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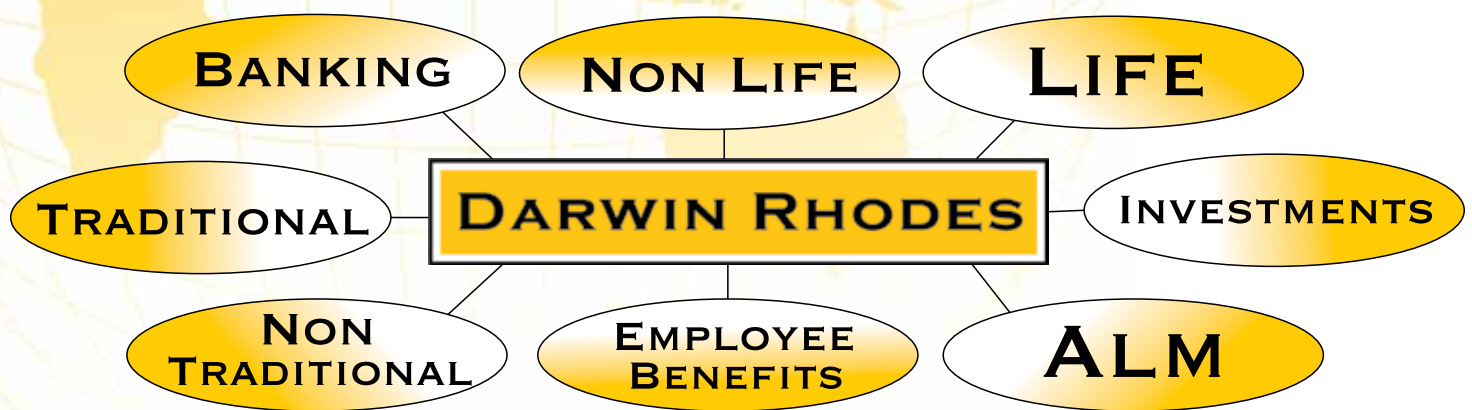
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## FROM THE CHIEF EDITOR

**T**he identification, management and pricing of risks are central to our profession. The recent circular on pension business issued by the IRDA has brought a number of risk related issues into the spotlight.

Much of the attention has focussed on the requirement for assured benefits to be paid on surrender, death and vesting. However, the circular also requires that

□ the policyholder must use the non-commuted part of their vesting benefits to purchase an immediate annuity from their original pension provider, and

□ the pension provider must issue at the point of sale of the original pension an illustration of future benefits based on their current annuity rates.

These requirements have caused companies to look again at the competitiveness of their current immediate annuity rates. Despite the difficulties and risks involved in pricing these products, some companies may ask their actuaries to increase current annuity rates just so that their pension products look more attractive.

At first sight the immediate annuity appears to be a perfect product for the customer. When people retire they can no longer rely on an income from their employment or trade, and so most face the difficulty of generating sufficient income from their accumulated life savings to live on for the rest of their lives. The immediate annuity solves all these problems, it provides a guaranteed income for life no matter how long the person lives and no matter what happens to interest rates.

In essence, the immediate annuity transfers the longevity and investment risk from the annuitant to the insurer. Now from a holistic point of view this transfer only makes sense if the insurer is better able to manage and absorb these risks than the annuitant.

In recent years there have been some issues of long dated Government Securities, with the longest dated due to mature in 2041. This has improved the ability of insurers to manage their investment risk on immediate annuities. However, there may still be problems for the younger annuitants.

For longevity risk, it is true that by aggregating a large number of annuitants, insurers can reduce the relative volatility of the financial cost of such risks. However, the risks associated with increases in longevity caused by future improvements in health care and standards of living are another matter. While actuaries may employ a number of advanced techniques to better understand these improvements in longevity, the current reality is that actuaries cannot accurately price for these future improvements. This may seem a strong statement, but we should remember that it was such improvements in longevity which were in part blamed for the failure of one large UK insurer, and also that members of the UK Actuarial profession were heavily criticised, with the benefit of hindsight, for failing to make sufficient allowance for these future improvements in longevity.

So the true picture is that while insurers are in part better able to manage and absorb the risks associated with immediate annuities, there are aspects to the risk that insurers cannot manage and actuaries cannot price accurately.

A quick glance at the wide range of immediate annuity rates offered by insurers would suggest that many insurers have responded to this situation by including large margins in their annuity rates and are unconcerned if this results in uncompetitive annuities.

Consequently, despite first appearances, the immediate annuity is not a very good product for customers. Those risks that companies cannot manage are compensated for by offering low annuity rates. In addition, the guarantees offered by this product are a twin edged sword. While customers are guaranteed an income for life even if interest rates fall, it is equally true that they will not benefit if interest rates rise. Similarly, they are guaranteed an income no matter how long they live, but if they only live for a short while then they will lose out. This is a highly unsatisfactory situation for all of those involved.

One possible remedy would be to re-look at the product structure of the immediate annuity. Since passing all the risk to the insurer is leading to problems, perhaps it is better to share the risks between the insurer and annuitant, so that each bore the risk that they were best able to manage and absorb. From a practical point of view this would mean that part of the benefits received by the annuitant would be guaranteed and part unguaranteed.

This might appear to be a worse deal for the annuitant, but if the annuitant bore some of the risk of low interest rates then it would also be possible for them to benefit by receiving a higher annuity if interest rates rose.

If such a product design led to more insurers offering competitive rates then this would be a win-win situation for all involved.

We must acknowledge that the IRDA has a very difficult role to play here. While it certainly has a duty to encourage insurers to offer products that meet a genuine customer need, it at the same time will not want insurers to take on risks that might place them under financial stress. Consequently, the Regulator would need to be fully involved in any solution.

I believe that in the public interest and in the interest of our own members this is an issue that our Institute should take forward with the Regulator and the industry so as to come up with a product design that is in the best interests of all involved. Currently the immediate annuity market is small and this issue may not seem pressing. But it is an issue that needs clear thought to come up with a good solution, and it may therefore be best to address it before it becomes a pressing issue.

**Nick Taket**



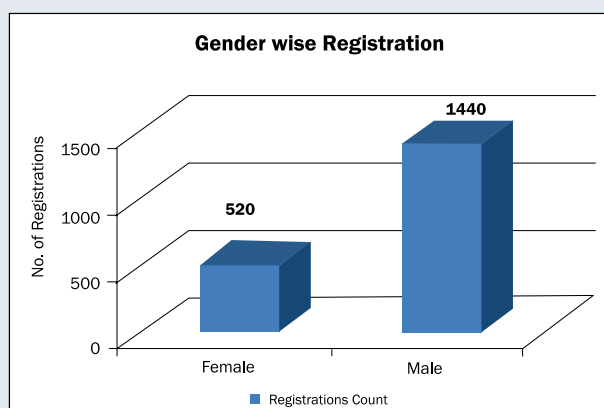
# FROM THE PRESIDENT

**T**he ACET examinations are on 28th and 29th January, 2012 to be conducted over 42 cities across India. Out of 48 cities wherefrom registrations were facilitated, we could not get any registration from Bilaspur, Gandhidham, Jammu, Shimla and Srinagar. Mysore candidates decided to take the examinations from Bangalore. However, still the 43 cities give a fairly good spread across India and that is what was intended. As against internal target of just 1,000 registrations, I did have a wishful thinking for 2,000. Well, we achieved a number close to it – 1,960.

A peep in to profile of ACET registrations does throw light, sufficient for us to work along the lines that we deliberated in Lonavala on 10th July 2011, the last day of the Strategy Initiative Workshops.

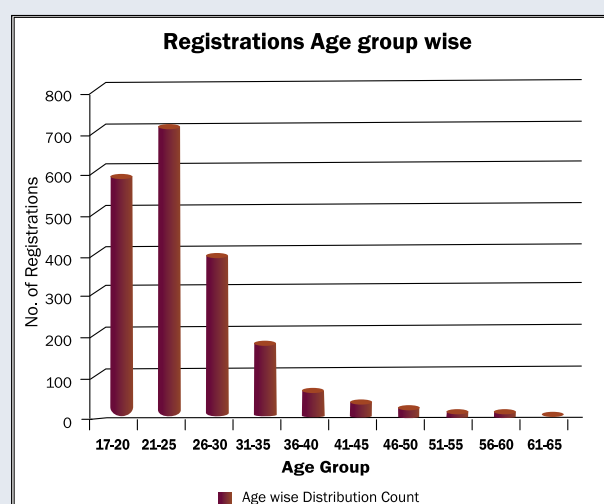
## 1) The gender spread

| Gender wise Registration |             |
|--------------------------|-------------|
| Gender                   | Reg. count  |
| Female                   | 520         |
| Male                     | 1440        |
| <b>Grand Total</b>       | <b>1960</b> |



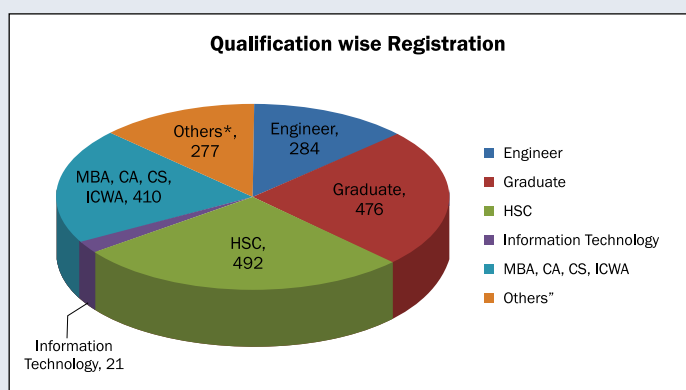
## 2) The age spread:

| Age wise Distribution |             |
|-----------------------|-------------|
| Age                   | Count       |
| 17 - 20               | 582         |
| 21 - 25               | 708         |
| 26 - 30               | 391         |
| 31 - 35               | 176         |
| 36 - 40               | 58          |
| 41 - 45               | 30          |
| 46 - 50               | 12          |
| 51 - 55               | 1           |
| 56 - 60               | 1           |
| 61 - 65               | 1           |
| <b>Total</b>          | <b>1960</b> |



## 3 ) Qualification profile:

| Qualification          | No.         | %              |
|------------------------|-------------|----------------|
| Engineer               | 284         | 14.49%         |
| Graduate               | 476         | 24.29%         |
| Hsc (10+2)             | 492         | 25.10%         |
| Information Technology | 21          | 1.07%          |
| MBA, CA, CS, ICWA      | 410         | 20.92%         |
| Others *               | 277         | 14.13%         |
| <b>Grand Total</b>     | <b>1960</b> | <b>100.00%</b> |

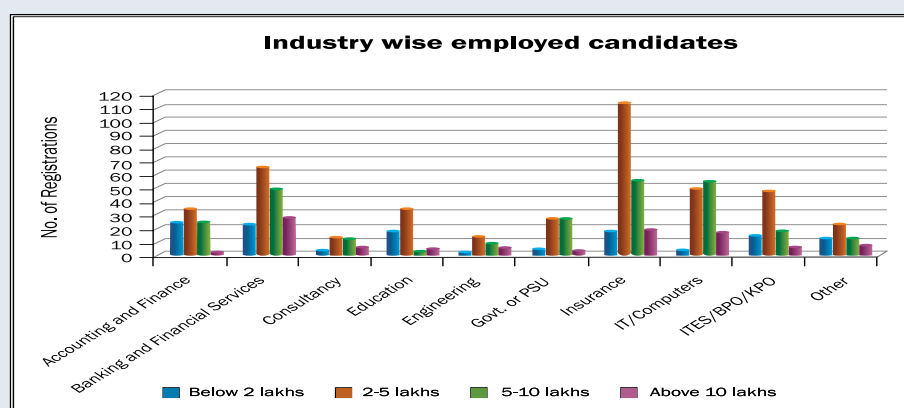


Others\*:

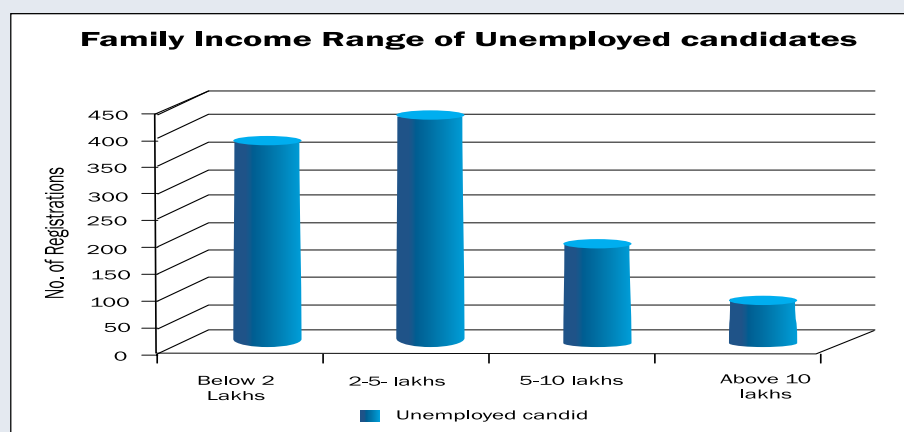
Pursuing Graduation  
Pursuing Diploma  
Pursuing Post Graduation  
Pursuing CA/CS/ICWA/MBA or other Management/  
Engineering/IT Courses  
Post Graduate

