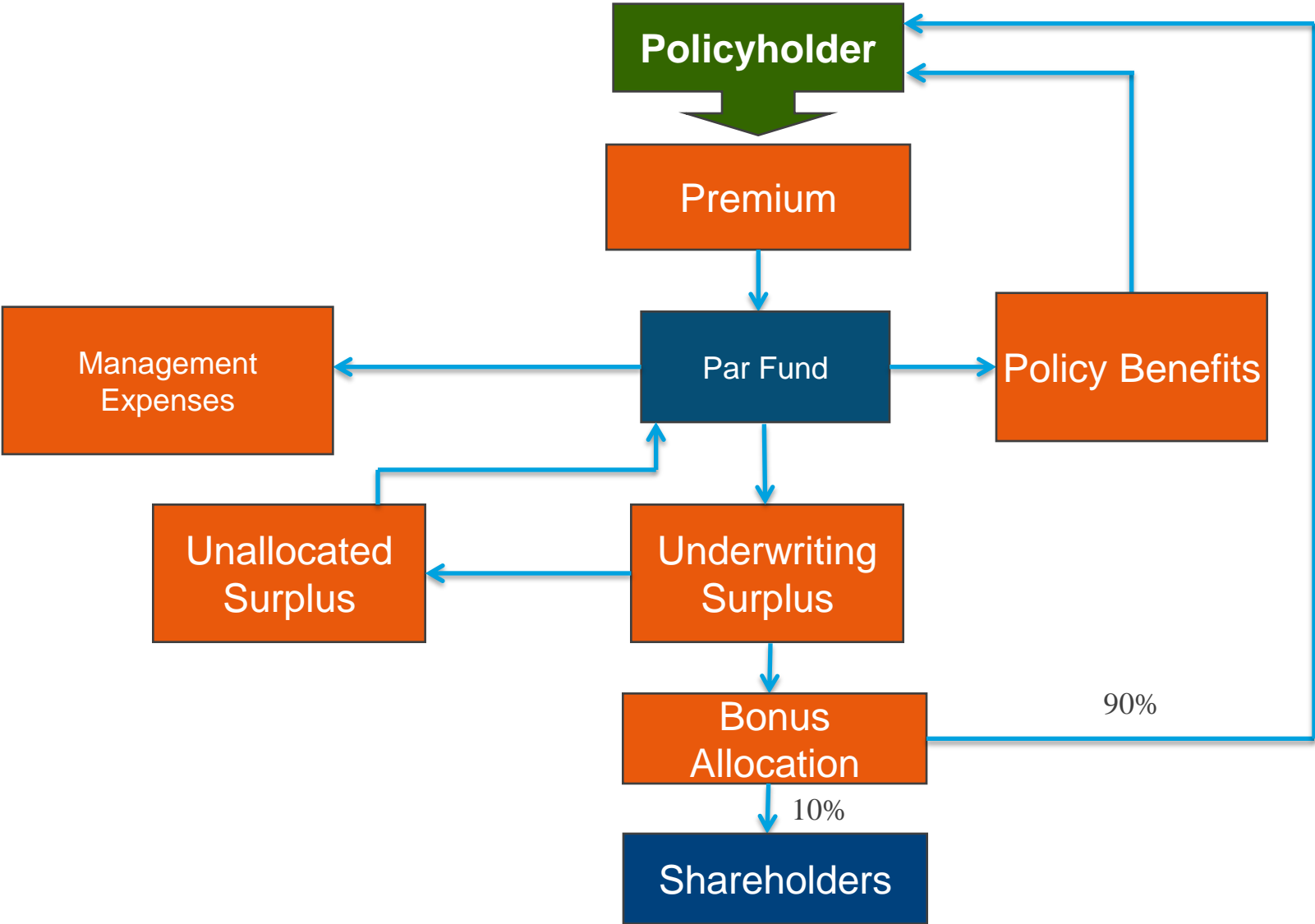
RBC for Takaful

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