



# **Subject F202**

## **Life Insurance Applications**

### **Fellowship Applications Syllabus**

For the 2020 Examinations

May 2019

The syllabus is up to date with industry developments as at the end of May in the year preceding the publication of the syllabus. However, students attempting F200 subjects should also have knowledge and be aware of topical, relevant and current issues, as these may also feature in the examinations.

## Aim

The aim of Subject F202 - Life Insurance Applications is to instil 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 in successful candidates.

## Links to other subjects

Subject F102 - Life Insurance Principles provides the underlying principles on which Subject F202 is based. It is assumed that students have a good understanding of the principles covered in that subject.

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

## Objectives

On completion of this subject, the newly qualified candidates will be able to:

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

- (i) Define the principal terms used in life insurance in South Africa.
- (ii) Describe the general business environment for life insurance companies in 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 and securitisation
  - Mergers and acquisitions
  - Demutualisation
  - Cell captives.
- (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
  - The purpose and risks of the products to the policyholder and insurer.
- (iv) Describe the concept of micro-insurance and how it applies to the South African environment.

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- (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 Insurance Act No 18 of 2017, the regulations and Prudential Standards made under these Acts, and other directives or notices with regard to:
    - The powers, duties and obligations of the Head of the Actuarial Function
    - The requirements that the insurer must be financially sound (including the valuation of assets, liabilities and capital requirements)
    - Deductions of Own Funds
    - The returns to be submitted
    - The requirement that policies should be actuarially sound
    - The limitation on remuneration to intermediaries
    - Requirements for minimum values where contractual changes are made to savings policies
    - Product design restrictions (including “the five-year rule”)
    - Transfer of liabilities.
  - Basic knowledge of the Financial Advisory and Intermediary Services Act, National Credit Act and Financial Intelligence Centre Act, and their impact on long-term insurance
  - Knowledge of the Ombud system in South Africa as it applies in the life insurance industry
  - The Code of Conduct of the Association for Savings and Investment South Africa (ASISA)
  - Basic knowledge of the Insurance Core Principles and Methodology of the International Association of Insurance Supervisors (IAIS)
  - Awareness of Treating Customers Fairly (TCF) developments
  - Awareness of the Twin Peaks model of financial regulation, which is the basis for regulation in the South African market
  - Knowledge of Principles and Practices of Financial Management (PPFM)
  - Profit reporting under the International Financial Reporting Standards issued by the International Accounting Standards Board.
- (vii) The requirements of the professional and regulatory guidance relevant to actuaries practising in or advising South African life insurance companies

- (viii) 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 that may arise in the operation of a South African life insurance company, and in particular describe the requirements of a surplus distribution system in South Africa.**

**(c) Develop solutions to the problems faced by a South African life insurance company.**

- (i) Determine the design of life insurance contracts to be marketed in South Africa and appropriate methods and bases for pricing them.
- (ii) Determine appropriate methods and bases for varying the non-linked life insurance contracts of South African life insurance companies on terms that are not guaranteed.
- (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.
  - for the purpose of financial reporting, appropriate methods and bases for valuing the insurance liabilities of a South African life insurance company.
- (iv) Determine appropriate methods and bases for assessing and reporting the value of new business, embedded values and the profitability of the existing business of a South African life insurance company.
- (v) Analyse appropriate ways of determining the surplus distribution policy of a South African life insurance company transacting with-profits business.
- (vi) Analyse the asset-liability matching requirements of a South African life insurance company and develop appropriate strategies.
- (vii) Determine methods and appropriate bases for assessing the ongoing solvency of a South African life insurance company, bearing in mind the capital requirements of the company.
- (viii) Analyse the risk management and controls requirements of a South African life insurance company, including coverage of the following risks:
- Credit and counterparty risk
  - Market risk
  - Liquidity risk
  - Operational risk
  - Insurance risk
  - Group risk.
- (ix) Analyse the reinsurance and underwriting requirements of a South African life insurance company, for the purpose of efficient risk management.
- (x) 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.

- (xi) Describe the different valuation bases used in the valuation of life insurance companies in South Africa and the uses of such valuations.
- (xii) Describe the principles and method of determining the regulatory capital adequacy requirements of a South African life insurance company.

**(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) Integrate and critically evaluate the results in order to draw conclusions, in particular in relation to:
  - The risks undertaken
  - The requirement for capital
  - The return on capital.

**End of Syllabus**