**4) Employment and Income:**

| INDUSTRY WISE EMPLOYED CANDIDATES |               |             |              |                |             |
|-----------------------------------|---------------|-------------|--------------|----------------|-------------|
| Industry                          | Below 2 lakhs | 2 - 5 lakhs | 5 - 10 lakhs | Above 10 lakhs | Grand Total |
| Accounting and Finance            | 24            | 34          | 24           | 2              | 84          |
| Banking and Financial Services    | 22            | 65          | 49           | 28             | 164         |
| Consultancy                       | 3             | 13          | 12           | 6              | 34          |
| Education                         | 18            | 33          | 3            | 4              | 58          |
| Engineering                       | 2             | 13          | 9            | 5              | 29          |
| Govt. or PSU                      | 4             | 27          | 27           | 3              | 61          |
| Insurance                         | 17            | 113         | 55           | 19             | 204         |
| IT/Computers                      | 3             | 49          | 54           | 17             | 123         |
| ITES/BPO/KPO                      | 14            | 47          | 18           | 5              | 84          |
| Other                             | 12            | 23          | 12           | 7              | 54          |
| <b>Grand Total Employed</b>       | <b>119</b>    | <b>417</b>  | <b>263</b>   | <b>96</b>      | <b>895</b>  |



| FAMILY INCOME RANGE OF UNEMPLOYED CANDIDATES |               |             |              |                |             |
|----------------------------------------------|---------------|-------------|--------------|----------------|-------------|
| Particulars                                  | Below 2 lakhs | 2 - 5 lakhs | 5 - 10 lakhs | Above 10 lakhs | Grand Total |
| <b>Unemployed candidates</b>                 | <b>378</b>    | <b>425</b>  | <b>184</b>   | <b>78</b>      | <b>1065</b> |

**Awards for ACET Excellence:**

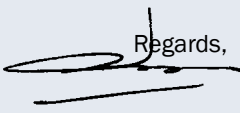
N K Parikh, Fellow member has announced;

“The candidate passing the ACET with highest aggregate marks and becoming a member of our Institute would be eligible. If ACET is held twice, we can consider rewarding twice. The amount I have in my mind is Rs.5000\*2 =10000 per year. The equivalent capital amount can be given as donation to our Institute for the purpose. The prize would be as from and in the name of Parikh Parivar. “

Such are the solid bricks that build a profession. Thank you Parikh Saheb.

**What next?**

Watch out as things unfold for changing the face of the Indian actuarial profession.

Regards,  
  
**Liyaquat Khan**

## MUMBAI •



## President's Address at Mumbai and Pune centers

The session started with display of videos of some senior actuaries. The president then started with asking the students about the message conveyed through the videos. (videos can be viewed at : <http://www.actuariesindia.org/becoming-an-actuary/meet-members.html>)

### Some comments from students:

1. Inspirational and motivating
2. Showing a good map
3. Dedicated study required
4. Aptitude towards math and love for numeracy
5. They all look happy being an actuary.
6. It's difficult but worth it

He explained briefly the work of an actuary emphasizing the importance of honesty and integrity.

### Some of the topics he touched upon:

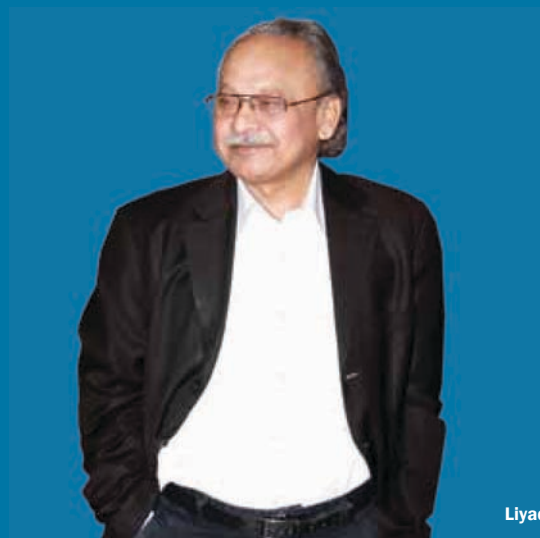
1. Meena Sidhwani award for completing the course in shortest span of time
2. Being focused and try to get the essence.
3. Role of an actuary being multifaceted and global in nature.
4. Scope of work has grown drastically with more and more fields coming under the purview.

He spoke about an actuary being a person of high moral values and integrity who carries on his shoulders the responsibility of ensuring that through his work he safeguards the interests of the public and maintains the dignity of human life. He reiterated the dictum- there is no short cut to hard work and if you make a mark you could go global.

He attended to the various queries put forward by the students and the session ended with a video recording of mother in law speaking about her daughter in law - Neha Shah (fellow member, IAI) taken during 13th GCA.

*"Change is the law of life. And those who look only to the past or present are certain to miss the future."*

*-John F. Kennedy*



Liyaquat Khan

## PUNE •



# 1<sup>ST</sup> SEMINAR ON CURRENT ISSUES IN GENERAL INSURANCE (CIGI)

**Organised by :** General Insurance Advisory Group  
**Venue :** The Orchid, Mumbai  
**Date :** 8th December, 2011

By Vishwa Gala and Sunil Asrani

The session started with an introductory note by Sharon D'Costa, Chairman, General Insurance Advisory Group. In the inaugural address by Liyaquat Khan (President-IAI), the President announced that the seminar would be conducted once a year to debate on the various issues pertaining to the General Insurance Industry. He discussed about the dearth of qualified actuaries in India, need for dedicated actuarial departments in the General Insurance companies, difficulties faced by companies due to high losses resulting from under reserving in case of Motor TP Pool and need for a neutral research body which could support the Industry.

## Session 1:- Keynote Address by M. Ramaprasad, Member (Non-life) – IRDA



Sharon D'Costa, Chairman

Mr. M. Ramaprasad set the tone for the seminar by speaking about the current challenges in the General Insurance Industry. More emphasis was given on the pricing levels & adequacy of reserves. A brief comparison of pricing levels was explained between pre & post Tariff Regimes highlighting the fact that the pricing levels have been compromised post de-tariffication. Special focus was given on pricing of Motor Third Party premium which is way below the adequate levels. He said that the prices of Motor Third Party premium will be increased gradually over a period of time due to the political constraints. He believed that the market still needed some time to mature & that IRDA was against tariffication.

## Session 2:- Round Table Discussion on Profitability of non-life insurers: pre & post de-tariffication. Members were Mr. Sanjay Datta, Ms. Tania Chakrabarti, Mr. V. Subramanian, Mr. S. Venkatesh, Ms. Asha Nair



M. Ramaprasad

Mr. Joydeep Roy, CEO, L&T General Insurance Co. Ltd chaired a panel session to discuss the profitability of non-life insurers.

Mr. S. Venkatesh highlighted the non-adequacy of premium and suggested to maintain prices at current level due to intense competition in the industry while shifting to Risk Based Pricing in the near future. Emphasis was given on Cost Management to increase the profitability of General Insurance companies.

Ms. Asha Nair talked about the fall in price levels for Fire, Engineering & Motor LOBs post de-tariffication impacting the Incurred Loss Ratio and the underwriting profits. Following suggestions were given for increased profitability of GI companies i) Risk based pricing ii) Industry wide underwriting practices iii) Efficient Claims management in Health & Motor LOBs iv)

Reduction in Expense Ratio v) Structured compensation in Motor TP losses.

Mr. V. Subramanian proposed consideration of Cat & Large losses in Risk Based Pricing in addition to attritional losses. This would help in adequate pricing of the risk and hence reduce the losses due to catastrophes. Introduction of more deductibles was suggested to induce more precaution at the insured's end.

Ms. Tania Chakrabarti advised that the adjustment of the liabilities shouldn't be done to increase the underwriting profits as it may impact the future solvency of the company. She suggested that the impact of under pricing should be well communicated to the management on a regular basis based on the current Loss Ratios.

Mr. Sanjay Datta said that companies should focus on customer segmentation & thereby tap the niche segments to increase profitability. Special focus was given on Cost management.

## Session 3/4: Catastrophe Modeling by Anup Jindal, COO, RMSI

Mr. Anup talked about the methodology adopted by RMSI in Catastrophe Modeling. He gave a brief idea about the basic building blocks of Catastrophe Modeling viz. i) Stochastic/Hazard Module ii) Exposure Module iii) Vulnerability Module iv) Socio Economic/ Financial Module

The speaker also elaborated on how Catastrophic Risk Management can help companies in appropriate pricing & reserving, and setting up proper reinsurance arrangements with the reinsurers.



C Subramanian, Tania Chakrabarti, Joydeep Roy, Sanjay Datta, S. Venkatesh, Asha Nair



Shalabh Mathur

### Session 5:- Enterprise Risk Management by Shalabh Mathur & Sourav Roy, Towers Watson

Mr. Shalabh shared the results of the Sixth Biennial Survey on ERM in the insurance sector. The important outcomes of the survey are i) Risk appetite is important for ERM success ii) Business impact of ERM is growing iii) Companies facing a challenge in implementing Solvency II in Europe iv) Resource availability is a challenge v) 92% of the respondents globally indicated that key business changes have resulted from their ERM practices vi) 63% respondents globally & 82% in Asia Pacific follow the Solvency II framework.



Sourav Roy

Mr. Sourav discussed about the current regulatory environment in India. He revealed that Pillar 2 (Qualitative Requirements) of Solvency II was missing from an Indian context. He said that ERM is not a compliance exercise but an evolving process to better manage the risk and capital.

### Session 6: Implications of Motor Third Party Pool and Declined Risk Pool for non-life insurers in India by Anurag Rastogi, VP-Actuarial, Bajaj Allianz General Insurance

The penultimate session was the most awaited session of the day. Mr. Anurag Rastogi started the presentation with the reason why TP Pool came into existence.



Anurag Rastogi

It was a demand made by the public sector companies as none of the private companies were writing the TP business that time and public sector companies were taking a hit in their losses because of it. Thus, it was decided that each insurer would share the TP losses on the basis of its overall market share in the industry.

He discussed about the inadequacy of TP premium and the report by Mr. K. P. Sharma on under reserving in the TP pool. On the basis of that report, IRDA increased the provisioning for the TP pool to 153% and simultaneously relaxed the solvency requirement for the next two Financial Years ending 2012 and 2013 to 1.37 and 1.45 respectively as against 1.50. IRDA also appointed a UK Actuary for an independent review of Mr. K. P. Sharma's report. Mr. Anurag also talked about the repercussions of increasing the TP pool provision from the current 153% and the concept of declined risk pool.

He suggested ways of tackling the TP Pool losses by reducing the inefficiency in settlement of claims and allowing an actuarial team to quantify the risks properly.

### Session 7: Round Table Discussion on attracting good actuarial talent to the non-life industry. Members were Joel Azariah, Rajkamal Vempati, Aditya Tibrewala, and Debashish Banerjee



Joel Azariah, Rajkamal Vempati, Aditya Tibrewala, Debashish Banerjee and Liyaquat Khan

The discussion started with Mr. Joel Azariah, who said that there should be more platforms like CIGI seminar, where students get an opportunity to interact with the people at the senior positions in the industry. He emphasized on the importance of advertising & publicizing of such events and proper mentoring of the students. Ms. Rajkamal Vempati gave an HR perspective saying that it is more of a demand side constraint than supply side as there are not enough actuarial jobs for the aspirants in the GI industry. She suggested that the actuarial course should be aligned to the Industry's requirement. She drew attention towards lower exam passing rate, and how tutorials and counseling could help the students in dealing with it. Mr. Aditya Tibrewala echoed the same point and proposed the idea of training and internship so that students know the kind of work they will get involved in. Mr. Debashish Banerjee pointed out that lack of technical and communication skills among students are major deterrents for recruitment and students should be nurtured properly through mentoring.

### About the Authors



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Vishwa Gala and Sunil Asrani are a part of the P&C Actuarial team at L&T General Insurance.

# 16<sup>TH</sup> INDIA FELLOWSHIP SEMINAR

By Sapna Malhotra



Anil Murarka



Vijay Balgobin, Sathyanarayan J., Priscilla Sinha



Sinjini Sengupta, Ruchika Gupta, Preeti ChandraShekhar, Mr. P A Balasubrahmanyam



Pramod Mohanty, Abhijit Pal, Kirti Kothari



Jyoti Vaidya, Venkatakrishna Narayana, Sanjeev Pujari



Sathyanarayan J., Nirmal Nogaja, Sanjeeb Kumar



Members of Advisory Group on Professionalism, Ethics and Conduct

**Organised by** : Advisory Group on Professionalism, Ethics & Conduct (PEC)  
**Venue** : The Grand Sarovar, Mumbai  
**Date** : 15th -16th Dec, 2011

The seminar was targeted at Associates and students who have just completed or are about to complete all examinations to qualify as a Fellow of Institute of Actuaries of India. The theme was to provide insights into Professionalism and ethical issues and Professional Conduct standards expected from an Actuary.



Chandan Khasnobis, Chairperson

The seminar commenced with a welcome note by Mr. Chandan Khasnobis, Chairperson of "Advisory Group on Professionalism, Ethics & Conduct" of IAI. He focused on the importance of professionalism and ethical behavior by an actuary.