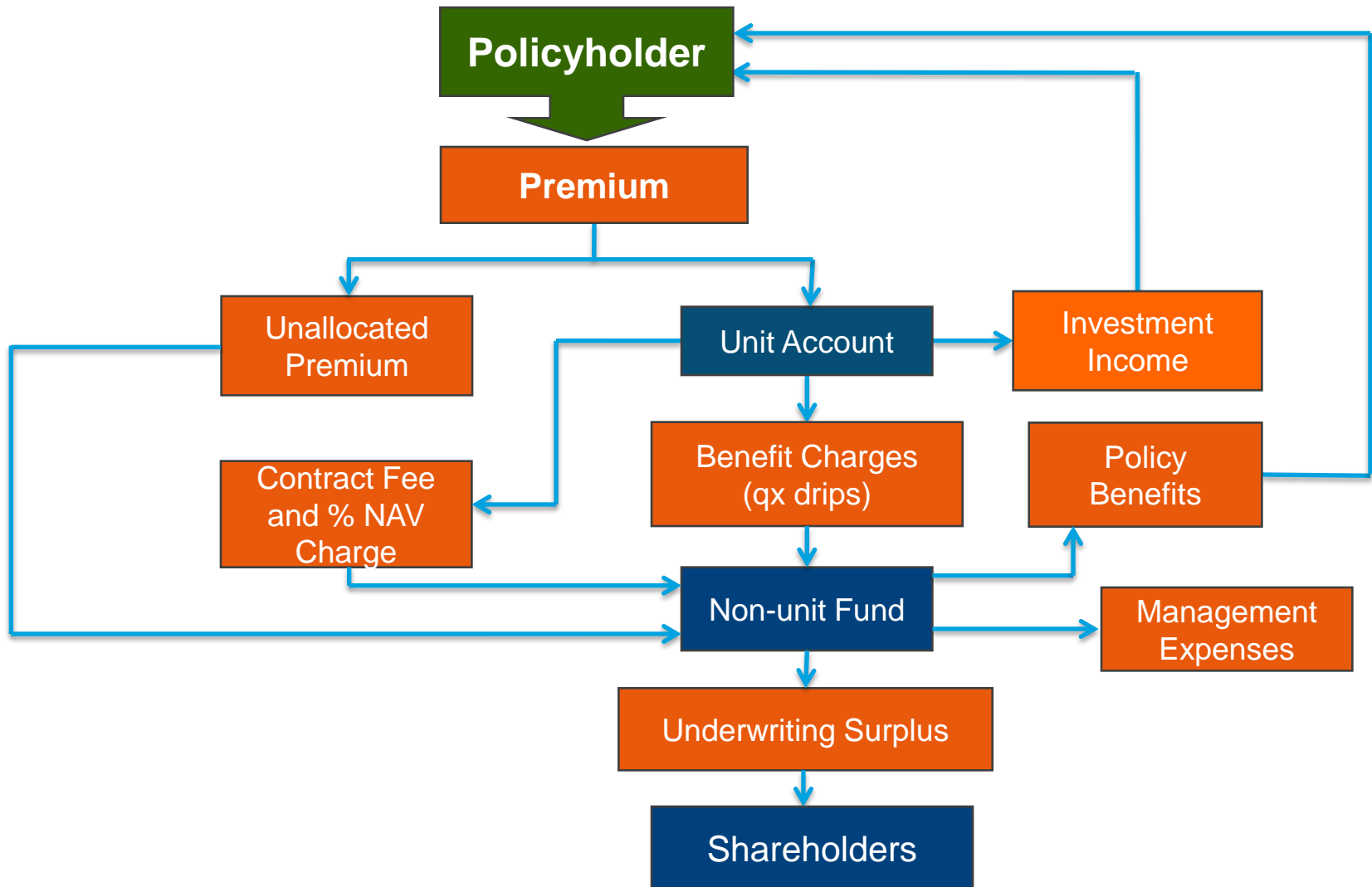
Non-Par Product



