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Serving the Cause of Public Interest

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FROM THE PRESIDENT'S DESK

MR. RAJESH DALMIA

Dear Members,
I am thankful to all of you for doing hard work in keeping the reputation of the Institute. It is in your hands. Out of a population of 125 crore, we hardly have 300 fellows and 10000 students which is nothing compared to the size of the population that we have. Most of the population would never interact with any actuary in their life time. A few would have only one interaction in their life time with one of our members and would form an opinion about the profession based on that single interaction. It is important that we consistently show professional behavior to keep the reputation of the profession at high level.

I alluded to Right to Information Act, 2005 (RTI) during GCA which is applicable on majority of public bodies including the Institute, IRDA, PFRDA and Ministry of Finance. The Act makes it mandatory for some pro-active disclosure and additional information can be asked by any citizen of India. The public bodies would have to put up the pro-active disclosure on their website. Additional information can be asked by filling up a form and by paying cheque/dd of certain amount. Ministry of Finance have made it easier by digitizing the whole process and putting it on their website where-in you can ask for all the information sitting on your laptop.

Why information should be shared with public? The first is the need to inform the public about laws and decisions and the public's right to be informed, to know their rights and obligations. The second is the provision to the public of information needed to access government services, which has expanded significantly in quite a few areas. The third is the public's demand for the information needed to hold governments/institutions accountable. The fourth is the demand for information

in order to participate actively in decision-making. Before RTI, it was very difficult for public to even get the information mentioned under first and second point above. RTI made it mandatory for public bodies for proactive disclosure of the in-



“The presumption of disclosure also means that agencies should take affirmative steps to make information public. They should not wait for specific requests from the public. All agencies should use modern technology to inform citizens about what is known and done by their Government. Disclosure should be timely.”

formation under first and second points above. Now, it is time for these bodies that they move in the direction where most information under point 3 and 4 above is also available to public through low cost mediums like internet.

President Barack Obama on his first day in office stated that “The presumption of disclosure also means that agencies should take affirmative steps to make information public. They should not wait for specific requests from the public. All agencies should use modern technology to inform citizens about what is known and done by their Government. Disclosure should be timely.”

The benefits of transparency are immense. Yes, there is a cost involved as you need a lot of resources for collection of data, cleansing/validating this data, categorizing this data, storing this data in a meaningful searchable manner etc. Besides, for organizations which are in-efficient it may

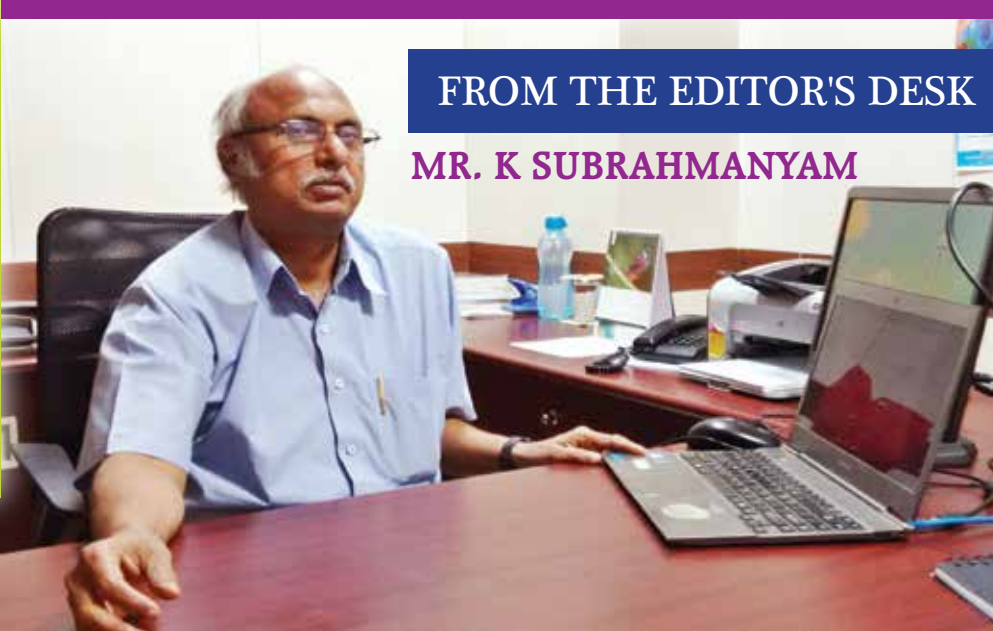
have an impact on their reputation too as it will bring the in-efficiency/disorder in limelight of public. The benefits for the public are immense as long as the cost is not huge. Therefore, it is important that the public focuses on major information rather than meaningless and low impact information so that the cost incurred in gathering and providing for such information is within reasonable bounds. For example, asking for information on make/quality of every pot-hole in the Mumbai city is neither going to have a significant impact on the working of the BMC nor any significant impact on Mumbai. However, aggregate level information would be quite useful and is likely to have a significant impact and the cost of holding that data is not huge.

How does it concern actuaries or our members? Well, one they do work with various Government organizations like IRDA, Ministry of Finance, RBI etc and it is their duty to use the provisions under RTI so that the actuary along with these organizations can serve the public interest. Second, the Institute is also a public organization. It is not going to be easy for us at this stage to move to a complete proactive disclosure. However, we are still complying with RTI and providing any information requested by members. We are working towards the direction where-in members would not be required to file an application under RTI to get any information but would just have to login to the website to get most of the information at a click of a button.

I believe that once we embrace the culture of pro-active disclosures then there would be no turning back from there. It is my personal believe that it would be of immense help in the long run and would benefit the profession.

FROM THE EDITOR'S DESK

MR. K SUBRAHMANYAM



Students must be getting ready to face May 2015 exams. There is no substitute for hard study. Many students face problems in the exam hall to recollect important points. They forget these points at the exam hall due to tension and anxiety but they will be able to recollect when they are cool. This problem is due to inefficient controls on the mind. Most of us will answer

immediately ---what is 2 & 2 make, what comes after alphabet X, and the capital of India, etc. Psychologists say that there two parts of brain—one part is something like CPU which is capable of retrieving the information instantly whenever we want; the other part is something like temporary storage. The other part is yet to transfer to the first part so that it can function like CPU. The temporary storage in brain will

not function like CPU. We need to train this part, so that the important material can be transferred to the first part. Some people will answer immediately simple arithmetic questions, recite poems, songs, with ease. When complicated questions are put, the brain fumbles. People say that practice makes perfect. Writing is a good practice. Write the points a number of times, therefore.

President has already communicated about the new APS4 and APS10. All fellow members must read this and comply with the same.

New insurance legislation should give more opportunities to actuaries. Let our members and other are encouraged to write articles on about changes whether they will do good to the policyholder.

Consulting actuaries [most of them may be aware] may note that LTC or LTA is a long term benefit as per AS15-R as per ICAI.

Letters to the Editor

We invite readers to respond briefly to our articles and to suggest new features with letters to the editor. Kindly mail your responses on library@actuariesindia.org with your name & contact details. Appropriate responses will be published in Actuary India magazine with the approval of competent authority.



Welcome...

Mr. Ghanasham Tirpankar has joined on 12th March 2015 as **IT Executive**. He is Diploma in Computer Engineering and carries 7 years of experience. His hobbies include Photography, Playing Cricket & Chess. We welcome Mr. Ghanasham Tirpankar to the family of Institute of Actuaries of India. He can be reached at ghanasham@actuariesindia.org.

2ND WORKSHOP ON EMPLOYEE BENEFITS

VENUE:

The Plazzio Hotel, Gurgaon

Date: 13th March, 2015

Organized by:

Advisory Group on Pensions,
Other Employee Benefits &
Social Security, IAI

against Actuaries and at times large variations in the liability figures quoted for same set of data and similar assumptions used by two different Actuaries. He also



Mr. A D Gupta, Mr. Khushwant Pahwa, Mr. Kulin Patel

raised concerns on incomplete reports provided to the clients by the Actuaries. He took along with him two young Actuaries- **Mr. Kulin Patel** and **Mr. Khushwant Pahwa**.

Keeping in view the different levels of

employee benefits. Given that there is considerable scope of variations and judgments in these valuations, it is often felt that there is need for widening the scope, coverage and guidance given by APS 26.

- ✓ Group under leadership of **Mr. Liyaquat Khan** generated practical thoughts and ideas of the changes that can be made to APS 26 to ensure that adequate guidance is provided to the actuaries and that valuation processes / governance is streamlined.

The mood for the workshop was rightly set by **Mr. A D Gupta**, Chairperson, Advisory Group on Pensions, other Employee benefits and

participants, IAI circulated the following reading material in advance and five group details as follows;

Group Number	Names of Participants (Leader name highlighted)	Topic Awarded	Reading material supplied by IAI
Group 1	Mr. Ashish Prakash, Ms. Kritika Gupta, Mr. Liyaquat Khan , Mr. Rahul Sharma, Mr. V Govindan	Actuarial Practice Standard (APS) 26	✓ APS 15 - Pension Fund Terminology, ✓ APS 18 - Retirement Benefit Schemes- Actuarial Reports,
Group 2	Mr. A K Garg, Ms. Arpaan Begdai, Mr. K K Dharni , Mr. S Krishnan, Ms. Tanu Saharan, Mr. Varun Jain	Ensuring consistency of actuarial valuations	✓ APS 26 - Actuarial Reports under AS (15) R 2005, ✓ GN 11 - Actuarial Investigations of retirement benefit schemes,
Group 3	Mr. Aayush Agarwal, Mr. K K Wadwa , Mr. Neeraj Maheshwari, Ms. Sapna Malhotra, Ms. Yogita Arora	Leave valuations	✓ GN 28 - Guidance Note on other employee benefits,
Group 4	Mr. A Balasubramanian, Mr. D C Khansili, Dr. K Sriram , Mr. Ramaiah Divvela, Mr. Shryans Jain	Provident Fund Valuations	✓ GN 29 - Guidance note on valuation of interest rate guarantees on exempt PFs under AS(15) R 2005
Group 5	Ms. Anuradha Sehgal, Mr. Nikhil Gupta, Mr. M L Sodhi, Mr. Punit Jagtani, Mr. Y P Sabharwal	Public Sector Valuations	Indian GAAP on employee benefits - AS 15 (R) 2005 issued by ICAI

Social Security. He picked up the thread from previous seminar on Current Issues on Retirement Benefits (CIRB) held in Mumbai and emphasized upon the problems faced by the Actuaries in employee benefit valuations. He raised concern on growing number of complaints

Brief of discussions held on topics allocated

Topic 1- Actuarial Practice Standard (APS) 26:

- ✓ APS 26 is the standard that governs the actuarial valuation of

- ✓ Mr. Khan also gave historical background of allocating GNs. He told that blocks were allocated to different areas of Insurance and Pensions. For Pensions and other employees' benefits, the block was allocated from 11 onwards.