V Rajagopalan, immediate past chairperson of the Advisory Group on PEC inaugurates the IFS

Mr. V Rajagopalan in his inaugural address traced the development of the Indian Actuarial Profession over the years with focus on the initiatives undertaken in the recent years. He briefly discussed how IAI enforces professionalism and compliance through measures like- issuance of Professional Conduct Standards, Actuarial Practice Standards (APS) and Guidance Notes (GNs), holding Professionalism

Courses, requirement to hold Certificate of Practice (CoP), and Continuing Professional Development (CPD), etc.

Members of Advisory on Professionalism, Ethics and Conduct (PEC) inaugurates the 16th IFS

This was followed by case studies and other presentations. Below is a brief summary of the sessions held in the seminar

## Day 1: 15<sup>th</sup> Dec 2011

**Session 1:** The first case study was presented by Mr. Vijay Balgobin and Mr. Sathyanarayan J, under the guidance of Ms Priscilla Sinha. The case study was about an insurance company with a huge deficit in pension scheme and planning to raise further funds from its shareholders via a Rights Issue. The actuary accidentally was party to some confidential information about the dubious past records of an ex-director.. The solution to this case lies in the application of professional and ethical behaviour expected of an actuary.

**Session 2:** The next session was presented by Ms Preeti ChandraShekhar, Ms Sinjini Sengupta and Ms Ruchika Gupta, under the guidance of Mr. P A Balasubrahmanyam. The presentation gave a brief overview of Governance Structure of IAI, including The Actuaries Act 2006, The Council of the Institute, advisory groups, regulations, CPD, CoP, Professional Conduct Standard, Guidance Notes, Practice Standards etc. At the end, the recent developments in the actuarial profession in India were highlighted.

**Session 3:** Second case study was presented by Ms Sinjini Sengupta and Mr. Nirmal Nogaja, under the guidance of Mr. Mayur Ankolekar. This case study was about choice of basis for policy projection and ways to manage conflict of interest with the expectation of Head of Marketing. Different situations of the life insurance companies, under both UK and Indian environment, were explored which could lead to an actuary to whistle blow so that appropriate action could be taken.

**Session 4:** Mr. Gururaj Nayak, Administrative officer of IAI, gave a presentation on the detailed disciplinary process followed

by the IAI. The presentation involved the roles, responsibilities and power of the disciplinary committee and prosecution director in case of any disciplinary action. He brought out the process starting from format of complaint, registration of complaint, procedure of inquiry, withdrawal of complaint, Prima facie opinion, hearing procedures and final decision by the Council.

**Session 5 :** The day continued with third case study presented by Mr. Abhijit Pal and Mr. Pramod Mohanty which was Chaired by Ms Kirti Kothari, and brought out an example of the poor public opinion of Actuaries. The study emphasizes on need for managing the stakeholders' perception of actuaries and the work done by them. The presentation suggested the ways to protect and build stronger image of actuarial profession by adhering to high standards of conduct and fulfilling its responsibilities towards public.

**Session 6 :** Fourth case study was presented by Ms Preeti Chandra Shekhar and Ms Sapna Malhotra which was chaired by Mr. Bikash Choudhary. This case study illustrated a situation where an actuary was asked for his professional advice by the trustees of a pension scheme when the scheme actuary of that pension scheme was away on holiday and not reachable. It covered various aspects of professional issues faced by an actuary. It underlined that the actuaries should always have sound knowledge of professional conduct standards to handle such tricky situations.

**Session 7 :** The last session of the day was presented by Mr. Venkatakrishna Narayana and Ms Jyoti Vaidya which was chaired by Mr. Sanjeev Pujari. The presentation elaborated the new structure of Professionalism Course of the Institute and Faculty of Actuaries (IFA) and its comparison with IFS.

Pre-Dinner Talk – Mr. Anil Muraka, President of the Institute of Company Secretaries of India (ICSI) gave an enlightening presentation on Ethics, Conduct and Discipline in the Professions. The session was chaired by Mr. V Rajagopalan. Mr. Muraka shared interesting perspectives and real life examples from his experience which emphasized the significance of ethical principles among the professionals and how they have a duty to serve the public interest.

## Day 2: 16<sup>th</sup> Dec 2011

**Session 1:** The second day of IFS started with the presentation specifying the CPD and CoP requirements of IAI. This was presented by Mr. Sathanarayan J and Mr. Nirmal Nogaja under the guidance of Mr. Sanjeeb Kumar. The presenters also gave a comparison of CPD and CoP requirements in other Actuarial Bodies. There was a healthy discussion about the

potential areas of improvement in the current CPD and CoP scheme including the need to have a formal process to monitor its compliance, making the requirements applicable to Associates, CoP scheme for pension area and specifying the clear requirements for the members working overseas.

**Session 2:** Fifth case study was presented by Mr. Chetan Toshniwal and Mr. Pal Reddy Vishnu Vardhan, under the guidance of Mr. Suresh Sindhi. The case study specified a situation of where an actuary was asked to consider reducing the reserve. The presenters highlighted various regulatory framework and professional conduct standards to be followed to deal with this kind of real world situation.

**Session 3:** The next session was Chaired by Mr. V Rajagopalan and presented by Mr. Pramod Mohanty, Mr. Pal Reddy Vishnu Vardhan and Ms Sapna Malhotra. In the presentation, speakers discussed Professionalism, Disciplinary matters and enforcement of compliance within the UK Actuarial Profession as compared to the IAI.

**Session 4:** The day continued with an interesting topic of the Regulatory structure of Insurance & Pensions industry in Mauritius. This was presented by Mr. Vijay Balgobin and Mr. Abhijit Pal and Chaired by Mr. I Sambasiva Rao. The presenters gave a snapshot of the developing insurance industry – Life, General and Pension in Mauritius.

**Session 5:** Sixth case study was presented by Mr. Satya Sai Mudigonda and Ms Ruchika Gupta which was Chaired by Mr. Dilip Chakraborty. The situation is about an experienced investment consultant whose new client is seeking quick advice on the scheme's current investment arrangements together with advice on investment of a bulk transfer. The speakers specified various professional issues involved - Conflict of Interest, Professional obligation, regulatory issues, Interest of the Parties, Issues with Availability and Access to Data, integrity and competence. At the end, the case study summarized the possible course of action by the actuary, both in the context of India as well as UK regulatory environment.

**Session 6:** The next session gave an overview of new practising certificate scheme of the UK Actuarial profession. The session was presented by Mr. Chetan Toshniwal and Mr. Satya Sai Mudigonda and Chaired by Mr. Matthew Hunt.

**Session 7:** Seventh case study was presented by Mr. Venkatakrishna Narayana and Ms Jyoti Vaidya, which was Chaired by Ms Eeswari Murugan. The case study illustrated the importance of ethical behavior by an actuary and being discrete when discussing professional matters with others.

At the end of the day, Ms Asha Murali had addressed all the participants and organizing committee with a thanking note.

All the presentations were followed by interesting question and answer round and with healthy discussions. The discussions came up with following few suggestions to the IAI -

1. In a pension scheme, an actuary certifies net liabilities under the scheme. But the asset valuation is not under the control of an actuary as there is no guidance available. Hence, the Institute might think of bringing out a Guidance note on the asset valuation for a pension scheme.
2. Present rules of the Certificate of Practice (CoP) specify the requirements for the actuaries practicing in Life and General insurance. But there are no such requirements for the actuaries practicing in the pension area.
3. Develop India specific exam material related to specialist areas
4. We should take confirmation from the Institute and Faculty of Actuaries at the earliest for the exemption of IFS attended in India as equivalent to the Professionalism course arranged by them.
5. GN 9 specifies the CPD requirements, both formal and informal ways to earn CPD. The Institute might consider changing the following informal CPD arrangements to the formal CPD arrangements -
  - Participation in meetings of International bodies in the respective areas of practice
  - Attending courses of other actuarial bodies and participating in their activities
  - Presenting papers of actuarial interest in the forum of other professional bodies

Post IFS, a single day training session was organized only for those members of IAI who have just completed all the exams or about to complete all the actuarial exams. The training was conducted by Mr. Nimesh Rathod with the aim of developing leadership skills for Actuaries.

### About the Author



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Sapna Malhotra is currently working as a Senior Manager at Aviva Life Insurance India Private Ltd. She is responsible for MCEV reporting and Solvency II.



**MAHANAGAR TELEPHONE NIGAM LIMITED  
(A GOVERNMENT OF INDIA ENTERPRISE)**

**MTNL wishes to invite an Expression of Interest for the evaluation and further suggestions on different parameters used by the company for the actuarial valuation of Pension Liability, Leave Encashment Liability and Gratuity Liability, based on the past history and commitments and the assessment of Actuarial Liability for Pension, Leave Encashment and Gratuity as per AS-15 and FAS 87.**

MTNL wishes to evaluate and assess the liability based on the following parameters currently used in the Actuarial Valuation in the light of the current practices prevailing in the industry, latest pronouncements in the similar cases and the applicable laws.

- a. Discount Factor to be used for Actuarial Valuation
- b. Mortality Rate in MTNL. (Presently the rate applicable in Life Insurance Corporation mortality table is being applied)
- c. Salary Escalation in MTNL and Dearness Allowance (DA) rate applicable on it.
- d. Dearness Relief escalation for Pensioners. As pensioners are entitled to DA on pension as per the Central Govt.'s DA notifications, a detailed analysis for increase in DA on pension over the long term is to be carried out.

**ELIGIBILITY CRITERIA:**

- The firm should have minimum 10 years of working experience with listed Indian Company preferably with some company having pension liability like that of MTNL.
- Also they should have requisite experience in valuation under FAS 87/ US Listed Companies.
- The firm should have their offices either at Delhi/Delhi NCR/Mumbai /Navi Mumbai.

**HOW TO APPLY:**

- You are required to submit documentary evidence regarding experience and the existence of the firm along with the proposal.
- The financial proposal should be put in a separate envelope but to be submitted along with the technical proposal at the same time.

Your proposal containing two separate sealed envelope both for technical bid and financial bid may be send in a sealed cover latest by 22<sup>nd</sup> February 2012 up to 1500 Hrs. indicating your fees, applicable service tax and the out of pocket expenses separately, if any, (capping the maximum limit in monetary terms and having no ambiguity) for the above assignment to The Sr. Manager (Accounts), Mahanagar Telephone Nigam Ltd., Room No. 601, 6<sup>th</sup> Floor, Mahanagar Doorsanchar Bhawan, Jawaharlal Nehru Marg, New Delhi -110 002.

- Detailed EOI / Clarifications if any required may be asked for from [dgmaccent@gmail.com](mailto:dgmaccent@gmail.com) through e mail before 11<sup>th</sup> Feb 2012 and shall be resolved immediately through E mail. Contact No 011-23236889/ 011-23234118. EOI may also be downloaded from the website [www.mtnl.net.in](http://www.mtnl.net.in).

# RAPID RETIREMENT RESEARCH INITIATIVE (RRRI) – AN OVERVIEW

By Joe Silvestri

The Society of Actuaries' (SOA) Rapid Retirement Research Initiative (RRRI) is a pilot program with the objective of providing timely, relevant actuarial retirement research to the public. This new initiative enhances traditional SOA research by emphasizing research that is data-driven and intended to inform the development of public policy in the retirement arena.

While the SOA has a long history of sponsoring research for the actuarial profession, such research has generally been accomplished through contracted researchers, who complete research on the behalf of the SOA. The RRRI differs, in that research is being conducted in-house by a newly hired SOA staff actuary, Joe Silvestri. The goal of this approach is to develop deep expertise in key retirement models that will allow the actuarial profession to respond to current areas of interest to policy makers and the public. The SOA is cooperating with the American Academy of Actuaries and the Canadian Institute of Actuaries in this work.

The pilot is charged with covering both American and Canadian retirement issues, but initial work has focused on the US private pension system. This is primarily due to the availability of a modeling system called the Pension Insurance Modeling System (PIMS), a tool created for the US Pension Benefit Guaranty Corporation (PBGC) to model its exposure to the private sector defined benefit system in the US. PIMS uses regulatory filings made by private US pension plans to project statutory funding requirements and other data for the universe of PBGC-insured defined benefit plans. The model can simulate the effects of different economic scenarios or regulatory changes on either a deterministic or stochastic basis.

Much of the initial work of the RRRI consisted of evaluating and learning PIMS. However, the RRRI also began evaluating of other data sets and models, which would allow for studies outside the US private pension system, such as the Canadian pension system or the US public plan system. ,

The first research study of the RRRI used PIMS to analyze the US single-employer private pension system and was released in October, 2011. The remainder of this article summarizes the results.

## INITIAL STUDY: The Rising Tide

The economic recession of 2008-09 and equity market downturn created many challenges for businesses and individuals. As the U.S. economy continues to climb out of the last recession, businesses that sponsor single-employer defined benefit pension plans face an additional challenge: rising levels of statutory contribution requirements for their pension plans. The increases have been driven by the downturn in the equity market and falling interest rates that drive up the cost of providing defined benefit pensions.

## The Rising Tide of Pension Contributions Post-2008: How much and when?

provides a system-wide analysis of the expected contribution requirements for the U.S. single-employer defined benefit pension universe over the remainder of this decade. While the pattern of projected contribution requirements in the report is likely not a surprise to most actuaries that work in this area, the report's findings are unique in that they show the aggregate system-wide effect. Additionally, the SOA evaluated these results in the context of recent history, including recent regulatory and economic changes and how the individual decisions being made have affected the pension system.