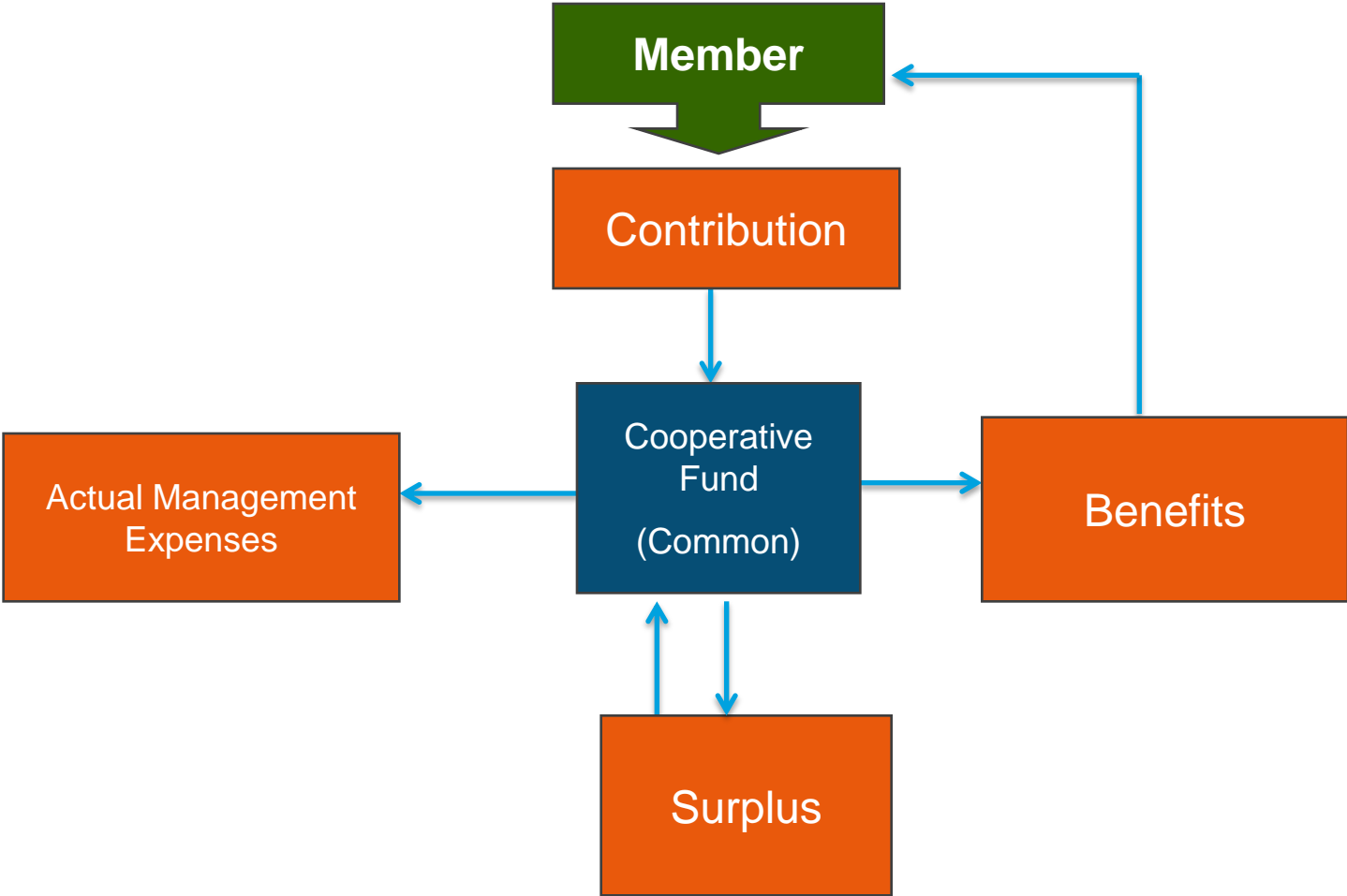
Par Product



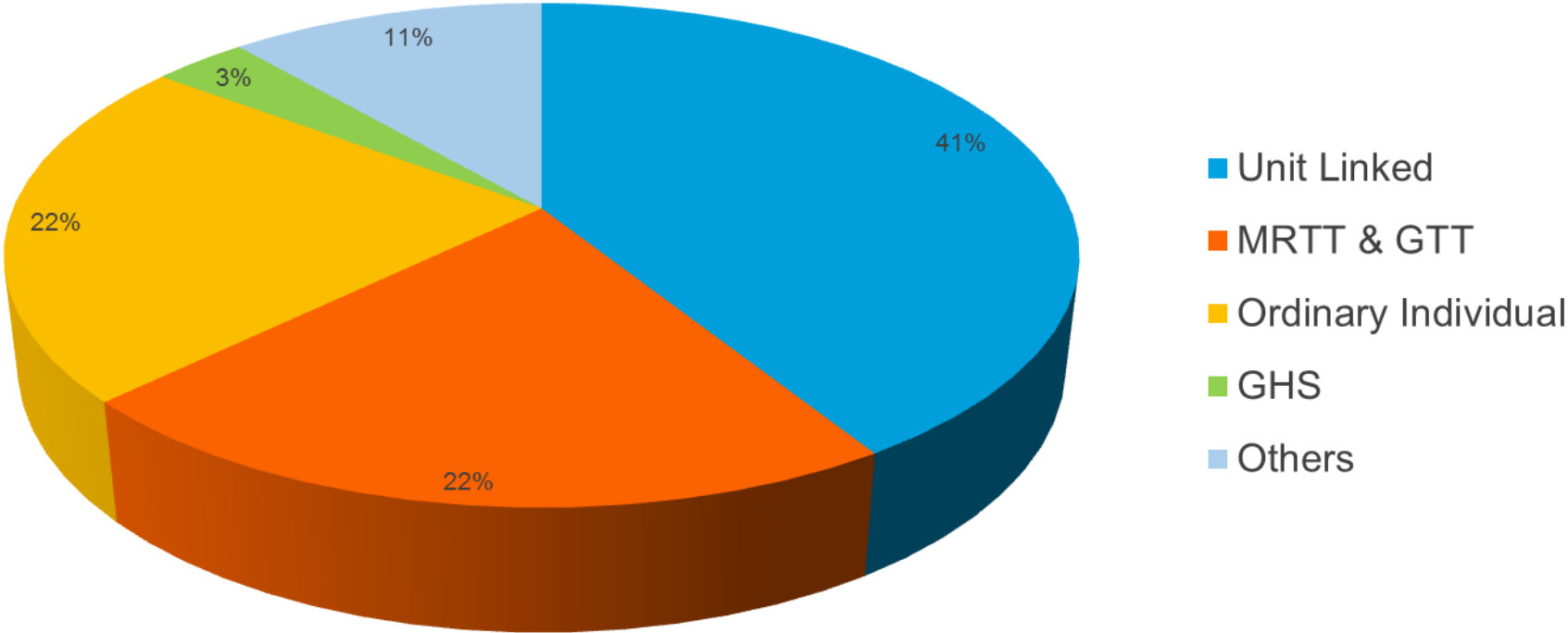
Unit Linked Product



Pure cooperative model