- ✓ A debate was also on CoP requirement.

Topic 2 - Ensuring consistency of actuarial valuations



- ✓ There are growing concerns that same employee benefits when valued by different actuaries result in different valuation results.
- ✓ Group under leadership of **Mr. K K Dharni** discussed the areas of divergence amongst actuaries and presented points to reach a conclusion on the best possible approach.
- ✓ Some of the items of discussion were rational behind applying limit on gratuity valuation while determining Accrued and Projected liability, calculation on current service cost in case of gratuity plans,
- ✓ Issues relate to treatment of members above NRA, negative leave, etc. were also discussed.

Topic 3- Leave valuations

- ✓ The group under leadership of **Mr. K K Wadhwa** discussed one of the most contentious subject of leave valuation. The discussion were not only related to valuation methodology but also to the underlying disclosure requirements.
- ✓ The session also focussed to item - Service Cost, treatment of leave, their availment, lapsations and



encashment during service.

- ✓ The region wise differences in reporting,

✓ Other valuation - Some requirements are not as per AS 15 R but auditors insist for same.

Topic 4 - Provident Fund valuations (Interest rate guarantee valuation under Exempt PFs Scheme)

- ✓ In case of exempt provident fund trusts, the sponsoring enterprise are



exposed to the interest rate guarantee risk as they need to at least provide the minimum interest rate declared by the Government. And hence an actuarial valuation of interest rate guarantee is required.

- ✓ In various approaches followed in determining the value of the guarantee,

questions are raised on the most widely used deterministic approach described under GN 29.

✓ Group under leadership of **Dr. K Sriram** discussed the relevance of deterministic approach in light of

its limitations, the actuarial subject matter of ST4 and SA4 and be in line with practices in other professions and other developed countries.

- ✓ Group discussed the freedom to the Actuary based on data and nature for using probability distribution as not always log normal distribution as suggested in GN be appropriate.
- ✓ Group also discussed the possibility of using individual member wise details and thus applying assumptions like mortality, expected rate of return, discount rate etc, in valuing the liability.
- ✓ The group also discussed the disclosure requirements for PF interest rate guarantee

Though mortality improvement topic was initially given to this group but later-on it was clarified that this topic would be discussed by another group.

Topic 5- Public Sector Valuations (The valuation of employee benefit schemes of Public Sector organisations)



- ✓ The group under leadership of **Mr. Y P Sabharwal** discussed move towards strengthening employee benefit liability valuation offered by public sector schemes.
- ✓ The theory has been discussed in recent actuarial seminars but workshop concentrated to generate practical thoughts and ideas of strengthening the provisions carried by public sector enterprises.

- ✓ The study undertaken at public sector banks reveal high Pension and salary increase rate.
- ✓ Whether there is need for issuing GNs and / or APSs at profession level.

Take Aways

Group 1:

- ✓ Re-look on all important aspects of APS 26- for more clarity, standardisation of definitions, etc.,
- ✓ Emphasis on fundamental principles and reporting may be done in more than one way,
- ✓ Synergy amongst various GNs and APSs.

Group 2:

- ✓ Gratuity Limit
- ✓ Data quality
- ✓ Treatment for leave

Group 3:

- ✓ Research paper on Leave availment/ encashment/lapse rates for the Industry
- ✓ Current Service Cost : There should be prescribed methodology through an APS
- ✓ Past Service Cost: Disclosure norms, especially in case of First Time Valuation

Group 4:

- ✓ Appropriateness of deterministic

approach in GN 29 in current circumstances- Comparison with GN 22,

- ✓ Full disclosure be responsibility of Actuaries but to what extent
- ✓ Asset Valuation- AS 15 R 2005 asks for fair value of asset while PF Act asks for Book Value of Asset & Interface with ICAI so that they inform to their members

Group 5 :

- ✓ Salary rise
- ✓ Attrition rate
- ✓ Funding arrangement

Common Issues arose

- ✓ Quality of data received from clients,
- ✓ More explanation and clarity
- ✓ Dissenting voice,
- ✓ Liaisoning with ICAI

Participants' Role

All the participants actively participated in their own group while discussing the topic of their group. In between they prepared presentation and presented with confidence before all the remaining participants.

Role of Trio

Mr. A D Gupta, Mr. Kulin and Mr. Khushwant remained active throughout the workshop. All three provided clarifications whenever the

situation arose. **Mr. A D Gupta** announced that such workshop may be arranged in future in Chennai / Bengaluru depending on the numbers available.

Conclusion

Unlike Seminars, Workshop demanded active participation from the participants, co-ordinators and IAI representatives. The participation was not only during workshop, but before workshop and would extend beyond workshop. There are number of take- aways and IAI through its advisory group on pensions, other employee benefits and social security would like to see their conclusion.

ABOUT THE AUTHOR



Mr. Dinesh Chandra Khansili

is associated with Mithras Consultants. Mithras are engaged in providing actuarial services to their clients, which includes Insurance Companies and Corporates.

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2ND WORKSHOP ON EMPLOYEE BENEFITS PARTICIPANT'S FEEDBACK

Look forward to more of such workshops

All groups performed excellent

Almost everyone came well prepared & shared their views & experience.

Workshops should be followed by a Capacity Building Seminar to address issues raised in the Workshop. This could be within a quarter to make it more impactful.

In general the workshop was well conducted. Participation was full with involvement of the constituents. Organisers have done a commendable job.

This type of workshop are more useful & should be repeated

I suggest to conduct this type of workshop more frequently.

Topics should be less, so as to facilitate more detailed discussions, reducing the time constraints

Such event should also be organised for Life, General & Health as well

Periodically be held at different locations

There is too much of ambiguity for service cost definition especially if new employees should post of service cost

Such workshops should be frequent, at different centres, so that convenience of members of places other than Mumbai is also taken into consideration.

BLOOM TAXONOMY- THE NEW BASIS FOR ACTUARIAL EDUCATION SYSTEM IN THE MAKING

Man is a slow, sloppy, and brilliant thinker; computers are fast, accurate, and stupid.

- John Pfeiffer

Technology is growing; meeting needs of the present and target to meet future requirements. In the process of expansion of technology, computers expand their space to occupy human roles. Professions to visualise and to grow well ahead of technology to maintain their space and keep relevance in future times in spite of it being equipped for meeting all present challenges; the way to make it possible is to make the man a brilliant thinker to outperform computers!

Can the fundamentals change? No, not at all. Then what exactly needs to be done to achieve objectives of challenging future and achieve cutting edge to the actuarial profession? The solution is based on the simple concept of “less rote-learning and more critical thinking” and to be achieved by increasing the depth of the learning topics to the extent of requirements. Defining the depth and level of learning against learning topics is a complex mechanism and the task is already in progress with the Syllabus Review Taskforce under the Education committee of International Actuarial Association (IAA) and targeted to be rolled out some time in the year 2016. The Taskforce include seven members under the chairmanship of Mr. Andrew George Gladwin. Mr. Klaus Matter, who is the chairperson of Education committee is an ex-officio member. The task force has released the draft of the proposed new syllabus on 9th March 2015 by the IAA Education committee and timelines are set for its detailed discussions and feedback at the Zurich meetings in April 2015 and subsequently wider consultations

on refined proposal at the Vancouver meetings in October 2015 which will be submitted for Council approval at the St. Petersburg meetings in May 2016.

The Taskforce will recommend appropriate transition arrangements, taking into account the practical impacts of implementing the new syllabus. The full member associations are encouraged to align their requirements to become a Fully Qualified Actuary (FQA) as close as possible to the new syllabus.

What makes the new proposed system different from the existing one? On the first part, the topics are re-named and re-aligned more strategically and logically as:

2013 IAA Education Syllabus	New proposal
Financial Mathematics	Mathematics
Probability and Mathematical statistics	Assets
Economics	Data and Systems
Accounting	Economics
Modelling	Finance
Statistical methods	Financial systems
Actuarial Mathematics	Models
Investment and Asset analysis	Statistics
Actuarial risk Management	Risk Management
Professionalism	Personal and Professional Practice

Table 1

The new system mainly focuses on models and techniques that can be applied

across a number of practice areas; hence detailed specialist knowledge has been taken out from the syllabus. The specialist topics would be exclusive of the above. This means, some traditional topics like commutation functions applicable to life insurance and similar exclusive applications for other functional areas are not a part of the curriculum above. The more strategic shift of the new proposal is based on the requirement of depth of knowledge and application of the topics which is based on the Revised Bloom's Taxonomy (RBT).

UNDERSTANDING RBT

The Bloom's Taxonomy is after the name of Benjamin Samuel Bloom (21st Feb'13-13th Sep'99) an American Educational Psychologist of University of Chicago who approached the education process holistically by focussing on 3 domains, viz., Affective, Psychomotor and Cognitive. The affective domain represents emotional reactions and personal value impact. The psychomotor domain includes voluntary muscle control, ability to manipulate tools or instruments. The most important one, cognitive domain includes knowledge, comprehension and thinking skills and has taxonomies representing different levels of thinking known as “Bloom's Taxonomy”. According to Bloom's Taxonomy, human thinking skills can be broken into evaluation, synthesis, analysis, application, comprehension and knowledge. The taxonomy is ordered hierarchically such that, the highest level, i.e., evaluation is the highest skill acquired after a student performs all other level/ s in the listing in the same order.

