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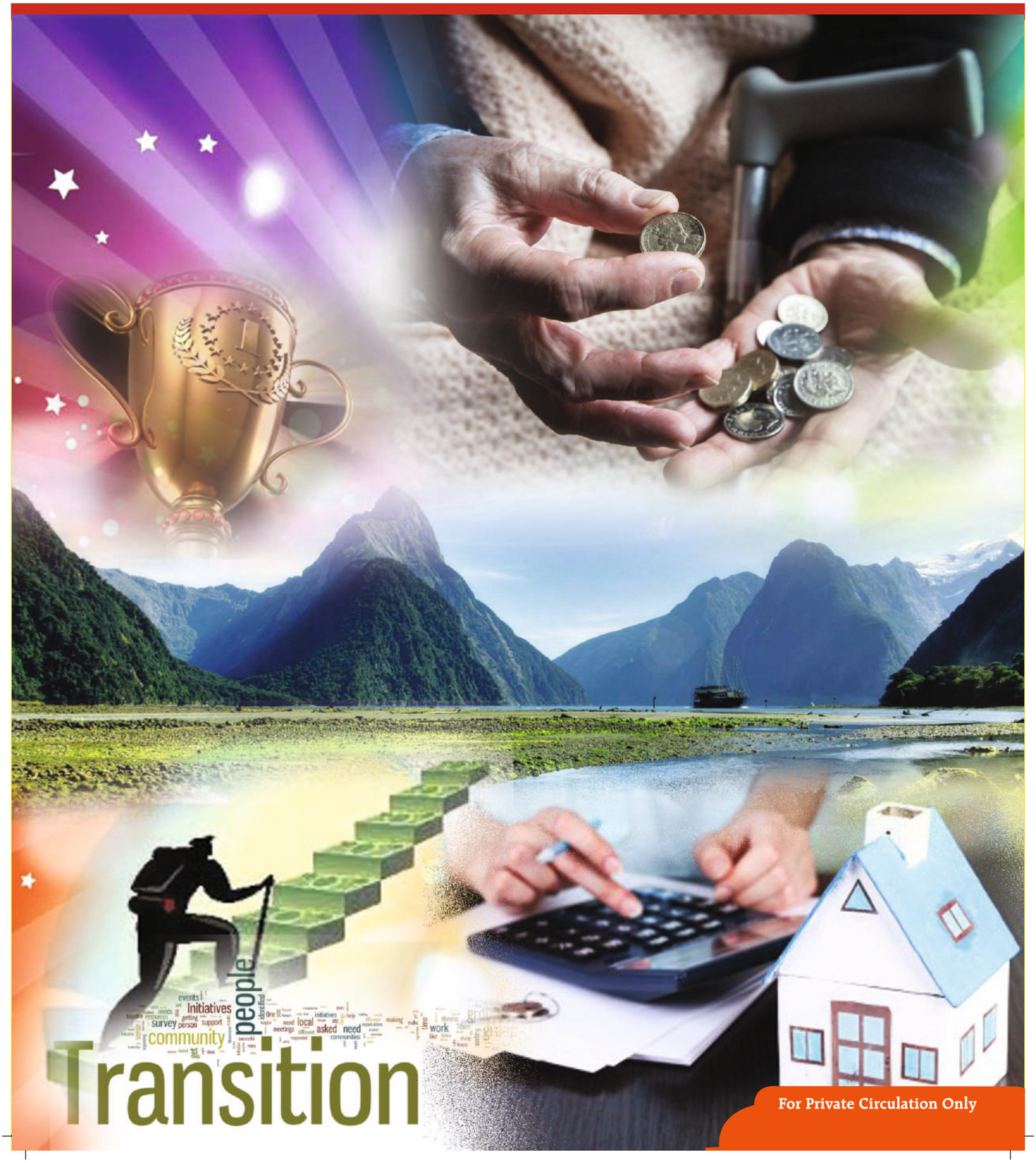
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EMPLOYMENT OPPORTUNITY

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A noble man's thoughts will never go in vain.- **Mahatma Gandhi.**

I hold every person a debtor to his profession, from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to help and ornament thereunto - **Francis Bacon**

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MESSAGE FROM PRESIDENT: MR. RAJESH DALMIA



It is my pleasure to share that we successfully completed the Global Conference of Actuaries and preliminary feedback suggests that the sessions were better than the last year. We would not be having GCA next year and in its place we would be hosting the Asian Actuarial Conference in November 2016 at Gurgaon.