Key findings from this research include:

- Over the ten years ending with 2009, aggregate contribution levels averaged about \$66 billion per year and generally exceeded the aggregate minimum required contribution levels.
- The aggregate minimum required contributions are expected to increase significantly – to an average of about \$90 billion per year over the ten years beginning with 2010 (calculated before taking into account 2011 plan experience).
- Contributions exceeded required

## About the Author



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Joe Silvestri leads the Rapid Retirement Research Initiative at the Society of Actuaries. In this role, Joe is responsible for developing retirement research studies focused on North American retirement systems, participating in the determination of research topics, and investigating and evaluating sources of data and modeling capabilities. Prior to joining the Society of Actuaries in October, 2010, Joe worked as a benefits consultant for over 18 years, specializing in retirement plan design. Nitya Nand Tripathi, CFA, is currently working as a Faculty Associate with IBS, Hyderabad.

levels by more than five times in 2008 and more than four times in 2009, which suggests that employers have again begun to fund their plans in advance of requirements. These levels indicate that many individual plan sponsors are capable of managing the funding demands of their plans. However, there will be employers for whom the increases pose a greater challenge.

- Aggregate contribution levels are sensitive to the effects of stock market returns, due to significant exposure to equity investments in the system.

These conditions provide valuable insight to the pension system. It shows that the minimum contribution requirement is reactive to market cycles; as interest rates or equity market returns fall, expected contributions across the system rise quickly in response. In addition, it illustrates how highly sensitive the current system is to equity market returns, based on aggregate investment allocation choices. Finally,

it raises questions about whether this cyclicity is good for the system. There are choices that individual sponsors can make to combat that cyclicity, and choices that regulators can make with regard to the system as a whole. These choices each come with drawbacks that should be carefully considered.

approach would risk negative employee reactions, may lose some of the savings to any replacement benefits offered, and would still need to make contributions for the unfunded obligations created by declining equity market returns and falling interest rates.

plans and their sponsors to the required funding, consistent with the regulation of insurance companies. However, this represents a significant departure from past regulatory principles that generally have assumed plan sponsors will remain in business long enough to compensate for any unfunded obligations.

### Summary

The results of this research show how individual decisions about plan design, funding and regulation affect the single employer defined benefit system in the US. These research findings present questions for US policymakers and sponsors about making the pension system stronger, including realigning the pension regulatory structure and making private pension plan benefits more secure for all individuals. Possible areas for further study include revisiting this study over time as the economy changes and more data is available regarding plan sponsor responses, considering the effect of various future economic scenarios on contribution requirements and looking at different risk management techniques or regulatory changes and their effect on contribution requirements.

In October 2011, the SOA and American Academy of Actuaries conducted a Capitol Hill briefing in Washington, DC and highlighted the report's key findings and implications for Congressional staff and other policymakers. The feedback from attendees, and in particular Congressional staff, was overwhelmingly positive, suggesting significant interest and demand for developing additional research in this area.

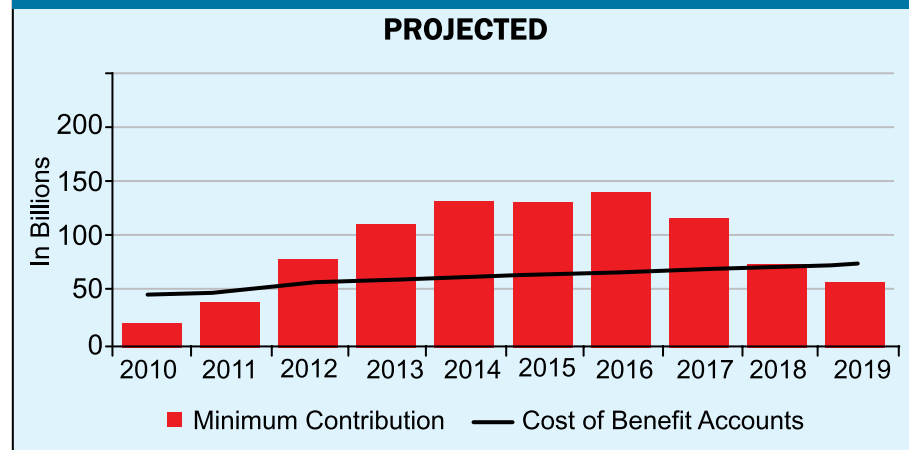
To read the full report, visit <http://www.soa.org/files/pdf/research-2011-10-rising-tide-report.pdf>

For more information on the Capitol Hill briefing visit the Academy's website to see the slide presentation and a video of the briefing.



## MINIMUM CONTRIBUTION REQUIREMENTS

### PROJECTED



### Plan Sponsor Response

Individual plan sponsors will need to make choices about whether and how to sustain their plans going forward. They may choose to reduce the effects of interest rate declines and equity market volatility by shifting their asset portfolio towards liability driven investment strategies. This approach is generally sound risk management, but it likely increases the baseline cost because the plan is forsaking potential equity gains. Sponsors who elect to carry equity risk can choose a funding policy that "smoothes" their contribution requirement by funding in excess of the minimum required amount.

Plan sponsors can also react by modifying their plan designs or freezing their plans to new entrants and/or eliminating future accrual of benefits for current employees. This may decrease or eliminate the cost of new benefit accruals, but sponsors utilizing this

### Regulatory Response

The regulatory structure may also be aligned to reduce the sensitivity of employers to economic cycles. Regulators could change the minimum funding requirements to make them less sensitive to interest rate and equity market fluctuations. These changes could, for example, allow for longer amortization of current shortfalls, giving sponsors more flexibility to determine when they will fund their plans. However, this approach would increase the cost of insuring the system (via the PBGC), and decrease the benefit security of participants.

Regulators could also encourage better risk management by linking minimum required contributions to the sponsor's credit rating, the risk taken by the sponsor in the asset portfolio, the relative maturity of the plan itself or a combination thereof. A key underlying principle is to tie the risk profile of pension

## OBITUARY

**C R THAKORE, 84,**

fellow member of the Institute expired on 12th January 2012.

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**S G SUBRAHMANYAN, 86,**

fellow member of the Institute expired on 29th December 2011.

# SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS – AN INSURANCE PERSPECTIVE

by Satyan Jambunathan

## Background

Systemically Important Financial Institutions (SIFI) are defined as “Financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. To avoid this outcome, authorities have all too frequently had no choice but to forestall the failure of such institutions through public solvency support. As underscored by this crisis, this has deleterious consequences for private incentives and for public finances.” The global financial crisis of 2008 brought to the fore the debate on “too big to fail”. The crisis highlighted the costs of supporting systemically important financial institutions as well as the linkages both, between institutions as well as across countries. This prompted the G 20, a group of the largest economies in the world, to come together and debate measures that needed to be taken to prevent recurrence of such problems. The G 20 tasked the Financial Stability Board (FSB) along with international regulatory associations such as the Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO) to evolve frameworks for supervision of such SIFIs. The mandate to the FSB included identification of criteria for determination of SIFIs, reviewing and suggesting modifications to current regulatory frameworks. It also included developing a model to deal with such failures in a way that normal financial activity is not disrupted. The FSB, since then, has brought out discussion papers and policy proposals to address the mandate. These models in essence seek to identify problems with Systemically Important Financial Institutions even before they become statutorily insolvent and also put in place a framework that could be adopted to deal with such instances in an orderly fashion.

Some important outcomes of these deliberations have been the publication of a comprehensive paper on *Key Attributes of Effective Resolution Regimes for Financial Institutions*, FSB, October 2011, *Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement*, BCBS, October 2011 and *Intensity and Effectiveness of SIFI Supervision*, FSB, October 2011. The FSB also published a progress report which contains a section from the IAIS covering developments in the Insurance industry.

## Developments in the insurance domain

In November 2010, the Financial Stability Board (FSB), in consultation with the International Monetary Fund (IMF), released a report on **Intensity and Effectiveness of SIFI Supervision (the SIE report)**. The SIE report observed that prior to the crisis, risk management processes at SIFIs were generally judged to be acceptable, but the crisis indicated otherwise. The report noted that supervisory work was often not geared towards “outcomes” but more focused on process and noted that supervisory expectations for SIFIs in particular needed to be augmented. The SIE report did not set out new supervisory rules and policies for SIFIs but set out 32 recommendations for making the supervision of financial institutions more intense, effective and reliable.

In September 2011, the International Association of Insurance Supervisors (IAIS) released a report on implementation of recommendations for enhanced supervision of insurance companies.

The IAIS, through its member bodies which are national insurance regulators, provides a globally accepted framework for the supervision of insurance entities through a set of principles called the Insurance Core Principles (ICP). The IAIS report sets out changes that need to be made to these ICPs given the recommendations emanating from the SIE report.

## About the Author



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Satyan is the Head of Finance at ICICI Prudential Life Insurance Company.

The areas covered are as below:

### 1. Mandates

Mandates cover what the responsibilities and powers of the supervisor need to be. The report seeks to strengthen the need for primary legislation to clearly define the objectives and responsibilities of the supervisor. It also requires that supervisors have the authority and ability to intervene early enough to address a potential problem.

### 2. Independence

This essentially deals with requirements for the supervisor to be independent from the other stakeholders including governments, executive, judiciary as well as industry.

Notable changes include guidance that the supervisor should not manage or otherwise have any operational role in the functioning of the insurers that it supervises. It also seeks to address potential conflict of interest situations for members of the governing body of supervisors.

### 3. Resources

This primarily addresses the need for supervisors to have adequate staffing both in terms of number and quality to ensure the effectiveness of the supervisory process.

To address this, guidance and requirements have been added to the principles to ensure:

- adequate allocation of resources for both on-site and off-site monitoring
- processes are established to assess the potential systemic importance of insurers

- depth and quality of staff to support effective supervision given the nature, scale and complexity of the supervised entities

It also adds guidance to address resource planning, skill enhancement including assignments in industry or across regulators and flexible hiring policies so that staff is better aligned to industry practices.

#### **4. Supervisory Powers**

The section on Mandates also addresses the point of Supervisory powers.

#### **5. Improved Techniques**

##### **a) Focus on Outcomes**

As discussed earlier, one of the key comments in the SIE report was the need to focus on outcomes in addition to focusing on processes. The IAIS now seeks to bring in greater focus on outcome assessment through various principles and guidance related to enterprise risk management and the need for the supervisor to validate that the assessment of risks for different lines of business is appropriate. The objective is also to evaluate the level of capitalization required to deal with a range of stress scenarios for each supervised entity.

##### **b) Horizontal Reviews**

Horizontal reviews deals with the need to use information collated from various other sources in addition to normal submissions, including qualitative and quantitative information, to ascertain the state of affairs at the supervised entities.

##### **c) Assessment of Boards**

Changes have been made to emphasise the governance structures including the Board to ensure that systemically important entities are managed with a rigour which is commensurate with their importance in the system.

##### **d) Financial Statement Analysis**

Guidance has been added to ensure that supervisors promptly analyse financial information received from insurers so that they develop a deeper understanding of emerging trends affecting an insurer, its risk

appetite and the effectiveness of its strategy.

##### **e) Business Models and Product Analysis**

No changes are considered necessary in this area.

##### **f) Quantitative Models outside Pillar 1**

The intent is to further discuss the use of internal models for regulatory risk assessment and it is expected that further guidance will be provided.

##### **g) Stress tests**

No additional changes are required in this area.

##### **h) Data Aggregation**

The changes cover the need to actively review information requirements for regulatory submission as well as the need to build ability at the supervisor level for building architecture to capture and analyse this information in a timely fashion.

##### **i) State of the Art Controls including risk management**

There has now been a requirement added that supervisors develop an appropriate response commensurate with the nature and degree of the risk associated with systemically important insurers.

#### **6. Group-wide and Consolidated Supervision**

The IAIS 2011-2012 roadmap includes a self-assessment exercise on the ICPs related to group-wide supervision with a completion date of spring 2012. The work will be undertaken by the Standards Observance Sub-committee with subject matter expertise provided by the relevant working parties responsible for developing the ICPs.

The roadmap also includes an exercise to develop specific mechanisms that facilitate the exchange of solvency information. Work will be undertaken by the Solvency and Actuarial Issues Subcommittee and supported by the Insurance Groups and Cross Sectoral Subcommittee. The development phase will run through to September 2012 with facilitation due for completion by October 2013.

#### **7. Continuous and Comprehensive Supervision**

One of the key areas that is sought to be addressed is that there should be continuous communication at senior levels between the supervisor and the supervised entities to continually keep track of developments in the business and industry.

#### **8. Supervisory Colleges, Home/Host**

The IAIS 2011-2012 roadmap includes a review and update of the Supervisory College Guidance paper, providing additional guidance for a range of situations involving large, complex institutions which would also be applied to potential SIFIs.

The IAIS has conducted an impact assessment survey of the guidance paper on the use of supervisory colleges in group-wide supervision. The IAIS is organising regional roundtables with group-wide and host supervisors as well as the relevant insurance groups; preparing a questionnaire on colleges and organising presentations from members with experience in colleges. The information collected will be used to assess the need to review and update the Supervisory College Guidance paper. A report will be completed by end-2012.

The IAIS repository of supervisory colleges (IROSC) is currently being set up under a joint project between the Insurance Groups, Cross Sectoral Subcommittee and the Supervisory Cooperation Subcommittee.