A Taxonomy of Learning, Teaching, and Assessing: A Revision of Bloom's Taxonomy of Educational Objectives,

published in the year 2001 by Prof. Lorin Anderson who was also a student of Prof. Benjamin S Bloom revised the Bloom's Taxonomy to add relevancy to the new century. The Revised Bloom's Taxonomy (RBT) considered the dimension of knowledge and has changed the top two categories, viz., "Evaluation" and "Synthesis" as "Creating" and "Evaluating" respectively. A comparison of old and new taxonomies under:

Old Taxonomy	New Taxonomy
Evaluation	Creating
Synthesis	Evaluating
Analysis	Analysing
Application	Applying
Comprehension	Understanding
Knowledge	Remembering

Table 2

The RBT has also classified knowledge dimensions as:

- Factual knowledge (specific information, can be learned through memorisation)
- Procedural knowledge (how to do something, steps to completing a task)
- Conceptual knowledge (relationships of information, the how and why)
- Metacognitive knowledge (the thought process, how we learn)

The taxonomies and dimensions offers to have 4x6 learning levels as:

Knowledge type	Dimensions					
	1. Remembering	2. Understanding	3. Applying	4. Analysing	5. Evaluating	6. Creating
A. Factual	A1	A2	A3	A4	A5	A6
B. Conceptual	B1	B2	B3	B4	B5	B6
C. Procedural	C1	C2	C3	C4	C5	C6
D. Metacognitive	D1	D2	D3	D4	D5	D6

Table 3

The objectives of dimensions:

- Remembering: Recognising, recalling
- Understanding: Interpreting, exemplifying, classifying, summarising, inferring, comparing, explaining
- Applying: executing, implementing
- Analysing: differentiating, organising, attributing
- Evaluating: checking, critiquing
- Creating: generating, planning, producing

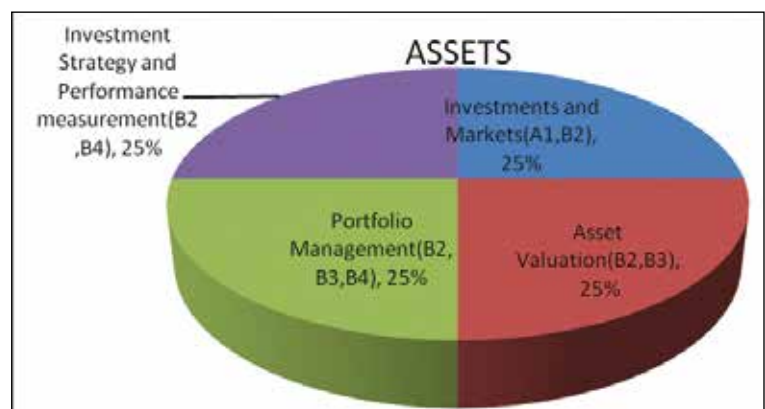
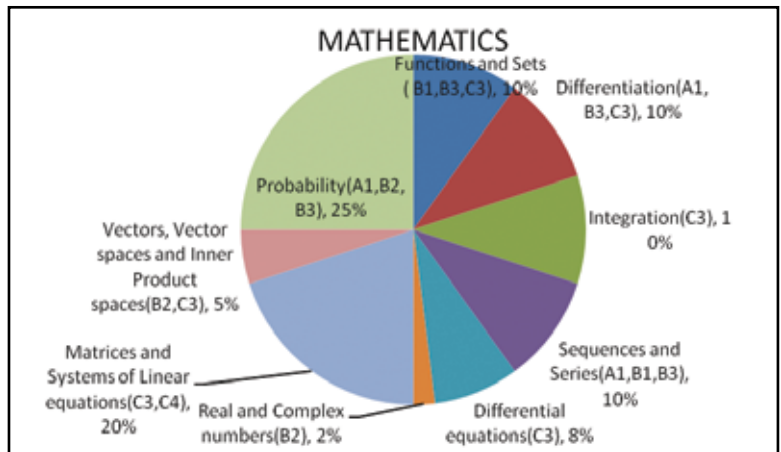
A QUICK GLANCE OVER UPDATED IAA EDUCATION SYLLABUS

The new proposal identifies required knowledge and thinking levels of topics/ sub-topics in table 1 to acquire one or more of the 19 skills in (1) to (6) above by clearly placing in the knowledge/

dimension level in table 3. Each topic also proposes weightage for its sub-sections. Graphical representation of topics/ subtopics with weightage and required dimension and knowledge levels below. A higher level of skill is reflected by a higher combination of knowledge level from (A, B, C, D) with higher level of dimensions in (1, 2, 3, 4, 5, 6) in ascending order. Attaining a higher level combination, the student must have acquired all its lower levels; which means, reaching to C6 level require attaining all previous C levels from C1 to C5. As such, only the higher level of a knowledge category can be possible in a sub-section; different levels appearing in the same sub-section refers levels to its different parts.

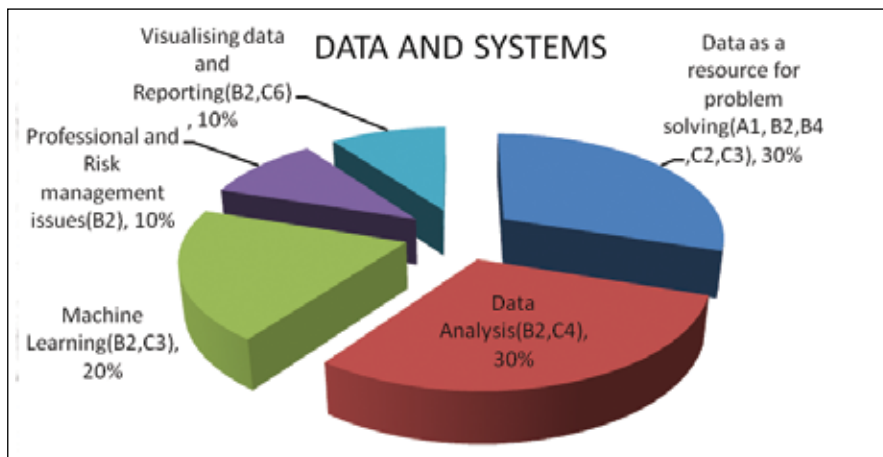
Graph 1

Aim: To give students and adequate mathematical foundation to develop and apply the additional mathematical skills required for success in subsequent actuarial education



Graph 2

Aim: to enable students to apply asset valuation techniques and investment theory to actuarial work.

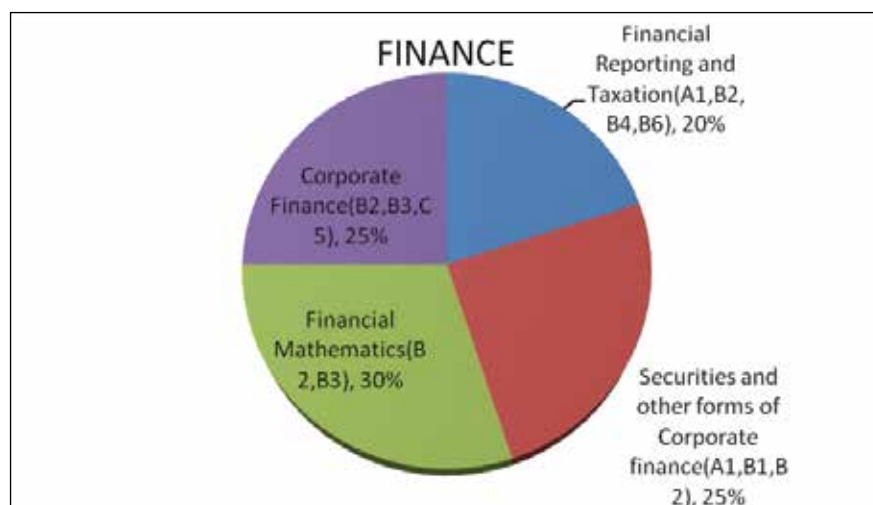
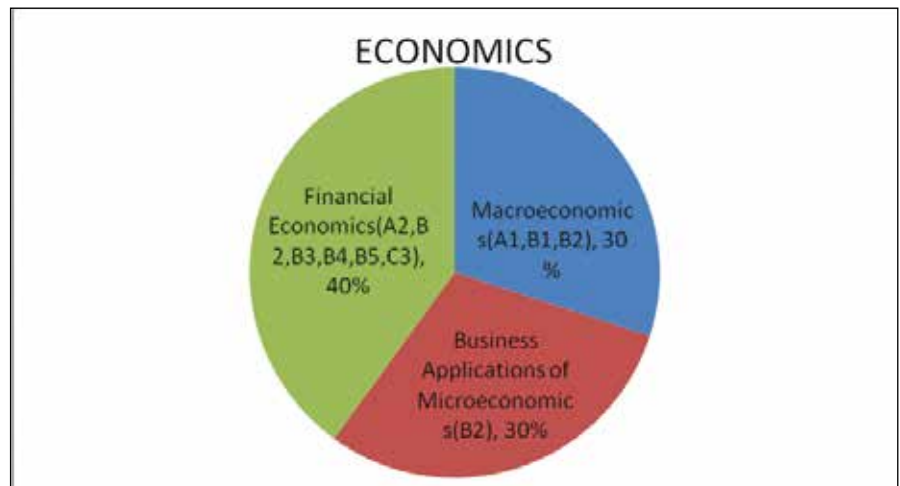


Graph 3

Aim: To enable students to apply methods from statistics and computer science to real-world data sets in order to answer business and other questions.

Graph 4

Aim: to enable students to apply the core principles of microeconomics, macroeconomics and financial economics to actuarial work

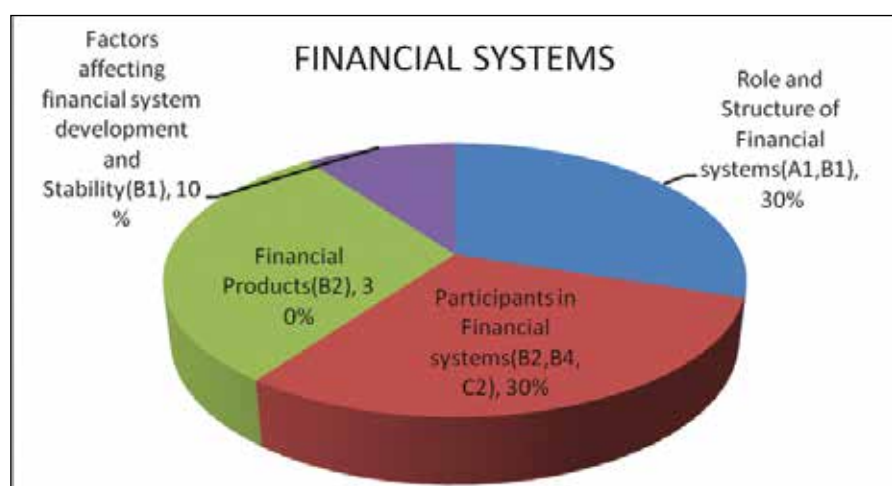


Graph 5

Aim: to enable students to apply the core principles of financial theory, accounting, corporate finance and financial mathematics to actuarial work

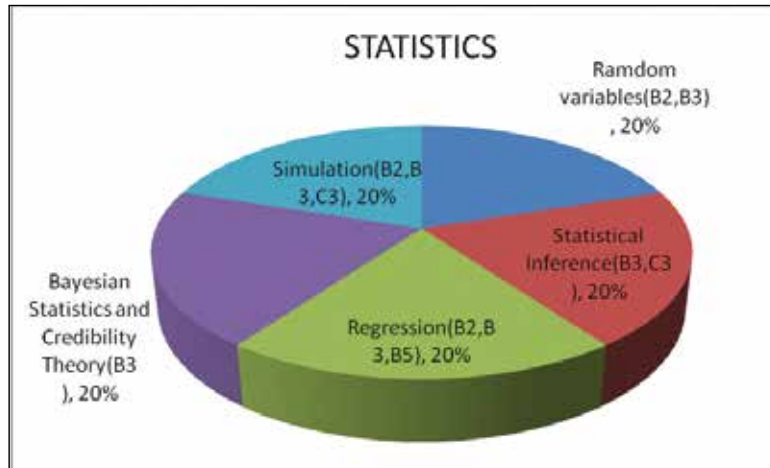
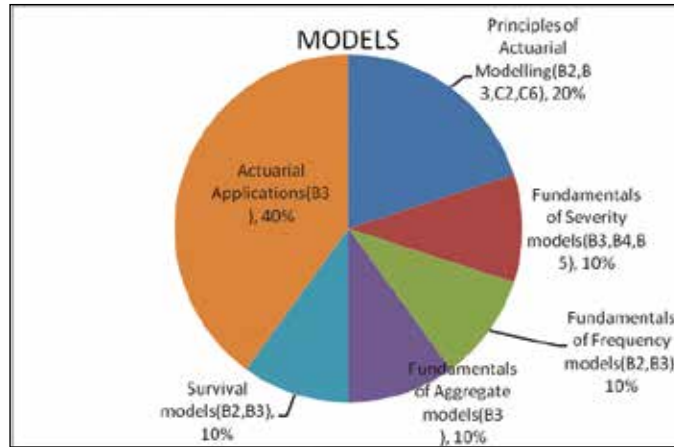
Graph 6

Aim: to give an overview of the financial environment in which most actuarial work is undertaken.