There are two milestones that we have reached during the last quarter. We have signed Mutual Recognition Agreement (MRA) with Casualty Actuarial Society, the largest body in the world for P&C Actuaries. This is a historic agreement and it will have a significant impact in the coming years on the profession. This would open up new opportunities for our members and those who are working at the KPOs can now take Casualty exams without any fear as they can anytime move to Indian companies without any issue. Casualty has started CAS Institute to explore opportunities within the field of Analytics and we plan to join them in this initiative. The field of analytics with the advances in technologies would have a significant impact in all spheres of our lives and actuaries can play a big role in that. I hope we would walk the path and leverage this agreement to the best advantage for the actuarial profession in India. We have set up a working group headed by Debashish to explore these opportunities.

We have a shortage of Actuaries in India in the P&C area. To attract talent from overseas, Institute has waived of the India residency requirement for all actuaries from UK or Australian body as long as they have ten years of relevant actuarial experience. Now they just need to attend the India Fellowship Seminar to become our members. They would not have to wait for a year in India to get our fellowship. However, this is only for those bodies where we have mutual recognition agreement. We have started our discussions with SoA on finding out areas of collaboration. It is going to take a few more years before we reach the MRA. Future presidents would have to work on this continuously to get there.

There was lot of concerns raised by the students around the shift in the examination cycle from May to April. However, we do not plan to shift it to April but plan to shift it to mid-March. This shift from May to mid-March cannot happen in one go because gap between to exams need to be maintained. I have good news to share with you all who would be taking the April exams. We are upgrading the examination infrastructure and the pilot would be the April examination. Please do write back to us of your experience of taking the April exams. I am sure this would be far better than what you have experienced in the past. All the examination centers would have CCTV so it would be in your own interest to follow the rules.

I was disappointed that we did not get registrations for CT2 coaching when the CT4 coaching was successful and we got very good feedback from students. We had to call off the coaching for CT2 due to poor response. We need to push the pass rate to forty percent and we thought that additional training would help. We achieved the same in CT4 and we want to take it to all the subjects gradually.

The Institute has a focus agenda around the professionalism and quality of the services provided by actuaries. There are a lot of changes that are happening and we have got a lot queries in this regard. We are building comprehensive FAQs which would help the members answering their queries and Institute need not write back to every member separately. There is a concern that we do not have sufficient number of Seminars for our members to complete required CPD hours. I would like to highlight that we would upload videos on the website by March first week which would give a 3 week window to those members who have not yet met the requirements under APS 9. I would urge these members to utilize this opportunity so that they do not face any disciplinary action. It may be noted that the compliance has to be taken seriously. Unlike earlier years, Institute will not wait for a filed complaint to take action against any member if it is aware of any violation. However, historical non-compliance would only be taken up on complaints. Similarly, Institute recently completed the review of returns filed by Appointed Actuaries in Life Insurance companies and came across quite a few which were not in order and raises a few concerns. It is in the interest of the member that he/ she reads all the APSs and ensures that he/she is in compliance with them as Institute can ask for demonstration of the compliance at any time.

I am looking forward to my remaining term as there are a lot of things to be completed during this remaining period. The future is bright for the profession and the strong foundation laid down would help the strong growth of the profession.



MESSAGE FROM EDITOR:



7 Ps of preparation- purpose, principle, planning, practice, perseverance, patience and price, international and national presence of various stakeholders from finance and insurance sector consisting larger pie of actuarial professionals, AGFA, topics discussed concerning insurance and pension sector, brain storming, regulator advice, proud possession of actuarial certificates, prizes and souvenirs, at times acting venue for job interviews, sumptuous lunch and dinner, sudden smile on meeting old friends, gup shup, participants survey – and event's wider publicity all culminating to successful GCA all culminating to successful GCA.

