ACTUARIAL SOCIETY OF SOUTH AFRICA

Subject F202
Life Insurance Applications
Fellowship Applications Syllabus

For the 2016 Examinations

August 2015

The Actuarial Society of South Africa
Subject F202 — Life Insurance Applications

Aim

The aim of the Life Insurance Applications (F202) subject is to instill in the successful candidates the ability to apply knowledge of the South African Life Insurance environment and the principles of the actuarial practice of Life Insurance to a South African Life Insurance company.

Links to other subjects

Subject F102— Life Insurance Principles: provides the underlying principles upon which this subject is based. It is assumed that students have a good understanding of the principles covered in that subject.

Candidates can expect to be examined in aspects of general principles developed in Subject F102— Life Insurance Fellowship Principles, as well as in the South African specific aspects developed in this subject. Note that F202 presupposes knowledge of certain products that were covered in F101 prior to 2012 but that are now covered in F102 (e.g. income protection, critical illness, and related matters).

Objectives

On the successful completion of this subject the candidate will be able to:

(a) Demonstrate a knowledge of the South African commercial and economic environment.

(i) Describe the general business environment for life insurance companies in the South Africa, including the risks involved, in terms of:

- new business
- the wider competitive environment, including the major non-life savings products competing with traditional life savings insurance products.
- operational risk
- corporate finance
- securitisation
- mergers and acquisitions
- demutualisations
- cell captives

(ii) Define the principal terms used in Life Insurance in South Africa.

(iii) Describe the major Life Insurance products of South African Life Insurance companies, in terms of:

- the main types of products issued;
- the benefits, guarantees and options that may be provided; and
- the purpose and risks of the products to the policyholder and insurer.

(iv) Describe the concept of microinsurance and how it applies within the South African environment

(v) Describe the main methods and marketing channels used by South African Life Insurance companies to sell their products.

(vi) Describe the South African regulatory environment as it affects Life Insurance companies in terms of:

- The taxation of the South African business of Life Insurance companies and the effect of taxation on the benefits and premiums paid under South African Life Insurance contracts.
- The supervision of the South African business of Life Insurance companies under the Long Term Insurance Act 52 of 1998, the regulations made under the Act and other directives or notices with regard to:
    - The powers, duties and obligations of the Statutory Actuary,
    - The requirements that the insurer must be financially sound (including the valuation of assets, liabilities and capital requirements),
    - The limitation on the amount of dividend that may be paid by a Life Insurance company,
    - The returns to be submitted,
    - The requirement that policies should be actuarially sound,
    - The limitation on remuneration to intermediaries,
    - Product design restrictions (including the "the 5 year rule"),
    - Requirements for minimum values where contractual changes are made to savings policies,
    - Admissibility of assets,
    - Transfer of liabilities.
- Basic knowledge of the Financial Advisory and Intermediary Services Act, Financial Intelligence Centre Act and National Credit Act and the impact of these on long-term insurance.
- Awareness of the Twin Peaks model of financial regulation, which is being considered as a model for the South African market.
- Knowledge of the Ombud system in South Africa as it applies in the life insurance industry.
- Profit reporting under the International Financial Reporting Standards issued by the International Accounting Standards Board, and the report by the statutory actuary contained within the financial statements.
- The Code of Conduct of the Association for Savings and Investment SA (ASISA).
- The requirements of the professional and regulatory guidance relevant to actuaries practicing in or advising South African Life Insurance companies.
- Knowledge of Principles and Practices of Financial Management (PPFM)
- Basic knowledge of the International Association of Insurance Supervisors (IAIS) Insurance Core Principles and Methodology.

- Principles underlying the FSB's Solvency Assessment and Management (SAM) project.
- Awareness of Treating Customers Fairly (TCF) developments.

(vii) Describe the main factors affecting investment returns, inflation and the other economic and demographic factors involved in actuarial work in South Africa.

(b) Specify the additional problems to those described in Subject F102, which may arise in the operation of a South African Life Insurance company.

(i) Describe how unit pricing, in respect of the internal unit-linked funds of a South African Life Insurance company, can be a source of risk.

(ii) Describe the requirements of a surplus distribution system in South Africa.

(iii) Outline the possible effects of consumerism (and the decisions of the Pensions Fund Adjudicator) on the design of Life Insurance products.

(iv) Outline the additional credit risks posed by South African lenders.

(c) Develop solutions to the problems faced by a South African Life Insurance company.

(i) Describe the problems facing the Life Insurance industry in Southern Africa with regards to the AIDS pandemic, and the methods used by life companies to manage the risks.

(ii) Determine the design of Life Insurance contracts to be marketed in South Africa and appropriate methods and bases for pricing them.

(iii) Determine, for the purpose of meeting supervisory requirements, appropriate methods and bases for valuing the liabilities of a South African Life Insurance company for financial soundness.

(iv) Determine methods and appropriate bases for assessing the on-going solvency of a South African Life Insurance company, bearing in mind the capital requirements of the company.

(v) Determine appropriate methods and bases for the purpose of assessing and reporting the value of new business, embedded values and the profitability of the existing business of a South African Life Insurance company.

(vi) Analyse appropriate ways of determining the surplus distribution policy of a South African Life Insurance company transacting with profits business.

(vii) Describe the principles and method of determining the capital adequacy requirements of a South African Life Insurance company.

(viii) Analyse the reinsurance and underwriting requirements of a South African Life Insurance company, for the purpose of the efficient management of risk.

(ix) Analyse the asset-liability matching requirements of a South African Life Insurance company and develop appropriate strategies.

(x) Analyse the risk management and controls requirements of a South African life insurance company, including coverage of the following specific risks:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Insurance risk

(d) Monitor the experience of a South African Life Insurance company and demonstrate how the analysis of experience can be used to feed back into the control cycle.

(i) Carry out an analysis of surplus in respect of a South African Life Insurance company and use the results to reassess the design of the company's contracts or actuarial bases.

(ii) Carry out an analysis of the change in the embedded value of a proprietary South African Life Insurance Company and use the results to reassess the design of the company's contracts or actuarial bases.

(e) Produce coherent advice and recommendations for the overall financial management of a Life Insurance company.

(i) Solve complex problems associated with:

- Product design and pricing,
- Terms for varying and terminating contracts,
- Asset liability matching and associated investment policy,
- Emergence of profit,
- Bonus policy,
- Reinsurance arrangements,
- Investment policy.

(ii) and, through integrating and critically evaluating the results, draw conclusions there from, in particular in relation to:

- The risks undertaken,
- The requirement for capital,
- The return on capital.

End of Syllabus