Graph 7

Aim: to enable students to apply stochastic processes and actuarial models to actuarial work

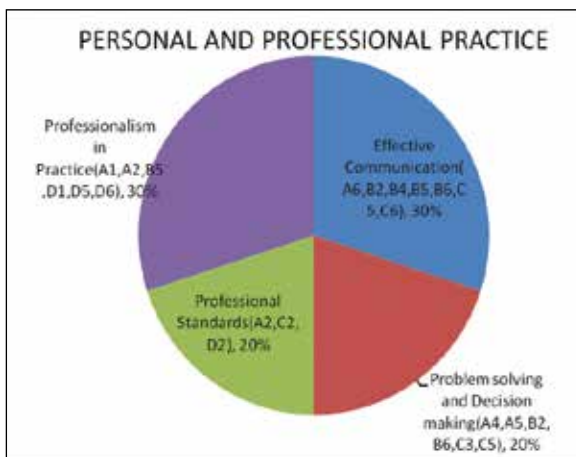
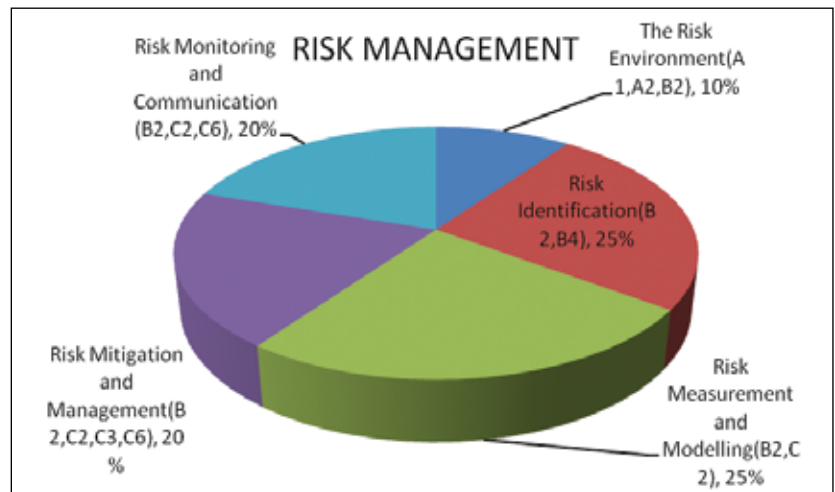


Graph 8

Aim: to enable students to apply core statistical techniques to actuarial problems

Graph 9

Aim: to enable students to apply core aspects of enterprise risk management to the analysis of risk management issues faced by an entity, and to recommend appropriate solutions.



Graph 10

Aim: To acquire use of enabling skills and professional requirements to improve students' actuarial work products.

ABOUT THE AUTHOR



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SERVICE TAX – (NON) APPLICABILITY FOR ANNUITY – RETURN OF PURCHASE PRICE OPTION

Background: The Department of Revenue, Ministry of Finance has included Insurance premium paid towards Life Insurance policies in the ambit of service tax. Service tax is 12.36% on Unit-Linked Insurance Policies (only on charges, such as mortality and administration), 3.09% on traditional savings products including Single Premium Immediate annuities and 12.36% on term plans. The 12.36 % has been changed by the recent budget to 14 %.

The following article discusses one specific option provided under Single Premium Immediate annuities by Insurers – Return of Purchase Price (ROPP). The article attempts to prove as to why service tax should be removed under ROPP option in respect of Single Premium Immediate annuities.

The article does not try to comment on aspects of service tax applicability for other life insurance products.

Discussion:

"As per Clause 44 of Section 65B of Service Tax - Chapter V of the Finance Act, 1994"

(44) "service" means any activity carried out by a person for another for consideration, and includes a declared service, but shall not include—

- (a) an activity which constitutes merely,—
 - (i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or
 - (ii) a transaction in money or actionable claim;
- (b) a provision of service by an employee

to the employer in the course of or in relation to his employment;

- (c) fees taken in any Court or tribunal established under any law for the time being in force."

We now look at the Service tax guide issued by the Ministry of Finance in June, 2012:

As per 4.14 of Service tax guide

"transaction in money : ...This would include transactions in Commercial Paper ('CP') and Certificate of Deposit ('CD') (on the understanding of being in the nature of promissory notes), issuance of drafts or letters of credit etc..."

"...Explanation 2 to clause (44) of section 65B has to be kept in mind which clarifies that transaction in money does not include any activity in relation to money by way of its use or conversion by cash or by any other mode, from one form, currency or denomination to another form, currency or denomination for which a separate consideration is charged..."

As per 2.8 of Service tax guide

"...2.8: Transactions only in money or actionable claims do not constitute service
2.8.1 What kind of activities would come under 'transaction only in money'?"

- The principal amount of deposits in or withdrawals from a bank account.
- Advancing or repayment of principal sum on loan to someone.
- Conversion of Rs 1,000 currency note into one rupee coins to the extent amount is received in money form..."

Therefore it is clear from (a) (ii) of section 65B above that any transaction in money or actionable claim is excluded from the

definition of services & 2.8 of service tax guide includes "principal amount of deposits" with bank under "transaction in money".

The section explains the logic used to estimate the Interest rate payable for a fixed amount deposited in a Bank & also the logic used to estimate the annuity rate payable for a fixed Purchase price bought under ROPP option from an Insurer.

Section 1:

Price of a Fixed deposit which pays interest at regular frequency (quarterly, yearly, etc) and returns Fixed deposit at the end of the term

Notations: P = Fixed deposit, C = interest rate paid at regular intervals, i = discount rate used to calculate 'C' for a given 'P', $v = 1/(1+i)$, Let n be the term to maturity

Typically all financial products which have income streams are valued using Present value technique i.e. calculate the value of all future incomes & future outgoes and equating their current values.

For the above product, it comes to:

$$P = C \cdot v + C \cdot v^2 + \dots + (P+C) \cdot v^n$$

$$\Rightarrow P(1-v^n) = C(v + v^2 + \dots + v^n)$$

$$\Rightarrow P(1-v^n) = C(1-v^n)/i \quad (\text{Since Sum of } n \text{ Geometric progression series can be deduced})$$

$$\Rightarrow P = C/i$$

$$\Rightarrow C = P \cdot i$$

Important note: The above equations use a fixed discount rate to calculate P. The formula is equally valid even if spot yield curve is used to calculate P. Using variable to fixed interest rate swaps, we can always convert spot yield curve into a fixed swap rate "i" & then use "i" to calculate P in the

equation above.

We can notice that the above formula is independent of n - term to maturity.

Banks take care of their expenses & their exposure to risks by the margins between the interest rate paid on fixed deposits (lower rate) and interest rate banks charge on their Assets (higher rate). For example, if banks charge (say) 10.5% of loans taken from banks, they may pay (say) 9% of Fixed deposits giving them a margin of 1.5% to manage their expenses and profits. This is called "Net interest Margin" (NIM). There are investment related issues that trouble banks all the time such as Credit risk (risk that the borrowers from bank do not pay back their dues in time) and ALM - Asset liability mismatching risk (this risk includes liquidity risk, reinvestment risk & market risk). ALM risk occurs when Banks are not able to match their incomes & outgoes exactly in amount & timing. Banks may deliberately attempt to mismatch due to perceived value of profit from mismatching or sometimes assets may not be available to enable exact matching of income & outgoes.

Whatever may be the reason for ALM risk & credit risk, Banks have to manage them & they typically increase their NIM to take care of both the risks mentioned above.

Section 2:

Price of Annuity with Return of Purchase Price Option (ROPP): For a given Purchase Price, policyholder receives annuity at regular frequency & the nominee receives return of Purchase price upon death of the policyholder.

Notations: P = Purchase Price, C = annuity paid at regular intervals - it is annual in this example, i = discount rate used to calculate 'C' for a given 'P', $v = 1/(1+i)$

Other notations unique to insurance industry: q_x = probability of person aged 'x' dies in year between x & $x+1$, $p_x = 1 - q_x$, tp_x = probability of person aged 'x' is alive at age 'x+t'.

Typically all financial products which have income streams are valued using Present value technique i.e. calculate the value of all future incomes & future outgoes and equating their current values.

For the Annuity (ROPP) product, it comes to :

$$P = P \cdot q_x \cdot v + P \cdot p_x \cdot q_{x+1} \cdot v^2 + \dots + P \cdot t_{n+1} \cdot p_x \cdot q_{x+n+1} \cdot v^{(n+1)} + \dots$$

$$+ C \cdot v + C \cdot p_x \cdot v^2 + \dots + C \cdot t_{n+1} \cdot p_x \cdot v^{(n+1)} + \dots$$

(The reason C is not multiplied by p_x in the term " $C \cdot v$ " is that C is payable upon both survival & death. The same is the case for other terms in the equation involving " C ")

$$\Rightarrow P = P(Ax) + C \cdot v \cdot \ddot{a}_x$$

$$\Rightarrow P(1 - Ax) = C \cdot v \cdot \ddot{a}_x$$

$$\Rightarrow P(1 - Ax) = C \cdot v \cdot (1 - Ax) / (i \cdot v)$$

{ Since $\ddot{a}_x = (1 - Ax) / (i \cdot v)$ }

$$\Rightarrow P = C / i$$

$$\Rightarrow C = P \cdot i$$

Please note that the annuity rate is independent of probability factors. Other important thing to note is that if the discount rate " i " is kept as same as that being offered by Banks, the annuity payable for a given Purchase price is same as interest payment made by Bank on Fixed deposit.

We need to understand that q_x , p_x , tp_x , Ax & $\ddot{a}_x$ are expected values and in real world all of them are random variables, the above proof holds even then as p_x and q_x are directly related to each other & other variables are only derived from q_x & p_x .