July 2015 issue of the Actuary India carried the President message – 'The profession is totally dependent on volunteers to carry out its activities. Unlike other professional bodies who have managed to employ a few actuaries, we do not have any actuary as an employee and hence it is amazing that we have come so far. This is true today and needs hats off to volunteers.

It is pleasant to note that the Actuary India magazine has started getting support from senior actuarial professionals, regulator office and CEOs. Some of the CEOs have taken time out to respond to questions placed to them. There would be continued efforts from the IAI staff particularly Library to rope in the views of this eliteclass.

The Actuarial department of insurance companies in India would be busy in preparation of carrying out the statutory valuation as at 31-Mar-2016. Advance preparation by Actuarial Department helps Appointed Actuaries to give her/his sign-off with cool. 7 Ps are equally important here. Though regulator office tight time lines, increasing complexity added by growing and old business and profession requirement of peer reviewer having life or non-life CoPwould need extra efforts for complex valuation exercise yet these are part of game. I send my good wishes to all insurers for this massive exercise within organisation.

IT investment in insurance sector is becoming critical management decision across globe. However, in Asian insurance market the budget is reported to be half of the IT investment made by developed countries where it is around 5% to 6% of their revenue. In India and other countries those leveraging first on big data analysis, bring more on-line business in books of the company and providing turn around services to customers in real sense would be in advantageous position. With passage of time, the regulator would like to have information with tighter time lines. The compilation of ARA forms take long time. To synchronise with IRDAI plateform is new requirement. The compliance would be possible with IT support. Generally valuation section of actuarial department struggle in compiling figures from different sources and little time is left for analysis at their part. Thus IT support could be obtained at least for compilation of D-returns and slowly the policy administration system (PAS), actuarial and reinsurance software could be integrated for compilation of LB, NLB and other forms. This is possible once policy data in PAS is error free and Appointed Actuary has sufficient confidence in it. Some of the insurers might have achieved it and their experience could be vital for industry.

The March month being the last month of the financial year attract more insurance business. I do think occasionally what should be Actuarial role in business development. I got a call about five years back from my actuarial friend who referred me to purchase a life policy. I was taken by pleasant surprise. I purchased two single premium policies for my children. I asked what prompted you to refer me. The reply was that company intension was to let Actuarial personnel know the sales process and comment on it. I loved the idea. Though actual sale would need the IRDAI licence yet it should not deter actuarial personnel to know the actual sale process. The Actuarial department gets all policies' data and insight of business could be provided to sales personnel.

The fervours of next GCA now in year 2018 but in between AAC being hosted by IAI!!

As companies prepare to move over from the existing Indian GAAP AS 15 to the new IFRS-adapted Ind AS 19 for Employee Benefits from financial year 2016-17, could the transition effort and cost be optimised?

Mayur Ankolekar argues for an efficient alternative to measure, recognise and disclose employee benefits cost to deter dual reporting in FY 2015-16

The first phase of IFRS adaptation to employee benefits i.e. Ind AS 19 applies to companies with net worth over Rs 500 crores. Such companies would ordinarily report under the present AS 15 for FY 2015-16, and move over to Ind AS 19 in FY 2016-17.

Elements of Transition

Whilst applying Ind AS to employee benefits for the first time it is essential to appreciate the transition provisions. Under Ind AS 101 titled "First Time Adoption of Indian Accounting Standards", in the first year of the new IFRS adapted accounting regime, the previous year's figures need to be re-classified as per Ind AS 19. Clause 7 of Ind AS 101requires entities to use the same accounting policies in opening Ind AS Balance Sheet and for comparative purposes, throughout all periods presented in its first Ind AS financial statements.

Each entity that adopts Ind AS 19 "Employee Benefits" needs to apply the principles of Ind AS 101 for first-time adoption.