#### **9. Macro-prudential surveillance, Multi-disciplinary approach (forward looking)**

Some of the aims of macro prudential surveillance and regulation are to: i) Identify systemic risk (including shocks, interconnectedness and feedback effects), ii) Reduce the likelihood of systemic risk, and iii) Mitigate spill over effects within the financial system and into the real economy. Consistent with this, the focus is now significantly on forward looking analysis and review to facilitate identification of potential problems early and allow interventions that can address such problems.

## 10. Use of third parties

Supervisors typically call upon third parties for specific assignments to supplement their supervisory work. The ICPs now highlight the need for control and ownership of all such third party use by the supervisor.

## 11. Concluding Recommendations

The revised ICPs will be assessed based on standards and there will be no additional criteria.

The introduction to the ICPs includes the following statement:

"It is recognised that supervisors need to tailor certain supervisory requirements and actions in accordance with the nature, scale and complexity of individual insurers. In this regard, supervisors should have the flexibility to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers as well as the potential risks posed by insurers to the insurance

sector or the financial system as a whole. This is provided for in the ICPs and standards where relevant."

The Standards Observance Subcommittee is developing self-assessment questionnaires in the areas of supervisory mandate, supervisory powers and group-wide supervision. The Standards Observance Subcommittee's work plan includes the development of self assessment questionnaires for other ICP material over the next two years. A draft IAIS Peer Review Process is currently being prepared for review by the Implementation Committee and others.

### Implications for India

The key focus areas in the core principles can be summarized as below:

- Identification of SIFIs
- A proactive approach towards identification of potential problems
- A more risk based assessment to supervision

- Continuous monitoring and communication between the supervisor and supervised
- Enhancing capability and staffing at the supervisors office

Given this clear direction, it would be reasonable to expect the insurance regulator in India to also move in this direction. As the methodology for identification of SIFIs in insurance evolves, we could expect the regulator to have a stronger set of standards for such entities. We could also expect to see an acceleration in moving towards a risk based capital regime that better reflects the risks inherent in an entity. Widening and deepening the pool of resources at the supervisors office can clearly be expected to take up their attention given the significant rise in expectations as regards to how a supervisor operates.

All of these will clearly have far reaching implications for the insurance industry in how business is managed.



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Location: Gurgaon (Corporate office)

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Experience of 2 to 4 years in Health/ General Insurance.

Experience of working in SAS is highly desirable for this position

Responsibilities:

The candidate will be responsible for reserving, product performance monitoring, IRDA reporting, product pricing, etc.

### Position: Associate Manager/ Assistant Manager – Analytics

Location: Gurgaon (Corporate office)

Eligibility: Candidate should be a Post Graduate in statistics from ISI/ IIT or some other premier institute. Experience of 1 to 3 years in Insurance is required. Candidate with actuarial exams will be preferred.

Experience of working in SAS is must for this position

Responsibilities:

Candidate will be part of actuarial team and will be responsible for multivariate analysis, modeling, portfolio analysis etc.



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Insurance is the subject matter of solicitation

# XBRL – LET’S GET IT STARTED!

by Uttam Prakash Agarwal

## Introduction:

The financial reporting process in the World and especially in India is undergoing a sea change. XBRL is revolutionizing the way business information is generated, reported and analyzed. XBRL has been mandated by many regulators all over the world including Securities and Exchange Commission of the United States of America, Her Majesty’s Revenue and Customs of the United Kingdom, Johannesburg Stock Exchange.

XBRL is an XML based language which allows caters to the specific needs of financial reporting by allowing information modelling and the expression of semantic meaning commonly required in business reporting. This language is gaining world-wide recognition as a revolutionary business reporting language and a global standard for reporting of financial information.

The regulators of the country have found it difficulty to monitor and seep through the huge volume of financial data of the companies. In light of the recent corporate failures XBRL has become a compelling need of the hour. XBRL is expected to not only improve transparency, but also increases the re-usability of the information.

The Ministry of Corporate Affairs has made it mandatory by issuing a circular for companies falling under a certain criteria to file their face financials in XBRL format.

## What is XBRL?

Wrapping your head around XBRL can be challenging. Much of this challenge is similar to trying to teach someone about algebra or calculus if they do not understand how to count or do not understand the mathematical operators of addition, subtraction, multiplication, and division.

But is it really that tough?? The answer is No. Although it involves learning of a lot of new terms, XBRL is not Rocket science! A person will face the same level of difficulties as a college student faces when he first comes across the

terms debit and credit, assets and liabilities.

Another common question, and this one’s a really big one, is that- Do we really need XBRL???

The answer is yes, definitely yes. India didnt snub computers just because they involve a lot of technical stuff. So India’s (Bright India) will never snub XBRL.

This article will give you an insight as to what XBRL is and why we need it.

## Gist of the Circular:

The Ministry of Corporate Affairs has made it mandatory for the following class of companies to file their financials in XBRL format as per the General Circular No. 37/2011 dated June 7, 2011. Accordingly, the following classes of companies have to file Balance sheets and Profit and loss Account, along with Director’s and Auditor’s Report, in XBRLForm only from the year 2010-2011 before September 30, 2011 or if they hold meeting in September, then within 30 days from the date of adoption in the General Meeting as per section 220 of the Companies Act, 1956:

- All companies listed in India and their Indian subsidiaries;
- All companies having a paid up capital of ₹ 5 crore and above
- All companies having a turnover of ₹ 100 crore and above.

Exemption: banking companies, insurance companies, power companies, NBFCs and overseas subsidiaries of these companies.

These Financial Statements required to be filed in XBRL format would be based upon the Taxonomy on XBRL developed for the existing Schedule VI, as per the existing Accounting Standards.

## General Benefits:

- XBRL allows for the creation of interactive, intelligent data.** Each piece of business information has detailed descriptive and contextual information wrapped around it, so that the data becomes machine-readable and can be

## About the Author



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**CA. Uttam Prakash Agarwal, B.Com, FCA, ICA(Australia), CPA(Australia)** was elected as the President of the Institute of Chartered Accountants of India for the year 2009-10. He also holds the honorary membership of Institute of Chartered Accountants of Australia which has been recently awarded to him. He holds many positions / achievements to his credentials. He is also the member of the Disciplinary Committee constituted by the Council of the Institute of Actuaries of India nominated by the Ministry of Finance -Government of India.

automatically processed and analyzed.

- XBRL allows business reporting information to be reused and repurposed.** A financial or business report created once can be used to create many documents in different formats—HTML, ASCII text, Microsoft Word or Excel—with no loss of accuracy or integrity.
- XBRL adds value to every step of an organization’s business information reporting.** The entire reporting chain of business information – from data collection through internal reporting and external reporting – will be made more efficient and accurate and will contain more useful data.
- XBRL enhances the ability to compare information from one organization or entity to another,** because XBRL lays out a common set of definitions by which all organizations tag their data.
- XBRL allows for unique reporting situations,** because it can be extended by a single reporting entity by adding special elements that may be needed to best represent that company.

## What are the benefits to a company from putting its financial statements into XBRL?

XBRL increases the usability of financial statement information. The need to re-key financial data for analytical and other purposes can be eliminated. By presenting its statements in XBRL, a company can benefit investors and raise its profile. It will also meet the requirements of regulators, lenders and others consumers of financial information, who are increasingly demanding reporting in XBRL. This will improve business relations and lead to a range of benefits.

With full adoption of XBRL, companies can automate data collection. For example, data from different company divisions with different accounting systems can be assembled quickly, cheaply and efficiently. Once data is gathered in XBRL, different types of reports using varying subsets of the data can be produced with minimum effort. A company finance division, for example, could quickly and reliably generate internal management reports, financial statements for publication, tax and other regulatory filings, as well as credit reports for lenders. Not only can data handling be automated, removing time-consuming, error-prone processes, but the data can be checked by software for accuracy.

### XBRL Around the world:

XBRL is growing quickly around the world with increasing participation from individual countries and international organizations. XBRL International is comprised of jurisdictions which represent countries, regions or international bodies and which focus on the progress of XBRL in their area.

A range of national and international bodies and groupings also maintain a strong interest and close liaison with XBRL. They include various organizations representing regulators, banks, stock exchanges and industry bodies.

US Securities and Exchange Commission was amongst the first regulatory authorities to implement XBRL for corporate in the year 2009 itself. Following countries have already implemented XBRL. The following countries have formed organizations for promotion and regulation of XBRL in their respective countries:

XBRL Australia, XBRL Belgium, XBRL Canada, XBRL China, XBRL Denmark, XBRL Europe, XBRL France, XBRL Germany, XBRL India, XBRL Ireland, XBRL Italy, XBRL Japan, XBRL Korea, XBRL Luxembourg, XBRL Netherlands, XBRL Poland, XBRL Romania, XBRL South Africa, XBRL Spain, XBRL Sweden, XBRL Switzerland, XBRL United Arab Emirates, XBRL United Kingdom, XBRL United States, etc

### In summary, XBRL is:

- A freely available, market driven, open, global standard for expressing and exchanging business information.
- An XML language.
- A global consortium of more than 600 members
- A means of modeling business information in a form understandable by computer applications

### XBRL is not:

- XBRL is NOT a standard chart of accounts. In fact, it is the opposite because XBRL is extensible.

- XBRL does NOT require companies to disclose additional information.
- XBRL is NOT just about financial or regulatory reporting.

Many people tend to try and dumb down the definition of what XBRL is in order to explain it. This occurs for two reasons. First, they think it makes it easier to explain XBRL, but the common result is a poor communication of what XBRL truly is. Second, the person trying to explain XBRL may not truly understand XBRL themselves.

### The best definition of XBRL is:

XBRL (eXtensible Business Reporting Language) is an open standard which supports information modeling and the expression of semantic meaning commonly required in business reporting.

XBRL is a language for the electronic communication of business and financial data which is revolutionizing business reporting around the world. It provides major benefits in the preparation, analysis and communication of business information. It offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data. It is an open standard, free of license fees, being developed by a non-profit making international consortium.

XBRL is going to revolutionize the world and so every company should be ready to be a part of this change.

XBRL is a revolutionary technology, a chance for Indian companies to race at par with the world. Everybody has heard- "Make hay while the Sun shines", well, XBRL is here, what we make out of it depends only on us.



## WELCOME



Manoj Kumar

*Manoj Kumar joined on 13th January 2012 as Compliance Officer. He is law graduate and carries 7 years of experience in legal arena. His hobbies include watching and playing cricket and is also involved in social work.*

*We welcome Mr. Manoj Kumar to the family of Institute of Actuaries of India. Manoj can be reached at manoj@actuariesindia.org , Ph: 022 6784 3318.*

IAI Management

# Window of opportunity.



Deloitte's actuarial practice offers our clients advice on everything from complying with regulations to risk management and taking strategic actions to help achieve competitive advantage. Our aim is to provide the best valued actuarial service to our clients. To join our highly collaborative actuarial team, please send in your CV with focus on Life and P&C actuarial experience to [anchaudhari@deloitte.com](mailto:anchaudhari@deloitte.com).

For Life actuarial consulting practice, we are open to profiles with excellent PROPHET modeling skill, pricing, valuation, U.S. GAAP and risk management experience and for P&C, we are looking for profiles with strong reserving and pricing/analytics experience. The actuarial openings with Deloitte Consulting are only at Hyderabad.

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# Deloitte.

**MEENA SIDHWANI MEMORIAL AWARDEES  
THE BEST AND BRIGHT ONES**

| GCA  | Year        | Name                   | Time taken leading to fellowship |
|------|-------------|------------------------|----------------------------------|
| 7th  | Feb. 2005   | Gautam Kakar           | 4 years 4 months                 |
| 8th  | March. 2006 | Rajesh Dalmia          | 5 years                          |
| 9th  | Feb. 2007   | Vibha Bagaria          | 4 years 1 months                 |
| 10th | Feb. 2008   | Peuli Das              | 4 years                          |
| 11th | Feb. 2009   | Gautam Shah            | 4 years and 6 months             |
| 12th | Feb. 2010   | Kamlesh Gupta          | 4 years and 9 months             |
| 13th | Feb. 2011   | Kunj Behari Maheshwari | 3 years and 9 months             |

*Winners  
never quit  
and  
quitters  
never win.*

-Vince Lombardi



## *Meena Sidhwani Memorial Awardees - the best and bright ones*

- Binita Rautela asks some questions

### **VIBHA BAGARIA**



#### **Educational Background:**

I completed my graduation in commerce from Delhi University and was professionally accredited as a Chartered Accountant (CA) in 2001 from Institute of Chartered Accountancy of India.

I am also a professionally qualified Actuary from Institute of Actuaries of India where I appeared for the first exam in May'2003 and completed all exams by Nov'2006.

#### **How did you get in to being an Actuary**

I completed my chartered accountancy at the young age of 21. While exploring opportunities for further studies, I was introduced to actuarial science by a close relation who had been placed with a multinational insurance company after having completed her Masters in Business Administration (MBA).

The profession appealed to me and I decided to give it a shot. Tasting easy success with my first two exams, I was soon on my way to become a qualified actuary from IAI.

#### **Your career path so far**

The first organization I worked in the field of actuarial science was Aviva Life Insurance in 2004.