Although ' C ' is independent of probability factors, the value ' i ' (viz. interest rate used to discount annuity payments) is dependent on other factors, factors which are common to both Insurance Company & Bank; expense margin, credit risk and ALM risk. " i " is reduced to allow for the 3 main components mentioned in pricing such a product.

It needs to be specified that expense margin, credit risk and ALM risk are **indirectly related to longevity**. For example, if the Insurance Company invests short assuming annuitants are going to die early, there is a risk that annuitants live longer thereby forcing the Insurer to reinvest (Reinvestment risk) at unknown future interest rates. Similarly, if the Insurance Company invests long assuming annuitants are going to live longer, there is a risk that annuitants die early thereby forcing the Insurer to liquidate (Liquidity risk) its assets when

asset prices are low. In addition, impact of inflation on future expenses is unpredictable for longer durations compared to shorter durations.

But same is true even for banks. There is always an option for the depositor to withdraw the money anytime before the end of the term. Banks normally deduct a few per cent from the Fixed deposit upon such withdrawal. Withdrawals are a source of uncertainty for Banks and greatly influence their ALM decisions.

For comparative case, under ROPP option probability of death & probability of surrender are both sources of uncertainty for Insurers.

As discussed earlier, just as withdrawals influence ALM decisions for Banks, longevity & surrenders influence ALM decision for an Insurer under a ROPP annuity contract. The pooling concept which is omnipresent in other insurance products no longer exists in ROPP annuity contract. In other words, **if we can assume that all the policyholders in an ROPP product have a maximum age upon which the purchase price is returned inevitably (typically we can be sure that all the policyholders would have died by age 120) then there is absolutely no difference between a Fixed deposit of Bank with term equal to 120 less age at entry & an ROPP annuity product sold by any Insurance company.**

The decrement in the form of withdrawal from a Fixed deposit in Bank is similar to the combined decrements of deaths & surrenders in ROPP annuity product as there is no pooling of longevity risk under ROPP contract albeit withdrawal rate from a fixed deposit would be different from the combined death & surrender rate in an ROPP annuity product.

The only difference between risks faced by Banks and risks faced by Insurance companies in the above product is that Banks have shorter term for their liabilities where as liabilities of an Insurance Company are long term in nature.

We further look at the Service tax guide issued by the Ministry of Finance in June, 2012

From 2.6.3- composite transactions -

where a service & sale occur at the same time.

“...The following principles emerge from the said judgment for ascertaining the taxability of composite transactions-

- Except in cases of works contracts or catering contracts [exact words in article 366(29A) being – ‘service wherein goods, being food or any other article of human consumption or any drink (whether or not intoxicating) is supplied in any manner as part of the service’] composite transactions cannot be split into contracts of sale and contracts of service.
- The test whether a transaction is a ‘composite transaction’ is that did the parties intend or have in mind that separate rights arise out of the constituent contract of sale and contract of service. If no then such transaction is a composite transaction even if the contracts could be disintegrated.
- The nature of a composite transaction, except in case of two exceptions carved out by the Constitution, would be determined by the element which determines the ‘dominant nature’ of the transaction.
- If the dominant nature of such a transaction is sale of goods or immovable property then such transaction would be treated as such.
- If the dominant nature of such a transaction is provision of a service then such transaction would be treated as a service and taxed as such even if

the transaction involves an element of sale of goods.

- If the transaction represents two distinct and separate contracts and is discernible as such then contract of service in such transaction would be segregated and chargeable to service tax if other elements of taxability are present. This would apply even if a single invoice is issued.

The principles explained above would, mutatis mutandis, apply to composite transactions involving an element of transfer of title in immovable property or transaction in money or an actionable claim. ...”

In short, the above excerpts conclude that whenever a contract sold is composite in nature viz. contains characteristics of more than one type (for instance service & sale of property, service & money transaction, etc) and is difficult to segregate one type from the other then the contract is classified based on the dominant characteristic of the contract. The last sentence of the excerpt is specifically important so as to mean that composite transactions in respect of “transaction in money” can also be tested using ‘dominant nature test’.

Conclusion:

Apparently, an ROPP annuity is not a “transaction in money” item as it is just one of the options among the myriad other options given by Insurers to the policyholders at the time of purchasing an annuity.

But the discussion above is an earnest attempt to prove that the dominant nature

of ROPP annuity product resembles Banks’ “Fixed deposit” which is classified under “transaction in money”.

In view of the above discussion, the article requests the Industry Supremes, Life Insurance Council & the Regulator to liaise with Ministry of Finance to reconsider the below sub clause (Zx) to exclude ROPP option under Single premium immediate annuity plans from the ambit of service tax.

Sub clause (Zx) of clause 105 under sec 65 of Service tax Act includes service done to policyholder by Life Insurance Company as taxable service.

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VOLUNTEERING OPPORTUNITIES

IAI invites its fellow members and qualified actuaries of IFoA, UK and IAA, Australia to join in its Volunteering Opportunities Initiative. Through this platform, members will be able to share ideas, gain a broader perspective and experience of work outside their own specialist area, through networking with peers, gain CPD hours and be able to give something back to the profession. We invite members who respect the IAI values and what it stands for and wish to take the profession to newer heights of success through their willingness to share their knowledge and/or skills by working in partnership with peers/colleagues.

If you are interested in applying, please visit our website for more details : www.actuariesindia.org



Ms. Annette Heninger in conversation with Ms. Fiona Morrison - President-elect, IFoA, UK

? Fiona, could you please provide some insights on how you started your professional career and how your careers have evolved to your current roles at the Institute and Faculty of Actuaries (IFoA), UK?

 After graduating in Mathematics at Selwyn College, Cambridge I joined Lane Clark & Peacock LLP, which is where I have worked ever since. In my day job I am a pensions partner and the Scheme Actuary to a number of pension schemes. I also chair LCP's Professional Committees which are responsible for all decisions and policies of a professional nature.

I have been an active volunteer with the IFoA for many years, holding positions on the Council and the Regulation Board, which is responsible for the IFoA's professional and ethical standards. I am also a Court Assistant of the Worshipful Company of Actuaries, having served as a Trustee of the Charitable Trust from 2004 to 2012. I became President-elect of the IFoA on 30 June 2014 and will take on the role of President in June 2015.

? Fiona, could you please provide some background about your everyday roles and responsibilities as the President-elect of the IFoA?

 I have become much busier since becoming President-elect last year! My role as President-elect is primarily an ambassadorial one. I go to many events on behalf of the IFoA and aid in the building of relationships with many stakeholders and other actuarial associations. I also like to meet as many of our members as possible.

I am also the Presidential team member responsible for India. As figure head of profession, my role is to promote the role of actuaries and actuarial science.

? Fiona, could you please share with us your thoughts on how the actuarial profession has evolved since the time you started your career? Do you believe that the skill set of actuaries has become more diversified since over the years, in response the demand of non-traditional / new-age actuarial roles? Or, have you seen actuaries become increasingly focused on specializing and refining their skill sets in the traditional actuarial roles?



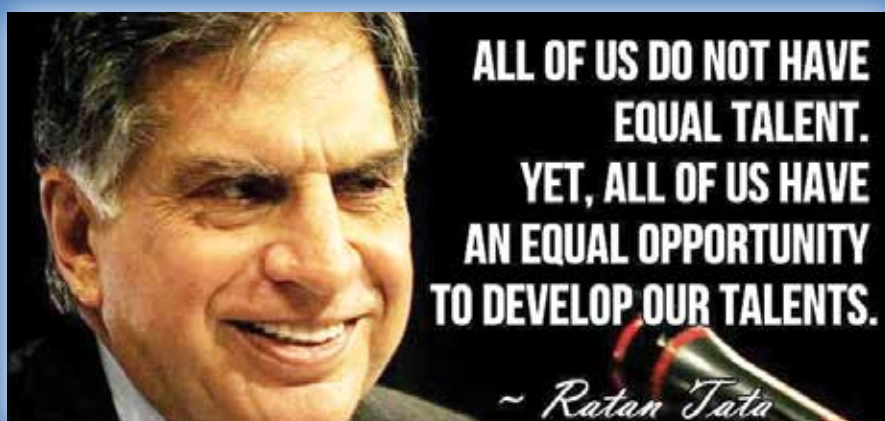
Actuaries will continue to play an important role in pensions which is the area I work in. Actuaries working in all practice areas have a key role to play in asking the right questions, understanding and communicating risk and looking at the long term impact of decisions that are made today on the future. Actuaries are able to work with complex data to provide a clear picture for our clients and employers, which is a skill that is valuable in all practice areas.

I see the pensions actuary's role as evolving rather than dramatically changing. The scheme actuary still has responsibilities to the trustees which, in essence, have remained unchanged. Although scheme circumstances may be different, the scheme actuary will undertake the same duties and with the same professional care.

In my Presidential year I would like to promote actuaries into non-traditional roles. As we are starting to see happen, the actuarial skillset can be used in so many more areas than it is currently and so this is something I want to focus on.

I would like to develop a clear, concise and easily digestible articulation of what an actuary is and the value they can add to a business. I think it is really important to showcase to non-actuaries what actuaries do so they have a better understanding and hence better appreciation for the work we do and the value we bring to the organisations in which we work.

Organized by **Mr. Karthik Raja**
Karthik.Raja@Cignatrk.in





Ms. Annette Heninger in conversation with Mr. Derek Cribb

- Chief Executive, IFoA, UK



Derek, could you please provide some insights on how you started your professional career and how your careers have evolved to your current roles at the Institute and Faculty of Actuaries (IFoA), UK?



After gaining a numerate degree, I joined Deloitte on one of their accountancy programmes. I knew at that point that accountancy wasn't necessarily where I wanted to be career-wise but a professional training and a professional qualification was always going to be of help. I chose the particular role at Deloitte to gain my qualification as it was broader than just an audit role. It was across multiple sectors, with an international element as well.

Having qualified, I was keen to develop my business understanding so I left Deloitte, and found my niche in change management which is what I've been doing ever since, working across all industry sectors and business types such as private equity and not-for-profit. A lot of my experience has been in business improvement and business change, and that's how I ultimately ended up here as Chief Executive at the IFoA when the Institute of Actuaries merged with the Faculty of Actuaries in 2010.

I've been working in financial services pretty much all of my career, having been a CFO for Barclays Retail and working in merchant banking for example. Before I joined the IFoA I was at the Pensions Protection Fund, so it was a natural fit for me here and I was able to hit the ground running.



Derek, could you please provide some background about your everyday roles and responsibilities as the

Chief Executive of the IFoA?



We have 150 staff members and I oversee the operational leadership of the organisation. I make sure the executive understand strategy, and that it's implemented. The overarching strategy is owned by Council, but strategy development comes from throughout the organisation, volunteers and the senior executive function as well.