The accounting of employee benefits is not listed in the exceptions to retroactive application of Ind ASs as outlined in Appendix B of Ind AS 101. Each entity that adopts Ind AS 19 "Employee Benefits" needs to apply the principles of Ind AS 101 for first-time adoption.

In the example elucidated under clause 8 of Ind AS 101, an entity required to apply the Ind ASs for periods ended 31 March 2017 needs to:

a) prepare and present its opening Ind AS balance sheet at 1 April 2015; and
b) prepare and present its balance sheet for 31 March 2017 (including comparative amounts for the year ended 31 March 2016), statement of profit and loss, statement of changes in equity and statement of cash flows for the year to 31 March 2017 (including comparative amounts for the year ended 31 March 2016) and disclosures (including comparative information for the year ended 31 March 2016).



Reporting in the Transition Year

As per the transition provisions enshrined in Ind AS 101, companies that transition to Ind AS 19 in FY 2016-17 would need to report even the figures of FY 2015-16 under Ind AS 19. Would it occasion pension actuaries to issue two sets of numbers for FY 2015-16 i.e., one under AS 15 and the other under the looming Ind AS 19? Is there an efficient alternative to measure employee benefits cost? The discussion hereon highlights how actuaries could work with employers to economise the effort, rather preclude dual reporting in FY 2015-16.

Is there an efficient alternative to measure employee benefits cost? The discussion hereon highlights how actuaries could work with employers to economise the effort, rather preclude dual reporting in FY 2015-16.

Ind AS 19 differs from AS 15 on two dimensions: first, the quantitative and second, the qualitative. The qualitative list has new disclosures viz. Asset Liability Matching Strategies, Sensitivity Analysis of Significant Actuarial Assumptions, and Information of Future Cash Flows. The quantitative lineup sprawls new treatment viz. all of Actuarial Gains and Losses and Asset Ceiling Charge to Other Comprehensive Income, and Past Service Cost to Profit and Loss Account.

Quantitative grammar of Ind AS 19

In the vital grammar of quantitative dimension, if all the numerical results that comprise actuarial gains and losses, past service cost and asset ceiling are identical between AS 15 and Ind AS 19 in FY 2015-16, it would be unnecessary to issue two sets of reports. Rather only a

	Recognition		Measurement
	AS 15 (R)	Ind AS 19	Differences between AS 15 (R) and Ind AS 19
Past Service Cost	P&L, to the extent vested	P&L irrespective of vesting	No change
Asset Ceiling Charge	P&L	OCI	No change
Actuarial gains and losses - liabilities	P&L	OCI	No change
Actuarial gains and losses - assets	P&L	OCI	The company sets the "expected rate of return on assets" assumption in AS 15 (R). Expected rate of return equals the discount rate at start of year in Ind AS 19.

Box 1: Significant measurement and recognition differences between AS 15 (R) and Ind AS 19

re-classification between the Profit and Loss Account (P&L) and Other Comprehensive Income (OCI) would suffice. The assumptions and methodologies underlying calculation of actuarial gains and losses and past service cost in the defined benefit obligation and the asset ceiling calculation are identical between AS 15 and Ind AS 19.

The differences across measurement and recognition of various items are shown in Box 1. The only relevant quantitative or measurement difference between AS 15 and Ind AS 19 rests in the calculation of return on plan assets and thus, the actuarial gain or loss on plan assets.

If the expected rate of return on plan assets equals the previous year's discount rate, the numerical results would be just that: indistinguishable between AS 15 and Ind AS 19.

Whilst employers have no choice in setting the rate of return on plan assets from FY 2016-17, for FY 2015-16 they need to set the expected rate of return on plan assets. Juxtapose the Clause 108 of AS 15 (Revised 2005) as applicable to FY 2015-16 on one hand and Clause 123 of Ind AS 19 as applicable to FY 2016-17 on the other: the former states that the expected return on plan assets is based on market expectations at the beginning of the period while the latter prescribes the discount rate at the start of the period for calculating the net defined benefit liability.

If the expected rate of return on plan assets equals the previous year's discount rate, the numerical results would be just that: indistinguishable between AS 15 and Ind AS 19. Only the re-classification between Profit and Loss Account and Other Comprehensive Income would have to be performed!