I joined as a trainee in the company's financial reporting team in Gurgaon. It was an extremely fascinating role as it was a perfect blend of skills I had already acquired in accountancy and those that I was going to acquire in the field of actuarial science.

In mid 2006 I moved to Bajaj Allianz Life Insurance, Pune as senior manager in a similar role.

In 2008 I moved to Reinsurance Group of America, and worked in a range of roles and projects. I am currently working in RGA in the field of Health Business, and am working on pricing fixed benefits and medical reimbursement products.

#### **Pleasure of being an Actuary**

Being an actuary has been a journey of great pleasure, recognition and sense of satisfaction. It has given me the opportunity to work in a wide variety of roles, and being responsible for many key business decisions ranging from setting capital requirements of the company, measuring company's performance and profitability, valuations of the company, pricing complex and profitable products. I am proud to be a member of this highly qualified clan.

### **DRAFT VISION, MISSION AND VALUES STATEMENTS of IAI**

#### **VISION:**

IAI to be a globally well recognized professional organization developing enduring thought leadership in managing uncertainty of future financial outcomes.

#### **Mission:**

1. To educate/train risk professionals
2. To enhance and maintain high professional standards
3. To shape Public Policy and Awareness
4. To engage with other professional/regulatory/government bodies
5. To promote/build IAI as a respected brand of risk management globally
6. To promote research to advance actuarial science/application

#### **VALUES**

1. Integrity
2. Respect for other's views
3. Accountability
4. Continuing Learning/ Research Oriented
5. Transparency
6. Be Responsive/Sensitive

## Meena Sidhwani Memorial Awardees - the best and bright ones

- Binita Rautela asks some questions

### GAUTAM SHAH



#### Educational Background

I did my schooling from Smt. G. P. P. High School in Vile Parle, Mumbai. In 2004, I completed my graduation in the commerce stream at the Mumbai University; and also completed the Company Secretarial exams from the Institute of Company Secretaries of India.

Ironically, I didn't even know what an actuary was until mid-2004; and little did I imagine I was to become one in 2009. Such, after all, is life!

#### How did you get in to being an Actuary

One of my father's colleagues recommended to me that I take up actuarial exams given my interest in mathematics. I did some research about the profession, and met a few actuaries including Mr. Diwan and Mr. Bharat Venkataramani to know more about the profession.

It seemed an interesting profession to be in; and I thought I'll give it a shot!

#### Your Career path so far

In late 2005, I joined Birla Sun Life Insurance as an actuarial trainee. In my stint of over five years at BSLI, I got opportunities to work in a wide variety of activities such as statutory valuation, regulatory and shareholder reporting, asset-liability management and product pricing & development.

In early 2011, I moved on to HDFC Life to lead the Special Projects unit within the actuarial team. At HDFC Life, my team supports the product pricing team as well as the financial reporting team for various activities.

The education I received at both my jobs has been phenomenal. The single most important thing I've learnt is that an actuary exists to support the business he or she works for. In addition to the technical skills that one brings to the table, one must deeply understand the business and be alert to the dynamic environment in which the businesses operate.

#### Pleasure of being an Actuary

Quite a few indeed – diverse and challenging nature of activities that one performs, working with sharp and inquisitive brains, being recognised well by the businesses and being close to the decision making processes within the businesses.

Your question does indeed make me wonder at a deeper personal level. Although one generally makes one's best friends in the school or college days, I met few of my best friends in the actuarial profession. Those friendships, after all, count among the greatest pleasures of my life.

### KAMLESH GUPTA



#### Educational Background:

I completed my post-graduation in Computer Applications from Maulana Azad National Institute of Technology, Bhopal. After joining LIC in year 2004, I started writing actuarial exams and cleared all papers in year 2009.

#### How did you get in to being an Actuary

I had to choose between a job in an IT major and the other one in insurance behemoth LIC. In my meeting with LIC employees, I was really impressed with the way they talked about actuarial profession. They also gave me first glimpse of tremendous opportunities in the field of actuarial science. Moreover, they helpfully provided all possible initial guidance on it. I finally decided to join LIC and started writing actuarial exams.

#### Your career path so far

I worked with LIC for about 3.5 years and then joined Reinsurance Group of America. I have had opportunities to work extensively on reinsurance pricing, product development, experience studies and projects involving in-depth research on protection benefits. The biggest advantage of my current role is to get to work closely with globally-recognized experts.

#### Pleasure of being an Actuary

Somebody once said, "Everything will be all right in the end. If it's not all right it's not the end." I am happy to be in the profession of my liking. It's not only about number-crunching (as some people believe) but also about working in a challenging environment, solving critical business problems, finding innovative solutions and working with teams of excellent people. At the end of the day, I feel good about having contributed meaningfully to the society by being part of the profession that, in some way, works towards helping the less fortunate.

# COUNTRY REPORT – SOUTH AFRICA

By Krishen Sukdev

## Introduction

Like other developing nations, South Africa faces the dilemma of having to spend on infrastructure and social spend whilst desiring to simultaneously maintain fiscal discipline. South Africa has various monetary and fiscal tools at its disposal. By international standards, South Africa has a fairly low Public Debt ratio of 34% of GDP which gives it the flexibility to increase borrowings at least in the short term. In addition South Africa's Central Bank, The South African Reserve Bank (SARB) is charged with maintaining an inflation rate of between 3% and 6% whilst taking into account wider macro-economic considerations. The inflation rate has been in the targeted range in the last year or so but has shown a somewhat increasing trend recently.

South Africa has also embarked on some ambitious projects to reform its various Social Security provisions, with some of them potentially taking up to 14 years to complete. Key amongst the proposals in the public domain is the establishment of the National Social Security Fund and the establishment of National Health Insurance Scheme. Other benefit funds are also set for a revamp in the medium to long term.

## National Social Security Fund

Government announced in 2004 its intention to reform the Retirement Funding system. Whilst having an advanced Retirement Funding infrastructure, there are some major challenges; most notably the leakage of savings that occur on exiting jobs and the need to address the vast informal and semi-formal sector who fell outside the formal retirement fund net.

Some of the major provisions of the proposed Retirement Fund reforms are as follows:

- The establishment of a National Social Security Fund (NSSF) and compulsory participation for all employees up to a yet to be determined threshold level;
- Mandatory supplementary contributions to an occupational retirement fund or individual savings vehicle above the threshold level ;
- The NSSF would also provide a moderate level of death and disability benefits;

- Compulsory preservation of retirement fund savings on switching jobs;
- Compulsory annuitisation at retirement whereby most of the accumulated retirement fund savings would need to be taken as income at retirement as opposed to a cash lump sum as is currently the case with Provident Funds; and
- The provision of a wage subsidy to encourage lower earners to save for retirement.

Currently Government is consolidating its own views on Retirement Fund Reform from across the various ministries and will release a paper after approval from Cabinet. We anticipate that the reforms could still be shaped by a negotiation process with other parties such as Business and Labour.

## National Health Insurance

Simultaneously Government has embarked on a program to reform the ailing Health Care system. Whilst having an extremely advanced Private Health Care system, the Public Health Care system lags behind in terms of resources and quality of care. It is estimated that of the total Health spend of 8.5% of GDP expenditure on Healthcare in South Africa, 40% is spent on Public Health needs and the remaining 60% of the expenditure on Private Health Care. The Public Health system caters for 80% of the population whilst the Private Health Care system caters for 20% of the population.

In August 2011, the Department of Health released a Policy Paper on the establishment of National Health Insurance (NHI) in South Africa. The intention is to bring reforms that will result in a more equitable and efficient delivery of Health Care services. The key principles of NHI are the right to access, social solidarity, effectiveness, appropriateness, equity, affordability and efficiency. The broad objectives of NHI can be summarised as follows:

- To provide improved access to quality Health Care;
- To pool risks and funds so that equity and social solidarity will be achieved through the creation of a single fund;
- To procure services on behalf of the entire population; and

- To strengthen the under-resourced and strained public sector Health Care system.

The introduction of the NHI would also need to take into account the burden of disease, including:

- HIV/AIDS and TB;
- Maternal, Infant and Child Mortality;
- Non communicable diseases; and
- Injury and Violence.

It should be noted that South Africa has 17% of the world's HIV positive population whilst having 0.7% of the world's population. The HIV prevalence rate is some 12% of general population. Of the 5.5m million South Africans who are HIV positive, it is estimated that 500 000 are on public sector sponsored ARV programs. The implementation of the NHI is expected to take some 14 years. It must be noted that there are still concerns regarding the funding of the NHI.

## Other Benefit Funds

There are other Benefit Funds that are also on the radar for major reforms in future. These are:

- The Unemployment Insurance Fund (UIF) funded by compulsory contributions during one's working lifetime that provides temporary benefits during periods of unemployment;
- The Road Accident Fund (RAF) funded by compulsory fuel levies that provides benefits if injured in a road accident;
- The Workman's Compensation Fund funded by compulsory contributions during one's working lifetime that compensates workers if injured on duty.

## Conclusion

Whilst the envisaged reforms appear somewhat ambitious it is positive that there is vision and strategy in place to address shortcomings and other misgivings of current Social Security benefits. We would need to monitor the affordability of these reforms on an on-going basis.



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## IAA ELECTION RESULTS FOR 2012

IAA News Release  
Jan 10, 2012

The International Actuarial Association (IAA) is pleased to announce that, at its meeting on October 2, 2011 in Zagreb, Croatia, the Council of the IAA elected the following individuals to serve as Officers of the IAA effective January 1, 2012.

President: Desmond Smith (South Africa)  
President-Elect: Kurt Wolfsdorf (Germany)  
Immediate Past President: Cecil Bykerk (United States)

All terms of office are for one year ending on December 31, 2012

Desmond's involvement in the work of the IAA started in the 1970s, eventually

serving on the IAA Council as the South African representative from 1993 until the time of the restructure in 1998. In 2002, when South Africa was awarded the hosting of the 2010 International Congress of Actuaries, Desmond was appointed Chairman of the Congress. Over the years, he has served as a member on several IAA committees, was Vice-Chair of the Reinsurance Subcommittee of the Insurance Regulation Committee and Chaired the Strategic Planning Subcommittee of the Executive Committee in 2011.

*"In considering the IAA and its activities during the year ahead, I must thank my predecessor, Cecil Bykerk, for his wise and competent leadership during 2011, a year during which much was accomplished. However, in the rapidly changing world in which we live, there inevitably is much that still needs to be done. Our Strategic Objectives, which were validated through a survey of our members during 2011, remain the framework within which we will approach*

*the new year. The Strategic Planning Subcommittee is considering the valuable inputs received from members during the validation process and any changes required to the Strategic Objectives will be presented to Council for consideration.*

*As was the case during 2011, governance of the Association, the future process and structures with regard to standard setting and the development of supranational relationships will continue to receive attention.*

*I am honored to have been elected to serve as President and commit myself, with the support of so many competent and enthusiastic colleagues, in line with the vision of the Association, to continue to develop the IAA as the credible and respected representative of the worldwide actuarial profession".*

To learn more about the work of the IAA, contact the [IAA Secretariat](#).



## ACCOUNTING FOR PENSION AND EMPLOYEE BENEFITS IN CANADA – WHERE DO WE STAND?

Denis Plouffe

GBC - Newsletter January 10, 2012

With the passage of IFRS in Canada along with evolving changes under the various accounting standards, the world of Canadian pension and employee benefit (PEB) accounting faces major changes.

Here is a summary of where we stand in the area of PEB accounting in Canada in January 2012.

### Publicly Accountable Enterprises

- Must adopt IFRS on or after January 1st, 2011
- Amendments to IAS19 effective in 2013
- Changeover date to IFRS is being deferred by one year for rate regulated entities and by two years for investment companies

### Private Enterprises

- Election to adopt either Canadian Made standards or IFRS on or after January 1, 2011
- Two possible approaches under Canadian Made standards
- Immediate recognition
- Deferred amortized approach

### Not-for-profit (NFPO's) Entities

- Private sector
- Must elect between Canadian Made standards or IFRS on or after January 1st, 2012
- Public sector

Use Public Sector Accounting (PSA) standards on or after January 1, 2012

### Government Businesses (other than NFPO's entities)

- Use IFRS standards on or after January 1, 2011 if such accounting standards better meet the need of users
- Otherwise use PSA standards

### Pension Plans

- Pension plans must report under CICA section 4600 (not IAS 26) for Fiscal Year beginning on or after January 1, 2011

### Accounting for Pension and Employee Benefits in Canada – Where do we stand?

#### Observations

As you can see from the exhibit on the previous page, various accounting standards are being amended. A move closer to Fair Value pension accounting (removing the smoothing mechanisms) along with new presentation format embedded into IFRS will come into effect in 2013 for Publicly Accountable Enterprises (ie. Enterprises that issue shares or some forms of securities traded on the public stock market). Private enterprises and Not-For-Profit (NFPO's) entities must elect to remain under Canadian made standards (ie. CICA Section 3461) or to move to IFRS. Canadian made standards for pension and employee benefits applicable to private enterprises and to certain NFPO's entities will also face major amendments

in the near future. An exposure draft to that effect is expected to be released towards the end of January 2012.

Entities in the public sector have their own set of accounting standards called the Public Sector Accounting Standards. Finally, the pension plans are considered separate entities and they are subject to their own reporting requirements. Effective with fiscal year beginning on or after

January 1st, 2011, the reporting of pension plans formerly addressed under CICA section 4100 will fall under the new CICA section 4600 with additional disclosure and reporting items being required.