Current Malaysia Family Market Split by Product



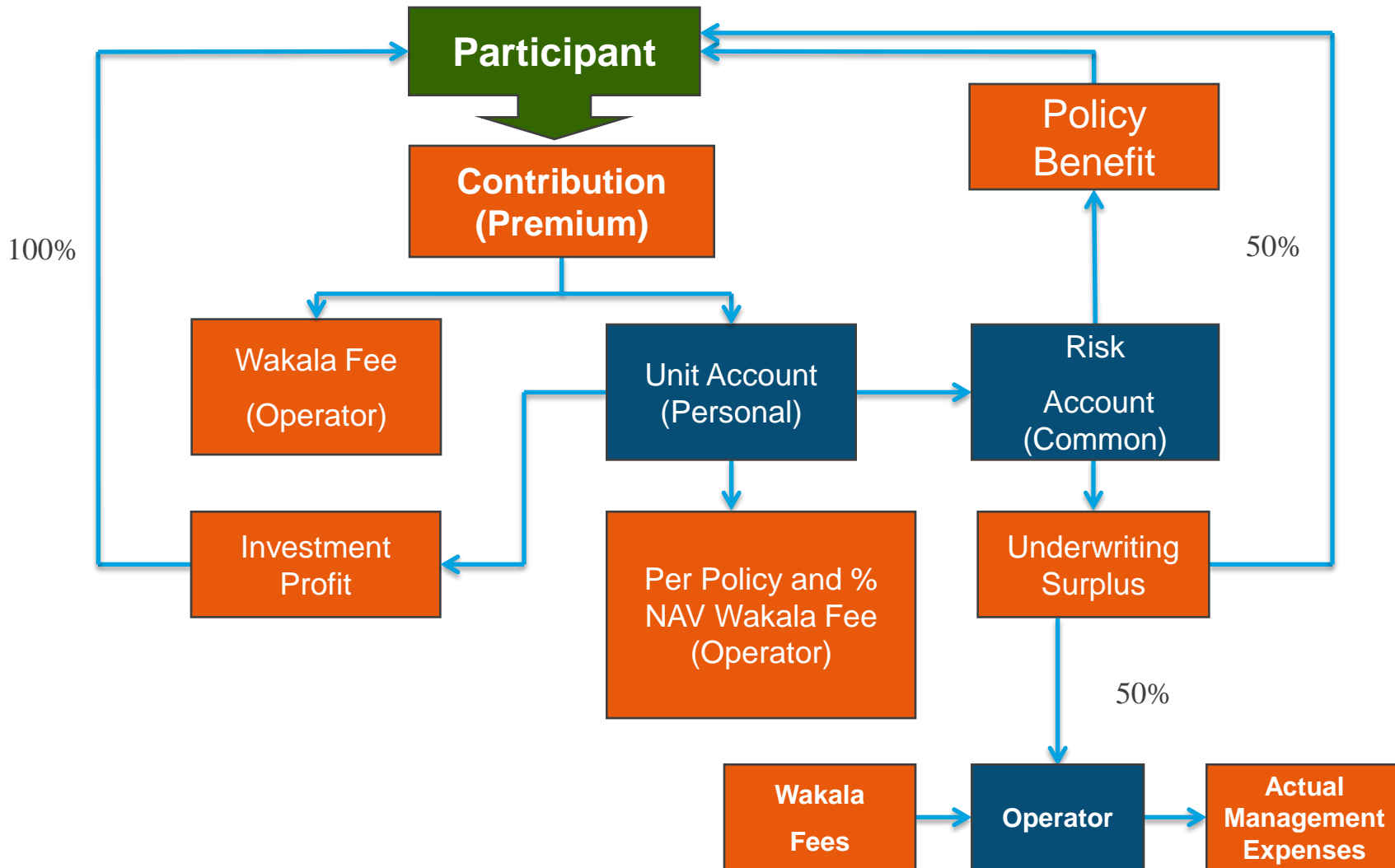
Annual Contribution Equivalent Jan – June 2012

Discussion Points with Models

- Are the interests of participants and the operator aligned?
- Does it have Islamic acceptability?
- Will it provide a competitive product?
- Will it give enough returns to the operator?