	FY 2016-17	FY 2015-16	FY 2014-15
Discount Rate	7% p.a.	7.5% p.a.	8% p.a.
Expected Rate of Return on Assets (Scenario 1)	7.5% p.a.	9% p.a.	NA
Expected Rate of Return on Assets (Scenario 2)	7.5% p.a.	8% p.a.	NA

Table 1: Parameters under Scenarios 1 and 2

	FY 2016-17	FY 2015-16
Fair Value of Plan Assets at start of year	430	400
Contributions by Employer	60	60
Benefits Paid	(80)	(50)
Expected Return on Plan Assets	34	36
Actuarial (Loss)/Gain	16	(16)
Fair Value of Plan Assets at end of year	460	430

Table 2: Scenario 1 (FY 2015-16's EROA ≠ FY 2014-15 discount rate)

	FY 2016-17	FY 2015-16
Fair Value of Plan Assets at start of year	430	400
Contributions by Employer	60	60
Benefits Paid	(80)	(50)
Expected Return on Plan Assets	34	32
Actuarial (Loss)/Gain	16	(12)
Fair Value of Plan Assets at end of year	460	430

Table 3: Scenario 2 (FY 2015-16's EROA = FY 2014-15 discount rate)

A Tale of Two Scenarios

Tables 2 and 3 set out two scenarios for FY 2015-16: the first, when expected rate of return on plan assets doesn't equal to the previous year's discount rate, and the second, when it is equivalent. Table 1 populates the parameters.

Assume a company finalizes its financial statements as per the first scenario i.e., the FY 2015-16's expected rate of return on plan assets does not equal to the FY 2014-15's discount rate. In such a case, while the company adopts Ind AS 19 in FY 2016-17, the figures for FY 2015-16 have to be re-worked in line with the principle that the return on plan assets equals the previous year's discount rate. However, if the company had adopted the principle enunciated in the second scenario, the actuarial loss would not have to be re-worked.

Simplistically, the actuarial loss of 12 would have to be re-classified from 'Profit and Loss Account' to 'Other Comprehensive Income' – hitting the spot with no additional reporting effort. If the company had followed the first scenario, a re-working of the actuarial loss from 16 to 12 would have been necessary on transition to Ind AS 19.

Expected Returns in Indian DB plans

When would it be plausible for the expected rate of return anticipated at the start of the year to exactly match the discount rate measured from the end of the previous year? Expected return on assets is drawn from the yield expectation of the carrying value of an asset to the owner's expected holding period. It needs to allow for credit quality, duration and the holder's and issuer's options, if any.

From an unpublished research of the asset strategy of defined benefit employee funds, my co-authors and I have found that 30 of the NSE 50 companies either manage assets in-house or use conventional insurer plans. In-house management of assets, being driven by investment norms applicable to tax-exempt funds, is dominated by Central and State Government bonds. Historically, conventional insurer plans also declared returns that veered around the prevailing Government bond

yields. Arguably, a large section of Indian companies could be sensitized to set the FY 2015-16's assumption of expected return on plan assets at FY 2014-15's discount rate – indeed the market yield on government bonds at the valuation date.

Epilogue

Confucius had famously remarked, "He who does not economise, would agonise." I encourage my colleagues in the profession to see how we could work with clients and their auditors to influence a resource-optimal transition where the employee benefits cost' measurement would not change between the Indian GAAP and IFRS adapted regimes, but only the recognition would.



About the Author



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Mayur Ankolekar is a fellow member of the Institute of Actuaries of India.

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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.