I do a lot of international work to raise awareness of actuarial science, so I spend a lot of time meeting regulators and other stakeholders in our key international markets and also in emerging markets, building the profile of actuaries and actuarial science. A subsidiary of that is building the work of the IFoA.



Derek, being a qualified Chartered Accountant and having started your career in Audit, how do you draw parallels between your professional experience and the actuarial profession? Could you please share with us your views on the evolution of the actuarial profession over the years? Also, please share with us your experiences of working with actuaries at the different stages of your career. How do you see actuaries collaborating with other professionals currently and in the future?



When I qualified as an accountant in 1992 you joined an audit team or a tax team, there was very little else out there. I think there were about six people doing consultancy out of 1,000 people in London. Accountants have been very quick to diversify actually so now a majority of accountancy firms have their people in broader consultancy. In terms of using your skills set in a wider business environment, I think the accountants have taken

the lead.

Actuaries are beginning to recognise the benefits of working in wider fields. Pensions and Life Insurance were the traditional markets for actuaries and there was very little outside that, except for a bit of investment work. But we are now seeing a growth in other fields. General Insurance is our fastest growing of the major fields, but there is also risk management which from a very small base has seen double digit growth, and the same with Health and Care. We are seeing more actuaries working outside their core actuarial function and I think this will continue as there are huge opportunities there.

However, it's important if we want to broaden and create more opportunities that our members don't price themselves out of the market. People view the actuarial qualification, whether that's Analyst, Associate or Fellow, as very hard to get, so people will expect a very high quality person coming out of those qualifications and I think that expectation drives the initial salary a person can achieve. But the expectation of the qualification is just your entry to the role, it's what you do with it after that really counts.

We have some fantastic examples of people in very senior roles. For example Benny Higgins, one of our Fellows, is Group Strategy Director of Tesco and the Chief Executive of Tesco Bank. People don't think of him as an actuary necessarily, but the value he adds to the business in his group strategy role in one of the largest organisations in the UK. In the future I would expect more and more of our members in these broader roles.



Derek - The work based skills program is a great catalyst in en-

ensuring the all-round development of actuarial students who are already employed. However in India, there is an increasing number of actuarial students who started appearing for and passing actuarial exams while still in college. While these students develop theoretical actuarial knowledge by passing actuarial exams, there is a definite need for them to also have some basic practical and professional skills.

Could you please advise such actuarial students on what kind of skills they should look to develop in addition to focusing on actuarial exams? Also, does the IFoA plan to develop a basic practical and professional skills training program for new actuarial students, which they should look to complete within the first year of enrolment and which could be complementary to the work based skills program?



We advise new students to take CT9 Business Awareness which is an introduction to understanding the financial services sector in which they will operate. It includes an introduction to business strategy, legal background, an interactive business game and a professionalism case study session, as well as background on the financial services sector from a senior practitioner.

In addition new students have to pass OPAC, the online professionalism awareness test. This is in addition to the work based skills requirement. However we are not developing specific courses as we expect students to complete their work based skills and the only place you can do this is on the job.

After students have about three to four core technical exams, that seems about the right time for them to be getting into a job in the Indian market. If you do more

than that you may struggle to achieve the salary you want and you may find yourself doing work with people with less qualifications. It can be difficult for employers because people who have over-qualified exam-wise compared to their work experience are hard to fit into the matrix that employers work in.

Being an actuary or an analyst is not an academic qualification, it's a business qualification. That's why the business skills are so important and students need complete their work based skills as part of the qualification process.

When we get the opportunity to deliver training at places like the Global Conference in India we will always focus on business or softer skills rather than technical because that's where the demand is coming from employers.

Organized by **Mr. Karthik Raja**
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FUNNYACTUARY

Two people are flying in a hot air balloon and realize they are lost. They see a man on the ground, so they navigate the balloon to where they can speak to him. They yell to him, "Can you help us – we're lost." The man on the ground replies, "You're in a hot air balloon, about two hundred feet off the ground." One of the people in the balloon replies to the man on the ground, "You must be an actuary. You gave us information that is accurate, but completely useless." The actuary on the ground yells to the people in the balloon, "you must be in marketing." They yell back, "yes, how did you know?" The actuary says, "well, you're in the same situation you were in before you talked to me, but now it's my fault."

(Submitted by David Fountain at fountain@supernet.net & John Dinius and Stacey Haws at shaws@gwic.com)



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

MANY HAPPY RETURNS OF THE DAY

the Actuary India wishes many more years of healthy life to the fellow members whose Birthday fall in April 2015

MR A BALASUBRAMANIAN

MR. SAMBASIVA I RAO

MR. M U UPADHYAYA

MR SAMPAD N BHATTACHARYA

23RD INDIA FELLOWSHIP SEMINAR

DATE : 18th, 19th & 20th June, 2015

VENUE : Hotel Sea Princess, Juhu Tara Road, Juhu Beach, Santacruz (West), Mumbai – 400 049.

PROGRAMME TYPE	Non-Residential
CPD CREDIT	8 hours, as per APS 9
PARTICIPATION FEE	Rs. 10,000/-+12.36% Service Tax (Indian Rupees Ten Thousand Only) for Fellows attending for CPD. Rs. 15000/- +12.36% Service Tax (Indian Rupees Fifteen Thousand Only) for Students/ Affiliates attending for admission as Fellows. Login to your account on IAI website to Pay online and Register online (Kindly ensure that your subscription is up to date for the year 2015-16.)
PARTICIPANTS	The programme is open to; 1) All IAI Members for CPD requirement under APS 9; 2) Student Members who have passed all the examinations or are close to qualifying as FIAI for fulfilling requirement for admission as FIAI. 3) Affiliate Members as a requirement for admission as FIAI.
REGISTRATION AND CONDITIONS	Login to your account on IAI website and Register latest by 7 th May, 2015 On successful completion of payment you will receive receipt. In view of the fact that all participants have to be assigned roles and responsibilities, there will be NO registrations after 7th May, 2015

LEADERSHIP DEVELOPMENT PROGRAM (LDP6)

Topic	: Leadership and Team Development for Greater Success
Date	: 4 & 5 June, 2015
Venue	: Central Blue Stone, Plot No. 358-359, Sec-29, City Centre, Gurgaon 122002.
Timings	: Day 1: 10:00 am to 6:00 pm & Day 2: 08:30 am to 4.30 pm

Framework:

- Understanding leadership styles and developing acumen to adapt according to the demands of situation.
- Understanding and developing an ability to align vision with the individual team members for better performance.
- How to integrate leadership and managerial roles understanding; when to be a leader and when to be a manager.
- Understanding and distinguishing the different team types
- How to explore the principles that make a particular team work.
- Understanding decision making tools for strategic decisions.

Who should attend?

The event is meant only for active members of **Institute of Actuaries of India**. This course is designed to suit individuals and managers who need to lead team, manage people, and communicate effectively.

Course Content:

- What makes a Great Leader
 - o Effective Delegation
 - o Team Building
- Leader as a Manager of People
 - o Decision Making
 - o Managing Skills
- Leader as a Facilitator of Organizational Change
- Leader as a Motivator
- Leader as a Strategic Thinker

Methodology

This intensive two-day training program combines proven-in-action techniques with peer interaction and insights from our senior experienced faculty to help you master the competencies of effective leadership. Each aspect will be covered through interactive discussions, as well as practical activities and case studies. This highly interactive program offers participants individualized assessment through personal feedback session.

[Feedback & Reportage of Previous LDP events in Mumbai & Gurgaon](#)

General matters:

- **Participation Fees:** Rs. 9000/- (+12.36% Service Tax) (Includes Lunch on both the days & Course ware)
- **Registration date:** Starts from 8 April, 2015 & Ends on 20 May, 2015
- **Capacity: Limited to 20**, admission will be on **first-come-first served** basis subject to receipt of payment. This is a non residential program.
- **Register at:** <http://actuariesindia.org/SeminarRegistration.aspx>
- **Contact:** Quintus Mendonca at quintus@actuariesindia.org for any assistance.

Opportunity to Join as an Appointed Actuary in India's First Wholly Owned Private Life Insurance Company

Sahara India Life Insurance Company is India's first wholly owned private Life Insurance Company with an exhaustive range of competitive products/plans that cater to everyone from all segments of society along with prompt and quality customer services and support.

We are looking for a suitable candidate for the post of Appointed Actuary who will be responsible for providing impartial advice in relation to the life Insurance company's operations, financial condition, capital base, prescribed capital amount and policy liabilities.

We believe that it is the ultimate responsibility of our Board to enable its

Appointed Actuary to undertake his or her responsibilities with perfection.

Candidates who are a Fellow of Institute of Actuaries of India with the Certificate of Practice required for appointment of Appointed Actuary in a Life Insurance Company and are under the age of 65 years with at least 2 years of post Fellowship experience out of 10 years relevant experience in life Insurance activities need apply.

Compensation package will commensurate with post qualification experience and will be as per the industry standards.

Position is at Lucknow Corporate Office of Sahara India Life Insurance Co. Ltd.

URN: SaharaLife/2014-15/30



Sahara India Life Insurance Co. Ltd.

Please write to us or contact us at:

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IRDA of India Registration No. : 127

IND AS

Ind AS is going to be applicable soon and this will be a step in direction of converging with IFRS. It will be a boost to both Accounting as well as Actuarial profession it is worthwhile to see how one can cope with the requirements of IND AS 19 which applies to the employee benefit liability accounting.

Under AS 15 the charge for the year also include change due to the assumed cost not matching with the actual cost due to actuarial gain/loss accounted in the Income Statement (P&L), Ind AS 19 puts burden on the actuaries to accept and choose assumptions provided by the employer which may not deviate substantially from the actual scenario, if it happens then the stake holder will not be able to appreciate proper charge for the retirement benefit which is accounted in the revenue (P&L) account as any deviation in the projected cost vis-à-vis the actual cost (actuarial gain/loss) is not taken as a charge for the year but is taken directly to the Other Comprehensive Income (OCI).

This will entail more discussion with the companies and more analysis of the trend will have to be done so as to arrive at an assumptions which may give a true cost year on year.

As seen in the developed countries, India will also need army of student analyst and qualified Actuaries who can give justice to the requirement of the accounting standard bestowed on our profession.

Stating all these, let us look at the provisions and other modalities of Ind AS 19.

1) Purpose: - As per Notification of MCA dated 16th February 2015, MCA have given roadmap for applicability of Ind AS to various companies. These standards are prepared in line with International Financial Reporting standards, so increase the transparency and comparability in financial statements of various companies. Ind ASs are modified version of IFRS/IAS with some carve outs as per Indian economic scenarios.