Whether the reporting entity is company listed on the stock exchange, a private enterprise, a university, an hospital or a pension plan, all such entities must report under accounting standards specific to their organization. Reporting entities must often face important decisions during transition periods which can have significant impact on their balance sheet and income statement.

#### Conclusion

As shown on this newsletter, a lot of activities are under development in the area of accounting for pension and employee benefits in Canada and these changes represent significant challenges for reporting entities.

GBC has developed expertise over the years to assist entities and their auditors with financial reporting. Do not hesitate to contact Denis Plouffe for enquiries or for further assistance with pension and employee benefits.



# INDIAN INSURANCE REGULATOR ON MOTOR THIRD PARTY POOL RESERVES AND ACCOUNT RESERVES



बीमा विनियामक विकास प्राधिकरण  
INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY

Ref: IRDA/NL/ORD/MPL/003/01/2012

Date: 3<sup>rd</sup> January, 2012

## **Order under Section 14 of IRDA Act read with Section 64VA of Insurance Act' 1938**

To

The CEOs of all General Insurance Companies and GIG.

### **Sub: Motor Third Party Pool Reserves and Account Reserves - Reg**

Ref:

1. Clause No. 3 of the covering letter to R3 granted to all non-life insurers regarding maintenance of solvency ratio of 150%.
2. Circular No. II/IRDA/ACTL/IBNR/2005-06
3. Appointment of Government Actuary's Department (GAD), UK vide No Ref: IRDA/NIVORD/MPU046/03/2011 dated 12-03-2011
4. Summary of the Report submitted by GAD, UK
5. Order: IRDA/NL/ORD MPL/276/12/2011 dated:23/12/2011
6. Order: IRDA/NL/ORD/MPL/277/12/2011 dated:23/12/2011

\* \* \*

1. In accordance with the Order No Ref: IRDA/NL/ORD/MPL/046/03/2011 dated 12-03-2011, the Authority had appointed Government Actuary's Department, UK to evaluate the liabilities of the Indian Motor Third Party Insurance Pool (IMTPIP) under the Insurance Act, 1938 in order to assess the adequacy of the reserves which are to be calculated as per the IRDA Regulations and in particular as per reference 2 cited.

2. The GAD's Report cited under ref. no. 4 estimated the ultimate loss ratios for the years 2007-08, 2008-09, 2009-10 and 2010-11 respectively. GAD has used various approaches to provide a range for the expected ultimate liability for TP pool as given below in view of significant data constraints and uncertainty in the claims developments.

| Table 2.1 |           |            |
|-----------|-----------|------------|
| Year      | Lower end | Higher end |
| 2007      | 159%      | 197%       |
| 2008      | 188%      | 233%       |
| 2009      | 200%      | 249%       |
| 2010      | 213%      | 263%       |

3. Against this estimate, the pool has maintained reserves at 153% in accordance with the aforesaid Order cited in 3 for all the years the pool has underwritten third party motor liability.

4. GAD has recommended the selection of the higher end of the range as a point estimate in view of the following reasons:

- i. Significant limitations in the existing pool data
- ii. Uncertainty reflected in the estimate's of the pool liability due to data problems and impact on the selection of loss development factors
- iii. Pool claims experience

5. That would result in projected ultimate loss ratios of 197% to 263% as given in the Table 2.1. The above loss ratios also include GAD's estimate of the impact of the 2009 Supreme Court ruling in the Sarla Vemra case and the 2010 Supreme Court ruling in the Arun Kumar Argawal case.

6. In view of the Authority's analysis and also the GAD's report on under reserving, data inadequacies and performance of the pool administration, Authority ordered the

- i. dismantling of existing Indian Motor Third Party Pool with effect from 31.03.2012, as cited in 5 above and
- ii. setting up the framework for Indian Motor Third Party Declined Risk Insurance Pool for commercial vehicles to create equitable and fair sharing by all insurers as cited in 6 above.

7. In the background of dismantling the existing Indian Motor Third Party Insurance Pool, it is expected that each insurer who has booked the business

will bring in efficiency in claims handling and undertake suitable actions to bring in data quality. In this context, due to expected improvements in the process of managing the business and the claims, it is hereby directed that all insurers shall hold reserves considering the ultimate loss ratios at the lower end estimate of GAD for each of business written as given in the Table 2.1.

8. In accordance with the above, the committee referred in the order cited in 5 shall be responsible to ensure that the process of dismantling on a clean-cut basis in a timely and efficient manner, following the procedure given below. The committee shall:

- i. Evaluate the outstanding liability (Ultimate Liability as per the market share (in accordance with the ultimate loss ratio at the lower end estimate of GAD) less the claims paid as per market share) for each insurer which is arrived as per the respective market shares.
- ii. Evaluate the outstanding liability for each insurer which is arrived as per the premium actually written by each insurer on the basis of GAD report cited at 4.
- iii. Estimate the increase or decrease in outstanding liability on the basis of actual premium written for each insure for each year of business written and monitor the transfer of monies between the insurers in accordance with the change in the liability, if any for each insurer.
- iv. Submit the report to the Authority within two months from the date of this order indicating for each insurer and for each of year of business the outstanding liability as per market share, the outstanding liability as per the actual business written, the net position, the amount to be transferred in/out.
- v. Ensure that the insurers shall bring in the additional capital, if any, to meet the total outstanding liability for the dismantled pool, after adjusting

for the increase or decrease in the outstanding liability between the insurers, in a period of five years as per the table below:

(iii) not to declare dividends to the shareholders without the prior specific approval of the Authority for any year or part of the year wherein

department as required. They are permitted to utilize the services of actuaries qualified from Casualty Actuarial Society, USA and Institute of Actuaries, U.K and Australia if Actuaries having necessary experience and qualification under IAI are not available.

(vi) not to disburse bonus, performance incentives etc by whatever name such payments are called to any key management personnel, the senior management, Appointed Actuaries, Whole time Directors of the Board or any of the CEOs without the prior specific approval of the Authority.

(vii) to ensure that the pricing of products including discounts are in accordance with the underwriting principles and in conformity with the product as cleared by the Authority under File & Use Guidelines.

(viii) not to exceed the limitations of expenses of management under Rule 17E of Insurance Rules, 1939 at any time.

10. The Authority will review the applicability of each of the above instructions to such insurers who have achieved 150% solvency ratio on a sustainable basis on their specific application.

11. All the general insurers are directed to acknowledge the receipt of this Order and place this order before the Board of Directors well before the finalization of accounts.

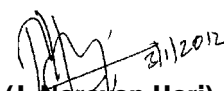
  
(J. Narayan Hari)  
Chariman

**Table 8.1**

| Year of business | Lower end                                              | Total liability to be met in the year |
|------------------|--------------------------------------------------------|---------------------------------------|
| 2007             | 159%                                                   | 20/03/2012                            |
| 2008             | 188%                                                   | 20/03/2013                            |
| 2009             | 200%                                                   | 20/03/2014                            |
| 2010             | 213%                                                   | 20/03/2015                            |
| 2011             | Based on the GAD's estimate intimated by the Authority | 20/03/2016                            |

**“Total Outstanding Liability for the pool:** Ultimate Liability in accordance with the ultimate loss ratio at the lower end estimate of GAD less the claims paid.

9. In this regard, in partial modification of the order cited in 3, all the general insurers, including M/s GIC Re are hereby instructed:

- (i) to maintain a solvency margin of not less than the percentage as indicated in the following table for all lines of business with effect from 31st March 2012 till the next five years, subject to the condition that the IMTPIP reserves being valued in accordance with the lower end of the ultimate loss ratio as indicated in the Table 2.1 above for each year.
- (ii) to maintain 150% Solvency ratio thereafter (i.e. from 31<sup>st</sup> March, 2016), at all times;

the solvency ratio is reported below 150%;

- (iv) to submit a financial plan as approved by the Board of Directors as per Section 64VA (2A) of Insurance Act, 1938, to the Authority within a period of two months, indicating a plan of action to correct the deficiency for the said 5 year period up to March 2016. In addition, an annual plan duly approved by the Board of Directors shall be submitted not later than 15<sup>th</sup> of February every financial year starting from 2012-13 and a half-yearly review of Annual Plan reviewed by the Board of Directors shall be submitted not later than 15<sup>th</sup> August of each of the three years starting from 15<sup>th</sup> August 2012.
- (v) to appoint full-time qualified and experienced Property and Casualty Actuaries to strengthen the actuarial

**Table 9.1**

| 31 <sup>st</sup> March 2012 | 31 <sup>st</sup> March 2013 | 31 <sup>st</sup> March 2014 | 31 <sup>st</sup> March 2015 | 31 <sup>st</sup> March 2016 |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 1.10                        | 1.20                        | 1.30                        | 1.40                        | 1.50                        |

## OBITUARY



R. Krishnaswamy, Consulting Actuary, aged 80 years, a doyen of the Indian Actuarial Profession (and beloved father of Dr. K. Sriram, FIAI) is no more. He breathed his last on 19<sup>th</sup> Dec 2011 at 10:35 PM in Chennai.

R. Krishnaswamy had been in the actuarial practice for the last thirty four years, specializing in Employee Benefits, his practice being based out of Chennai. He has been the Actuarial advisor for several nationalized banks, leading corporates, public and state government undertakings.

R. Krishnaswamy, a Post Graduate in Mathematics, a Fellow Member of the Institute and Faculty of Actuaries,

## Remembering R. Krishnaswamy, FIAI, FIA. (1931 – 2011)

UK and a Fellow Member of the Institute of Actuaries of India started his career in 1951 as a lecturer of Mathematics at Madura College, Madurai, India. In 1952, he moved to the Office of Controller of Insurance, Shimla. Later on moving over to the Life Insurance Corporation of India he served at number of places and in different positions, resigning in 1977, he started his actuarial practice in the area of employee benefits.

He was extremely active in the actuarial profession till his very last days. He has published and presented several papers in the areas of employee benefit valuation, brand valuation and on similar topics. He has also authored many articles on AS 15 (revised 2005), one of which appeared in the April 2007 issue of *The Chartered Accountant* when the accounting standard

had just been introduced. He has also contributed as a member of the Advisory Group on Pension and Employee Benefits in drafting various Guidance Notes in his practice arena. He has an extremely pleasant personality and always had words of encouragement for younger Actuaries.

He was an avid sports lover and followed bridge. He was a national level bridge player and has participated and won many bridge tournaments.

He is survived by his wife, Ms. K. Padmakshi and two children Dr. K. Sriram, FIAI and Dr. K. Rama (Professor of Pathology in Kasturba Gandhi Hospital, Chennai). During this sad moment, let us pray for his soul to rest in peace and offer heartfelt condolences to his family.

R Arunachalam, FIAI

# FROM THE DESK OF CHAIRPERSON - ADVISORY GROUP ON GENERAL INSURANCE

SHARON D' COSTA

Sharon.DCosta@SBIGeneral.in

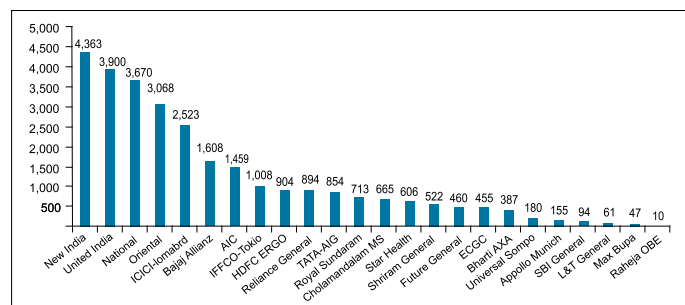


THE DESK OF

FROM

## General insurance updates - FY11-12 half yearly industry performance

The Indian non-life insurance industry continued to show promising growth, with the industry aggregate gross written premium as of September 30, 2011 at Rs 28,602 crores. This was 26% higher than the gross written premium as of September 30, 2010. The graph below shows company wise contribution to the industry aggregate gross written premium as of September 30, 2011.

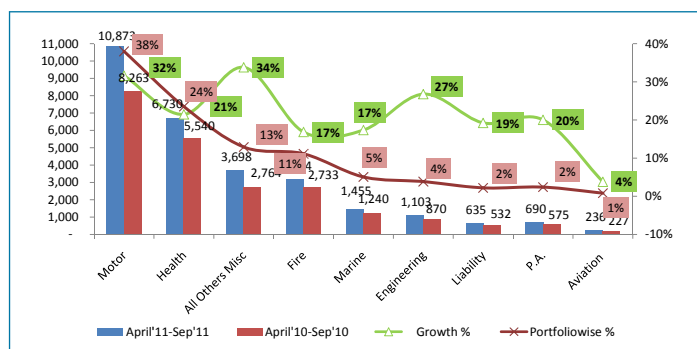


\* Source: GI Council

\* All figures above are in crores of rupees

As per statistics published by the GI council, ICICI Lombard has the largest market share (9%) among the private sector insurance companies and New India (15%) among the public sector insurance companies.