Unit Linked standard model

Wakala – Drip with incentive compensation



Unit Linked standard model

Wakala – Drip with incentive compensation

Ways profitability varies by operator

- Differences in loading or buffer in tabarru' rates
- Differences in total amount of wakalah fees or spread (in particular amount in first year)
- Differences in per policy wakalah fees

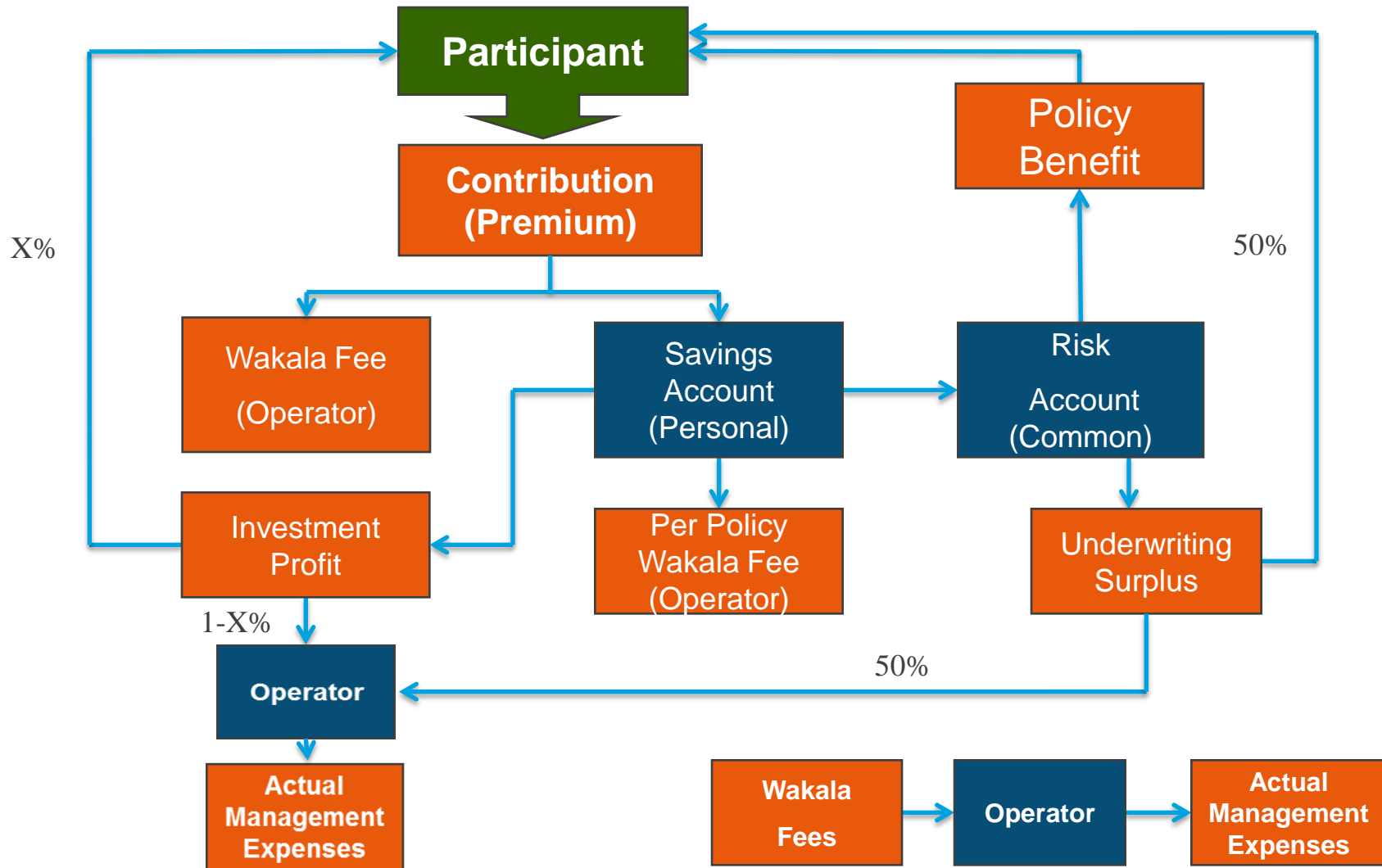
Unit Linked standard model

Wakala – Drip with incentive compensation

Operator	Product	Year 1 Wakalah Fee	Per Policy Wakalah Fee
PruBSN	PruLink	65%	RM5/month
STM	Genlife	55%	RM5/month
MAAT	Takafulink	60%	RM5/month
AIA AFG	A Mas	60%	RM5/month
GET	Damai	57%	RM6/month
GET	Amal	80%	NA
IPTEB	Salam	60%	RM6/month