2) Adoption Date: - As per MCA roadmap

- Any Company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015 with comparative figures of 31st March, 2015, or thereafter.
- Listed & Unlisted Companies with Net worth 500 Crores or more shall follow Ind AS from accounting period starting on or after 1st April, 2016 with comparative figures of 31st March, 2016.
- Listed Companies with Net worth less than 500 Crores & Unlisted Companies having net worth 250 Crores or more but less than 500 Crores shall follow Ind AS from accounting period starting on or after 1st April, 2017 with comparative figures of 31st March, 2017.

Applicability: - will apply to holding, subsidiary, joint venture or associate companies also. Once Ind AS is applicable company

have to prepare standalone as well as consolidated standard as per Ind AS only.

Provided that companies whose securities are listed or are in the process of being listed on SME exchange are not required to comply with Ind AS mandatorily as per sub clause (ii) & (iii) above, though they can comply with Ind AS voluntarily as per sub clause (i) above.

Exemption:- The insurance companies, banking companies and non-banking finance companies shall not be required to apply Indian Accounting Standards (Ind AS) for preparation of their financial statements either voluntarily or mandatorily.

Companies to which Ind AS is not applicable should have to follow Accounting Standards specified in Annexure to the Companies (Accounting Standards) Rules, 2006.

3) Significant changes in Ind AS 19 compared to AS 15:-

- Expected return on assets will be same as Discount rate used for valuation of obligation and Net interest cost to be calculated on Net Liabilities/ assets.
- Discount Rate should be used with reference to market yields at the end of reporting period on government bonds. However, Subsidiaries, associates, joint ventures and branches domiciled outside India market yields on high quality corporate bonds, but if no deep market than use government bonds.
- For Post-retirement benefit plans (example Gratuity, Pension & PRMB) Actuarial Gain/ Loss will be taken to Other Comprehensive Income and not to be reclassified into Profit & Loss in subsequent period whereas AS 15 required it to be recognized in Profit & Loss.
- For Other long term benefits (example compensated absences & long service award) Actuarial gain/ loss continues to be recognized in Profit & Loss. Hence, recognition criteria remain same in Ind AS 19 as was in AS 15.
- Past service cost to be recognized in Profit & Loss in year of occurrence. Ind AS 19 doesn't differentiate between vested & non-vested past service cost recognition.

Recognition and measurement of post-employment benefits:-

(Amounts in INR)

EXAMPLE GRATUITY/ PENSION/ POST-RETIREMENT MEDICAL BENEFIT		
	AS 15	Ind AS 19
Valuation Assumptions (Opening)		
Discount Rate	9.25%	9.25%
Expected Return on Assets	8.70%	9.25%
Salary Escalation	6.50%	6.50%
Valuation Assumptions (Closing)		
Discount Rate	8.00%	8.00%
Expected Return on Assets	8.70%	8.00%
Salary Escalation	6.50%	6.50%
Change in PV of Defined Benefit Obligation		
Opening PV of Define Benefit Obligation	1,000	1,000
Interest cost	93	93
Current service cost	125	125
Benefit Paid from fund	(28)	(28)
Actuarial (Gain)/ Loss	110	110

	AS 15	Ind AS 19
Closing PV of Defined Benefit Obligation	1,300	1,300
Change in the Fair Value of Plan Assets		
Opening Fair value of Plan Assets	900	900
Expected return on assets	78	83
Benefit paid	(28)	(28)
Actuarial Gain/ (Loss)	(10)	(15)
Closing Fair value of Plan Assets	940	940
Amount Recognized in Profit & Loss		
Interest cost	93	93
Current service cost	125	125
Expected Return	(78)	(83)
Actuarial (Gain)/ Loss on Obligation	110	-
Actuarial (Gain)/ Loss on Assets	10	-
Total Expense recognized in Profit & Loss	260	135
Amount Recognized in Other comprehensive Income		
Actuarial (Gain)/ Loss on Obligation	-	110
Actuarial (Gain)/ Loss on Assets	-	15
Total Amount recognized in OCI	-	125
Amount Recognized in Balance Sheet		
Closing PV of Defined Benefit Obligation	(1,300)	(1,300)
Closing Fair value of Plan Assets	940	940
Net (Liability)/Asset Recognized in the Balance Sheet	(360)	(360)

Recognition and measurement of other long term benefits:-

(Amounts in INR)

Example Compensated absences/ Long service award		
	AS 15	Ind AS 19
Valuation Assumptions (Opening)		
Discount Rate	9.25%	9.25%
Expected Return on Assets	8.70%	9.25%
Salary Escalation	6.50%	6.50%
Valuation Assumptions (Closing)		
Discount Rate	8.00%	8.00%
Expected Return on Assets	8.70%	8.00%
Salary Escalation	6.50%	6.50%
Change in PV of Defined Benefit Obligation		
Opening PV of Define Benefit Obligation	1,000	1,000
Interest cost	93	93
Current service cost	125	125
Benefit Paid from fund	(28)	(28)
Actuarial (Gain)/ Loss	110	110
Closing PV of Defined Benefit Obligation	1,300	1,300
Change in the Fair Value of Plan Assets		
Opening Fair value of Plan Assets	900	900
Expected return on assets	78	83
Benefit paid	(28)	(28)
Actuarial Gain/ (Loss)	(10)	(15)
Closing Fair value of Plan Assets	940	940
Amount Recognized in Profit & Loss		
Interest cost	93	93
Current service cost	125	125
Expected Return	(78)	(83)
Actuarial (Gain)/ Loss on Obligation	110	110
Actuarial (Gain)/ Loss on Assets	10	15
Total Expense recognized in Profit & Loss	260	260
Amount Recognized in Balance Sheet		

Closing PV of Defined Benefit Obligation	(1,300)	(1,300)
Closing Fair value of Plan Assets	940	940
Net (Liability)/Asset Recognized in the Balance Sheet	(360)	(360)

4) Effect on Disclosures (from view of Companies):-

- Objectives: an explanation of the characteristics and risks associated with DB schemes and how the characteristics of the scheme may affect the amount, timing and uncertainty of the company's cash flows.
- Characteristics: a description of the scheme benefits and any risks the scheme poses to the company, in particular unusual risks or concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg bonds, the plan may expose the entity to a concentration of bond market risk.
- An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, to manage risk.
- Cash flows: expected employer contributions over the coming year together with a description of the funding arrangements and the weighted average duration of the scheme.
- Sensitivity of Assumptions: the significant assumptions used and the *sensitivity* of the value of the liabilities to changes in these assumptions, together with commentary on the methods used in the sensitivity analysis.
- Analysis of the present value of the defined benefit obligation between vested benefits and accrued but not vested benefits.
- An entity may disaggregate disclosure about plans showing one or more of the following features:
 - different geographical locations
 - different reporting segments.
 - different funding arrangements (eg wholly unfunded, wholly or partly funded).
- For Other long term benefits Ind AS 19 also doesn't require specific disclosures.
- Five-year history of asset value, liabilities, surplus/ deficit and experience gains and losses is not required to be disclosed.

Change in Accounting Standard brings an ample opportunity to the Actuarial Profession and we need to get ready for this now.

ABOUT THE AUTHOR



Akshay Pandit

is a Partner in M/S. K. A. Pandit, he has more than 28 years of experience in Pension and Insurance field working in India and abroad. He is currently heading portfolio of Business Head and Head of General Insurance Division in firm.

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The reemergence of GDP growth—4.1 percent, the highest in seven years—was a key feature of Pakistan's economy in 2014. This improvement in the economy is helped by prudent monetary and fiscal policies, strong capital inflows and robust remittances. The recent decrease in international oil prices has brought inflation rate down to an 11-year-low at 3.24% in February 2015.

Life Insurance Private Sector Performance: Strength to Strength

Despite its 9 year run of record breaking results, life insurance penetration in Pakistan (2013: 0.5%) continues to be very low. There are a total of 10 companies competing in the market to provide life insurance coverage: one publicly owned State Life Insurance Corporation, 7 private sector life insurers and 2 Takaful operators. The recent growth that's been witnessed has been led by the private sector and seen the 50-year old public sector insurer's market share slide from about 80% market share in 2003 to 60% share at the end of 2013.

The private sector in Pakistan has continued to show significant growth in the volume of business written. The total gross written premium written by the two largest private sector insurers grew by 33% in 2014 to a total of PKR 40 Billion. The largest two insurers approximately represent 83% of the market share in gross premium written. The growth in the individual life premiums for these two insurers can be seen in **Figure 1**.

Individual first year premium continues to grow for almost all private sector players in the market, with double-digit growth for those life insurers with a sister banking concern. To that effect, the bancassurance distribution channel continues to be driving force behind the turnaround witnessed in the life sector over the last 7-8 years. Despite the existing popularity of this channel, there continues to be room for further growth as there are about 11,000 bank branches operational in Pakistan, however, not all sell insurance.

The individual life products being sold in the market by the private sector are almost entirely ULIPs. The distribution of these products through banks has meant that ULIPs now have a high level of recognition and acceptance from consumers in many regions of Pakistan. In addition, front-end loaded unit linked plans are still the norm here which means that there is relatively low initial capital strain.

This immense growth in recent years has surprisingly come without substantial complaints against market conduct or mis-selling.

Opportunities

With increasing mobile penetration (July 2014: 77%) and smartphone penetration (July 2014: 8%) amongst the masses, both platforms may become viable platforms for interacting with customers, raising awareness, marketing and sales. Investments in technology to interact with customers through these platforms may pay dividends soon as a majority of

the smartphone users are in the 21 to 30 age group.

More recently, economic indicators are moving in the right direction and if the recent drop in inflation due to drop in oil prices persists, there might be some immediate gains for life insurers from the increase in disposable income of the large middle class.

Almost 4 of the conventional life insurance players in the market have announced their intent to begin takaful operations in 2015. This product segment offers new opportunities to the entire market to expand its reach into previously untapped segments of the population.

Challenges

Financial education and literacy remains very low in Pakistan. The World Bank estimates that only 14% of Pakistanis are using a financial product or service from a formal financial institution. Insurance companies operating in Pakistan must invest in well-constructed programmes to improve financial literacy.

Life insurers continue to face challenges in selling their products through their direct sales force. The primary reasons for this are the lack of educated trained sales resources, difficulty in continuously motivating its sales force and enforcing high standards of conduct. Life insurers also continue to face challenges with respect to lack qualified individuals with adequate knowledge of insurance business operations.

The regulator has generally not been able to pass adequate regulations, despite many draft proposals such as bancassurance guidelines and rules for unit linked products. This can be partly attributed to the lack of a regular chairman at the Securities and Exchange Commission; the recent appointment in December 2014 took place 20 months after the post was vacated by last regular chairman.