**Product wise industry growth for the period April'11 to September'11 is displayed in the graph below:**



## Industry News:

On December 23, 2011 IRDA issued a circular to all non-life companies regarding dismantling the Motor Third Party Pool with effect from March 31, 2012. The Motor Third Party Pool, constituted by IRDA in 2007, will be dismantled on a clean cut basis and will not be subject to run-off. IRDA will thereafter constitute a Declined Risk Pool with effect from April 1, 2012. The Declined Risk Pool will apply to commercial vehicles for standalone

Third Party Liability insurance only. Miscellaneous and Special class of vehicles (class code 23 of the All India Motor Tariff) will be excluded from the scope of this Pool. Every

non-life insurer will be required to submit to IRDA its underwriting manual outlining the risks it will retain and those it will cede to the Declined Risk Pool. Of the risks to be ceded to the Pool, 20% will have to be retained by the ceding insurer. The Commercial Motor Third Party insurance obligations of every non-life insurer will be equal to the sum of 50% of the company's share in the total gross

premium of the industry and 50% of the company's share in total motor premium for the industry in the year under consideration.

On January 3, 2012 IRDA issued a circular

with reference to additional reserve requirements in respect of the existing Motor Third Party Pool. The ultimate loss ratio (ULR) of the Motor Third Party Pool was revised to 159% for 2007-08, 188% for 2008-09, 200% for 2009-10 and 213% for 2010-11 from the existing ULR of 153%. These ULR estimates were derived from the peer review report of the Government Actuary's Department, U.K. The impact of this increase in ULR is estimated to be around Rs 4750 crores by way of increased provisions for the industry for all prior underwriting years up to March 31, 2011. The FY11-12 financial impact will depend on the ULR estimate determined by the regulator. In addition, IRDA has relaxed the minimum solvency ratio requirements for non-life insurers to 1.1 as at March 31, 2012 steadily increasing it to 1.5 as at March 31, 2016.

## Advisory Group updates:

The General Insurance Advisory Group organized the 1<sup>st</sup> 'Current Issues in General Insurance' seminar on December 8, 2011 at Hotel Orchid, Mumbai. We are very grateful to Mr. Ramaprasad, Member Non-life (IRDA) for being a part of this seminar. A special thanks to all the speakers/chairs for their participation.

## Ongoing projects within the Advisory Group

GN31, the Guidance Note on Financial Condition Reporting has been peer reviewed by the PEC Advisory Group. Work is in progress for refining GN21, in light of recent developments in the non-life industry. Plans have also been finalized for the GI Concurrent sessions scheduled during the 14<sup>th</sup> GCA.

The Indian non-life industry is presently going through challenging times.....We will endeavor to keep you abreast of all the latest developments.

I would like to conclude by wishing you and your families a Very Happy and Prosperous New Year 2012. Best wishes for the year ahead!!

## Top 5 Performers for each line of business upto sept. 2011.

| Health        | G.P.A.        | Motor         | Fire          | Marine        | Engineering   | Aviation      |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| New India     | Oriental      | National      | New India     | United India  | United India  | ICICI Lombard |
| United India  | HDFC ERGO     | NewIndia      | United India  | New India     | New India     | New India     |
| National      | New India     | United India  | Oriental      | Oriental      | Oriental      | Oriental      |
| ICICI Lombard | National      | Oriental      | National      | National      | National      | National      |
| Oriental      | ICICI Lombard | Bajaj Allianz | ICICI Lombard | ICICI Lombard | ICICI Lombard | IFFCO Tokio   |



**भारतीय निर्यात ऋण गारंटी निगम लिमिटेड**  
**EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LTD.**  
**(A Government of India Enterprise)**

**VACANCY: APPOINTED ACTUARY**

ECGC, a premier export credit insurance organization wholly owned by the Government of India urgently requires an "Appointed Actuary" at Mumbai

Applications are invited from resident Indian Citizens for the post of "Appointed Actuary" on Full time basis or on Consultancy Basis.

**Qualification, Experience & Age Limit:** The candidate should preferably possess the following qualifications and post-qualification experience in handling the Actuarial matters. He or She should/ be

1. a resident in India:
2. a fellow Member of Actuarial Society of India and he/she should satisfy all the requirements specified in Regulation No.3 sub regulation 2 of IRDA (Appointed Actuary Regulations, 2000)
3. preferably not above the age of fifty five years of age (as on 1.1.2012).
4. have a post qualification experience of minimum 5 of years. Preference will be given to people with experience in General Insurance Industry.

Duties and responsibilities of the Appointed Actuary will be as per Regulation 8 of IRDA (Appointed Actuary) Regulations, 2000.

After appointment he/she should not act as an Appointed Actuary of any other Insurance Company. He She is also expected not to practice in General Insurance for other Insurance Company or as a Broker or as a Surveyor.

Compensation will be in line with levels prevailing in the General Insurance Industry. Candidates may indicate expectations.

Applications in conformity with Form IRDA-AA-1 (particulars of Appointed Actuary) of IRDA (Appointed Actuary) Regulations 2000; superscribed at left hand upper corner of the envelope "ECGC Appointed Actuary" should be sent to the following address: The Executive Director, ECGC of India Ltd., Express Towers, 10th floor, Nariman Point, Mumbai - 400 021 or by e-mail at [prasad.p@ecgc.in](mailto:prasad.p@ecgc.in) together with self-attested copies of all relevant certificates with a recent passport size photograph, so as to reach ECGC by not later than 31<sup>st</sup> January, 2012.

**General Instructions:**

1. Corporation reserves the right to restrict the number of candidates to be called for interview.
2. The decision of the Corporation will be final and binding in all matters.
3. In case it is found at any stage of recruitment that the candidate does not fulfill the eligibility criteria and/or he/she has furnished any incorrect/false/incomplete information or has suppressed any material fact(s), the candidature will stand cancelled. If any of these shortcomings are noticed even after appointment his/her services are liable to be terminated forthwith. Before applying for any post, the candidate should ensure that he/she fulfills the eligibility and other norms mentioned in this advertisement. The decision of the Corporation in respect of matters concerning eligibility of the candidate, the stages at which such scrutiny of eligibility is to be undertaken, the documents to be produced for the purpose of conduct of interview selection and other matters relating to recruitment will be final and binding on the candidate.
4. The Corporation shall not entertain any correspondence or personal enquiries. Canvassing in any form will disqualify the candidate.

**Chairman-cum-Managing Director**



**भारतीय निर्यात ऋण गारंटी निगम लिमिटेड**  
**EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LTD.**  
**(A Government of India Enterprise)**

**रिक्ति : नियुक्त बीमांकक**

भारत सरकार के पूर्ण स्वामित्व वाले एक प्रमुख निर्यात ऋण बीमा संगठन ईसीजीसी, मुंबई में तत्काल "नियुक्त बीमांकक" की आवश्यकता है। भारतीय नागरिकों से "नियुक्त बीमांकक" के पद पर पूर्ण कालिक आधार पर अथवा परामर्श के आधार पर आवेदन आमंत्रित किया जाता है।

**अर्हता, अनुभव एवं आयु सीमा :** उम्मीदवार को वरीयता के तौर पर निम्न अर्हता एवं अर्हता के पश्चात बीमांकन मामलों को हैंडल करने का अनुभव होना चाहिए। उम्मीदवार

1. भारत का निवासी हो;
2. भारतीय बीमांकन सोसायटी का फेलो सदस्य हों और वह बीमा विनियामक विकास प्राधिकरण (नियुक्त बीमांकन नियमावली, 2000) के विनियम 3 के उप विनियम 2 में निर्दिष्ट सभी अपेक्षाओं को पूरा करता हों।
3. वरीयता के तौर पर उसकी उम्र 55 (पचपन) वर्ष से अधिक ना हों (1.1.2012 को)
4. अर्हता के पश्चात कम से कम 5 वर्षों का अनुभव हों। साधारण बीमा उद्योग में अनुभव रखने वाले व्यक्तियों को वरीयता दी जाएगी।

नियुक्त बीमांकक के कर्तव्य और उत्तरदायित्व बीमा विनियामक विकास प्राधिकरण (नियुक्त बीमांकक) विनियमावली, 2000 के विनियम 8 के अनुसार होगी।

नियुक्ति के बाद उसे किसी अन्य बीमा कंपनी के नियुक्त बीमांकक के रूप में कार्य नहीं करना चाहिए। उससे यह भी अपेक्षा की जाती है कि वह किसी अन्य बीमा कंपनी या ब्रोकर के रूप में या सर्वेक्षक के रूप में साधारण बीमा में

अभ्यास नहीं करना चाहिए। साधारण बीमा उद्योग में प्रचलित स्तरों के अनुरूप पारिश्रमिक दिया जाएगा। उम्मीदवार अपनी अपेक्षा इंगित करें।

आईआरडीए (नियुक्त बीमांकक) विनियमावली 2000 के फार्म आईआरडीए-ए -1 के अनुरूप आवेदन (नियुक्त बीमांकक का विवरण); लिफाफे के बाएं ओर ऊपरी कोने में "ईसीजीसी नियुक्ति बीमांकक" लिखा हुआ लिफाफा निम्नलिखित पते पर भेजा जाना चाहिए :

संबंधित सभी प्रमाणपत्रों की स्वयं सत्यापित प्रतियों और हाल ही के पासपोर्ट आकार के फोटोग्राफ सहित कार्यपालक निदेशक, ईसीजीसी ऑफ इंडिया लिमिटेड, एक्सप्रेस टॉवर्स, 10 वी मंजिल, नरीमन पॉइंट, मुंबई- 400021 अथवा [Prasad.p@ecgc.in](mailto:Prasad.p@ecgc.in) पर ईमेल द्वारा आवेदन करें, जो दिनांक 31 जनवरी 2012 के पहले प्राप्त हो सकें।

सामान्य अनुदेश :-

1. निगम को साक्षात्कार के लिए बुलाए जाने वाले उम्मीदवारों की संख्या प्रतिबंधित करने का अधिकार सुरक्षित होगा।
2. सभी मामलों में निगम का निर्णय अंतिम और बाध्यकारी होगा।
3. यदि नियुक्ति के किसी भी चरण में यह पाया गया कि उम्मीदवार पात्रता मानदंडों को पूरा नहीं करता/ करती है और/या वह कोई औचित्य/ गलत/ अपूर्ण जानकारी प्रस्तुत करता/करती है या किसी वास्तविक तथ्य को छिपाया है तो उसकी उम्मीदवारी रद्द कर दी जाएगी। यदि नियुक्ति के पश्चात इनमें से कोई कमियाँ पाई गईं तो उसकी सेवाएं तत्काल समाप्त कर दी जाएंगी। किसी पद के लिए आवेदन करने के पहले उम्मीदवार को यह सुनिश्चित करना होगा कि इस विज्ञापन में उल्लेखित अर्हता और अन्य मानदंडों को वह पूरा करता/ करती है। उम्मीदवार की अर्हता से संबंधित मामलों के संबंध में चरण जब अर्हता की ऐसी संविधा की जाएगी, चयन के लिए साक्षात्कार के उद्देश्य से प्रस्तुत किए जाने वाले दस्तावेज और नियुक्ति से संबंधित अन्य मामले के संबंध में निगम का निर्णय उम्मीदवार पर बाध्यकारी होगा।
4. निगम किसी पत्राचार या व्यक्तिगत पूछताछ पर ध्यान नहीं देगा। किसी प्रकार की सिफारिश उम्मीदवार को अनर्हक बना देगी।

**अध्यक्ष एवं प्रबंध निदेशक**



## Shilpa's Puzzles

### Puzzle No 165:

In a strange, distant land, they have a slightly different number system than ours. For instance,  $4 \times 6 = 30$  and  $4 \times 7 = 34$ . Based on this, what is the value of  $5 \times 4 \times 7$  in this land? Hint: Remember this is a number system.

### Puzzle No 166:

After trying several times to reach his wife by phone and failing, due to problems with the telephone, a husband arrives home to find this curious coded message left next to the telephone. Can you decipher his wife's message?

\9 3 6 \8 \8/6 2 8/9 \2 6 3 \9  
\7 4/6 6 3

## ERRATA

### Note regarding Puzzle No.164:-

This puzzle was wrongly printed. The number 733 should be correctly read as 733, i.e. 7 to the power of 33. We apologize for the inconvenience.



shilpa\_vm@hotmail.com





# Institute of Actuaries of India

302, Indian Globe Chambers, 142, Fort Street, Off D. N. Road, Mumbai – 400001

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Renaissance Mumbai Convention Centre



# SAVE THE DATE



## Quotable Quotes

Take up an IDEA,  
Devote yourself to it  
struggle on in patience,  
and the SUN will rise  
for YOU.



- Swami Vivekanand



## Many Happy Returns of the day

the Actuary India wishes many more years of healthy life to the following fellow members whose Birthday fall in **January 2012**

**BHUDEDEV CHATTERJEE**

**S. R. KELEKAR**

**N. K. PARIKH**

**RAJENDRA PRASAD SHARMA**

(Birthday greetings to fellow members who have attained 60 years of age)



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**Aon**

UNITED IN 2010



To see whether a risk poses a threat,  
don't we have to see the big picture?

The future is like an iceberg. Most of the time what we can see before our eyes is only half the story. So how do we know the unknowable? Only those with relentless drive, expertise and foresight can see the whole picture — the risk that lies beyond. At Munich Re, seeing more is what we do. We work in interdisciplinary teams, each pair of eyes viewing something from a different perspective, all focusing on the best solution. With our worldwide network we can pinpoint complex global patterns when they arise. When it comes to grasping our future, we are never satisfied with half the story.

To find out more about what lies beyond,  
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