Non-Linked standard model

Wakala With Mudharaba – Drip with incentive compensation



Non-Linked standard model

Wakala With Mudharaba – Drip with incentive compensation

Operator	Product	Year 1 Wakalah Fee	Mudharabah Share	Per Policy Wakalah Fee
PruBSN	Protect	75%	20%	RM24/year
Etiqa	Harmoni	90%	15%	NA
Etiqa	Pristin	90%	10%	RM60/year
Ikhlas	Savings	85%	30%	NA
AIA AFG	A Prima	82%	20%	NA

What is Capital required for?

Capital is required to cover losses due to:

- Claims (liability) risks
- Expenses higher than expected
- New business less (or more) than expected
- Investment credit and market risk
- Investments not aligned with liabilities
- Lapsation more or less than expected
- Operational risks

Using the risk free yield curve

We use the Islamic risk free yield curve (GII) for discounting our liabilities

Thus a company investing in risk free assets of the same duration as liabilities should have little or no asset charges as this strategy is 'safe'

If it is not possible to actually invest in these assets then we need to think outside the box to restructure products if we want to create a 'safe' strategy

Conventional bonds

Bonds are the backbone of conventional life insurance, providing the means to offer investment return and capital guarantees. Conventional bonds provide guaranteed cash flows which can be used to pay insurance liabilities

Islamic bonds

Takaful does not have this asset class as a backbone, thus requiring product design to be different. A few countries such as Malaysia have Islamic bonds with fixed cash flows, but with questionable shariah acceptability it is not clear how long this will continue.

Comparison with conventional RBC

The overall framework of RBC is consistent between conventional and takaful. The various charges and whatnot are also similar. The differences are subtle

Market and Credit risk charges

In conventional insurance unit funds do not have market and credit risk charges, other funds do. In Takaful we have PA funds which are also like unit funds and don't have charges. However this fund is also used for MRTT, which in a conventional insurer would have charges

Implied Guarantees

Although we don't have formal guaranteed investment returns or capital guarantees (yet) in takaful, sometimes guarantees are implied

Fund Separation

In takaful expense and operational risks are in a separate fund (operators fund) than benefit risks

Liability Capital Charges

For the liability and expense capital charge, reserves (GPV) are recalculated using more conservative assumptions. More conservative could mean higher or lower values depending on the assumption and the product. In Takaful due to the segregation of expense risks it is more complicated

Direction of Mortality Charges

For benefit reserves higher mortality is conservative as death benefits paid out would be higher. For expense reserves lower mortality is conservative as more expenses would be paid out. Thus the direction for mortality conservatism will be different between the risk fund and operators fund.

Direction of Mortality Charges

For conventional insurance expense reserves and benefit reserves are in the same fund so the effects of mortality are offset between benefit reserves and expense reserves.

Surrender Value Capital Charge

Where surrender values are higher than reserves the difference makes up the surrender value capital charge (SVCC). Surrender values are generally based on asset shares, but for takaful asset shares are built up in two funds, risk fund and operators fund. Thus surrender values should be taken from both funds.

Risk charges

Where benefits are not guaranteed the risk charges are lower. In takaful the tabarru' can be not guaranteed, thus having lower charges, but the gross contributions effectively guaranteed.

Future product types

- In Malaysia there are discussions on how to provide capital guarantees in takaful (wadiah structure)
- Annuities are also being explored
- Both will require careful matching of assets and liabilities

Target Capital Levels (ITCL)

- Risk management is key in an RBC world: everyone should be involved in risk identification, mitigation strategies should be explored for each risk and where risks cannot be mitigated they should be tracked and built into stress testing to determine the operators ITCL.

Conclusion

- RBCT is similar to conventional RBC, but with subtle differences. Operators should understand these differences as through understanding these can decisions be made such as risk management and product design.



Questions

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