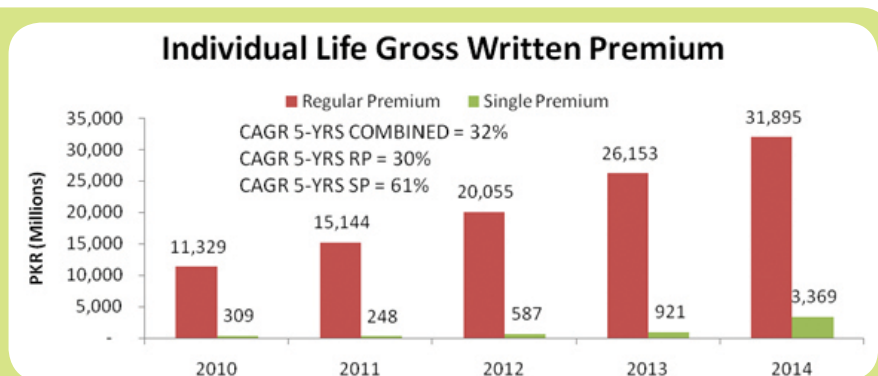


Figure 1: Individual Life Gross Written Premium for the largest two private sector players.

Prime Minister's Health Insurance Scheme

At present, only a quarter of population in Pakistan is covered for health care costs, whereas 74% of Pakistanis, mostly poor and from rural areas, have to pay for such expenditures out of their own pockets. An insurance scheme is being designed that will help the poorest segments of population obtain health insurance for tertiary care and special diseases. A provision of PKR 1 billion has been allocated in the budget for launching of this scheme on pilot basis, which will be rapidly replicated in increasingly larger number of districts.

Potential Regulatory Reforms

The Securities and Exchange Commission Pakistan (SECP) has announced in January 2015 that it is working with the World Bank to strengthen and reform its insurance regulatory framework coupled with the enhancement of the supervisory capacity of the SECP. Under the first phase of the project, the World Bank will provide a comprehensive report based on analysis of the gaps in the existing insurance regulatory framework and international best practices. The technical assistance is already underway, however, an expected timeline for completion of this work has not been shared by the SECP.

ABOUT THE AUTHOR



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has been a fellow of the Society of Actuaries since 1982 and is the Chief Executive of Nauman Associates, a firm of consulting actuaries based in Lahore, Pakistan.

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EMPLOYMENT OPPORTUNITY



Institute of Actuaries of India

IAI is a statutory body established under The Actuaries Act 2006 (35 of 2006) for regulation of profession of Actuaries in India. It invites applications for the post of :-

Position at: Mumbai

Essential Qualification: Graduate,

Preferable Qualification: CA, CS, ICWA, LLM, MBA

Age limit: Below 65 years as on 1st January 2015

Experience: 25 years of administrative and/or legal experience in Public Sector Undertaking/organization and should be in the rank of General Manager or above.

Job Description: The Executive Director will undertake such duties and powers in relation to the Institute's work as covered in the Actuaries Act, 2006, & Rules and Regulation of the Institute. He shall be responsible for the day to day management of the affair and activities of the Institute.

Term : Two years which can be further extended subject to management decision.

Emoluments and Benefits: Negotiable. Please indicate your expectations.

Selection Procedure: The selection procedure will be personal interview.

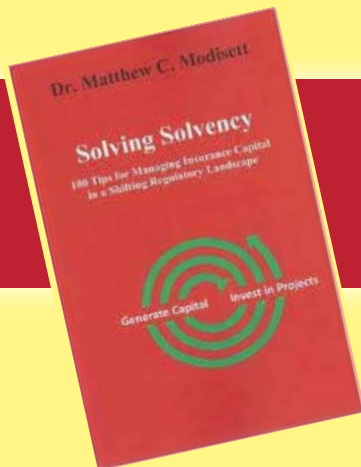
Last date of receipt of application: 15th May 2015

How to Apply: The candidates need to send application along with detailed Bio-data in closed envelope marked as " For Executive Director Post" to President , Institute of Actuaries of India, 302, Indian Globe Chambers, 142 Fort Street, Mumbai, Fort 400 001.

General Instructions:

1. Institute reserves the right to restrict the number of candidates to be called for interview and also to prepone the last date of receipt of application
2. The decision of the President of the Institute will be final and binding in all the 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 this post, the candidate should ensure that he/she fulfils the eligibility and any other norms mentioned in this advertisement. The decision of the Institute in respect of the 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 Institute shall not entertain any correspondence or personal enquires. Canvassing in any form will disqualify the candidate.





Book : Solving Solvency
 Author : Dr. Matthew C Modisett
 Reviewed By : Mr. Sonjai Kumar
 Available : IAI Library (Acc No: B13236)

BOOK REVIEW

approximately 50%, the worst fall for at least 100 years. The actual figure might depend on exactly which index one analyses, but I will use this figure. This was nearly 40 years ago. Any analysis using a data set before this data will contain this figure. If your data set is 50 years long, this will look like a 1-in-50 year event. With a 75 year data set, this will look like a 1-in-75 year event and with 100 year data set; this will look like a 1-in-100 year event. The standard formula for solvency-ii is to set a stress as a 1-in-200 year event. Any statistical analysis including this year will have a tendency to have a stress of 50%. If you had \$ 100 million for equity exposure, the required capital would be \$ 50 million. Most of the practitioners would agree that this is high.

This book is also an essential read for risk managers' in-charge of risk management function under pillar-ii in solvency-ii regime making help them understand various details of capital management which is key in the risk based solvency capital generation for capital optimization purpose.

audiences, they can pick and choose the area of their choice for read. For CFOs, there are wide ranges of subjects of capital generation and conservation ranging from very basic **Uncle John sat me down to explain leverage. I was open to new ideas. If you buy a house of \$ 100, that you know can sell for \$110, you make 10%. If you borrow \$ 90 and put only \$10 of your own, you can double your money. Less capital, higher return, you can buy more houses** to complex under solvency-ii using both standard formula and internal model.

Actuarial community would enjoy this book as it provide gamut of ideas ranging from Capital Management, details under solvency-ii, Capital Asset Pricing model, Assets and Liability management, details under standard formula and internal models etc. Following is a thought provoking extract on the stresses used under standard formula in solvency-ii **In 1974, the UK market dropped**

The book "Solving Solvency" is written by Dr. Matthew C Modisett bestows 100 tips for managing insurance capital in a shifting regulatory landscape in the context of solvency-ii. The is very useful book for wide range of audience ranging from CFO, Appointed Actuaries, qualified and aspiring actuaries and Risk Managers. This book is a recommended read for those who want to understand the different details under the solvency-ii regime. The book is written in a first person and tone is explanatory and friendly. The book has given five appendices to make understand the complex topics under solvency-ii.

As the book caters the need of different

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Require a qualified and well Experienced Life Actuary (FIA and/or FIAI) with demonstrated competence as appointed actuary for the head office, Hyderabad. The role would involve all aspects of the actuarial function including:

- Embedded value reporting
- Valuation
- Product pricing
- Regulatory reporting
- Asset-liability management
- Experience analysis
- Business planning
- Special projects & support
- Analytical support for various business segments

Responsibilities of the role will also include developing and evolving actuarial strategy in line with company objective & development of risk management function.

Interested candidates may email their CV's by 10th May 2015 to ceo@shriramlife.in with subject line ACTUARY

www.shriramlife.com



Puzzle No 233:

The numbers 1 up to and including 16 can be placed in sequence in such a way, that the sum of each two consecutive numbers is a square. How should this be done?

Puzzle No 234:

Long ago, a young Chinese prince wanted to marry a Mandarin's daughter. The Mandarin decided to test the prince. He gave the prince two empty, porcelain vases, 100 white pearls, and 100 black pearls. "You must put all the pearls in the vases", he

told the prince. "After this, I will call my daughter from the room next door. She will take a random pearl from one of the two vases. If this pearl is a black one, you are allowed to marry my daughter." What was the best way in which the prince could divide the pearls over the vases?

ANSWERS TO PUZZLES:

Puzzle No 229:

The first school had 495 pupils of whom 286 were boys, and the two schools combined had 1,495 pupils, of whom 415 were boys.

Puzzle No 230:

The temperature was -40° , which is the same in both Fahrenheit and Celsius

Correct solutions were received from:

Puzzle No 229:

1. Graham Lyons
2. Harshul Taneja

Puzzle No 230:

1. Neeraj Devliyal
2. Graham Lyons
3. Shilpi Jain



shilpa_vm@hotmail.com

Submit your article at
library@actuariesindia.org

We invite articles from the members and non members with subject area being issues related to actuarial field, developments in the field and other related topics which are beneficial for the students of the institute.

The font size of the article ought to be 9.5. Also request you to mark one or two sentences that represents gist of the article. We will place it as 'break-out' box as it will improve readability. Also it will be great help if you can suggest some pictures that can be used with the article, just to make it attractive. Articles should be original and not previously published. All the articles published in the magazine are guided by **EDITORIAL POLICY of the Institute**. The guidelines for submitting the articles are available at http://actuariesindia.org.in/subMenu.aspx?id=106&val=submit_article

SUDOKU

SUDOKU No. 31 for the month of April 2015

SUDOKU

4				2	3			
6	1		7					
1	4			6		8		7
5				9				1
3		2		5			4	9
					5		9	2
			1	8				6

HOW TO PLAY

Fill in the grid so that every horizontal row, every vertical column and every 3x3 box contains the digits 1-9, without repeating the numbers in the same row, column or box.

You can't change the digits already given in the grid.

- Sudoku Puzzle
by Vinod Kumar

Solution of Sudoku Puzzle No.30 published in the Month of March 2015

SOLUTION

3	2	7	8	5	4	9	6	1
5	1	4	2	6	9	8	7	3
9	8	6	3	1	7	2	4	5
8	6	5	9	2	1	4	3	7
4	9	2	5	7	3	1	8	6
7	3	1	6	4	8	5	2	9
1	4	8	7	9	6	3	5	2
6	5	9	4	3	2	7	1	8
2	7	3	1	8	5	6	9	4

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- Cleared all CT subjects and/or some of the higher papers preferably ST2

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- 3 to 5 years of life insurance experience
- Cleared CT series (or near completion of CT series)
- Experience of Prophet Software
- Working knowledge of MS-Excel, MS-Access, VBA, SQL is preferable

Location: **Mumbai, Head Office**

Interested candidates can mail their CV to careers@futuregenerali.in



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- Ability to analyse information technically
- Eye for detail

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- Get study leaves while working
- Enjoy financial benefits on clearing actuarial exams

Location: **Mumbai, Head Office**

Grade of Recruitment: **Entry Level, Apprentice / Trainee**

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Your
insight

+

Our
ideas

=

Their
world



At Swiss Re, it's our business to enable risk-taking. Why? Because that's how progress happens. That's how societies become better, safer, and more resilient. And that's why we believe in forging equally resilient partnerships with our clients. Because when we work together, share our ideas, and open our minds to the risks facing both today's communities and future generations, that's when we can identify not just the risks that are out there – but the opportunities too. Not just for you, not just for us, but for everyone. **We're smarter together.**

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