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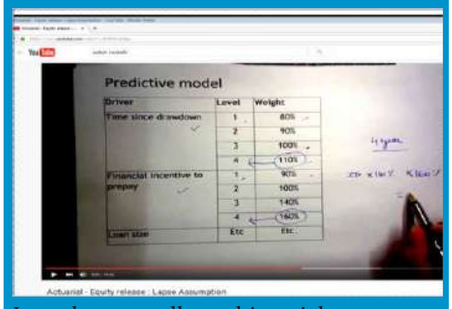
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Equity Release – Valuation Part 3: Lapse assumption

Equity Release valuation depends upon choice of valuation model, appropriate assumptions and customer data. This article is third in the series of articles on actuarial valuation of Equity Release. This article covers a discussion on pre-payment assumption used in equity release valuation model and also an introduction to long term care and further loan drawdown. First part describing product features and valuation model was published in May 2015 and second part relating to longevity assumption was published in June 2015 along with youtube link covering discussion on the subject.



Introductory talk on this article:
https://www.youtube.com/watch?v=8HBhfouodpw

Equity release is a financial contract that allows elderly people, who may not have enough liquid cash to access the equity in their home. Equity release is also known as reverse mortgage or home equity conversion loan. Equity release is a means of retaining use of house (or other object which has capital value), along with obtaining a lump sum or a steady stream of cash inflow, from the value of such house. The equity release provider must be repaid later with interest, usually when policyholder dies or goes in for long term care from sale proceeds of home. Equity release is particularly useful for seniors who do not intend or are not able to leave a large estate for their heirs when they die. Such elderly persons must be of a minimum age (which is country-specific, For US 62, UK 55) and live in their own home to sign equity release contract.

Lapse probability or pre-payment probability:

Policy lapse for equity release contract occur when policyholder pre pay outstanding loan along with interest. Setting assumptions for pre-payments is one of the onerous and unreliable aspects of pricing equity release contracts. It carries significant risk for providers. Some decrements under this heading can be long term care decrements in disguise e.g. where the policyholder becomes unwell and starts living with family. Many times the case is policyholder pre-paying in order to remortgage elsewhere for lower cost. Policyholders will generally be motivated to remortgage and seek a lower cost of borrowing with another provider when interest rates fall, particularly where the contract provides for a flat early repayment charge. Providers selling products with flat-rate charge scales offer policyholders one-way bet on interest rates:

- If interest rates fall then the policyholder can remortgage to the lower rate at a very less lapse charge and
- If rates rise then the policyholder can continue with the contract at the rate that was fixed at point of sale

Mark to market surrender/redemption charges will go some way towards protecting providers from anti-selection, but they may not completely protect providers for:

- Lost administration and distribution costs on early repayment
- Costs to break expensive interest rate hedges
- Losses when interest rate falls are large. Caps on the early repayment charge mean that protection is provided only for relatively modest falls in interest rates.

Although capped charge act as a disincentive generally for remortgaging only.

The remortgaging rates are difficult to predict reliably, and can be expected to vary significantly from one provider to another and in different economic circumstances.

The mortgage could also be repaid as a result of the borrower remortgaging to a more attractive product with different features which may not necessarily be cheaper to the policyholder. Remortgaging exposes providers of rollup mortgages to a significant risk of anti-selection as remortgaging is most likely to occur following a decline in interest rates.

Voluntary early redemption is only likely to be attractive from the borrower's perspective in the case of roll-up mortgages and option to early redeem is normally not there in reversions. Partial repayments may occur when people move to smaller properties or there can be case specific reasons as well. Some providers waive early redemption charges after 10 years and some after 20 years. The factors an actuary should consider when setting early redemption charges include the following:

- **The prevailing rate of interest:** If interest rates are relatively low, then there is less potential incentive for re mortgaging in the future
- **Distribution channel:** Intermediaries are likely to be more proactive in stimulating remortgaging than direct or controlled distribution channels
- **Product Design:** More flexible product design may allow policyholders to meet future needs without the need to consider alternative products. For example, flexible drawdown schemes exhibit lower pre-payment charges than lump sum schemes with no increment facility
- **Competitive positioning:** Market-leading rate providers should expect some of their customers to be more rate-driven than others customers who have selected their provider for reasons other than market rate.
- The socio-economic profile of the applicants.

It may be relevant to set decrement assumptions in line with economic assumptions. Average value of equity released, interest rate, surrender charge structure etc. have material impact on likely future decrement rates. For example, if property prices inflate significantly people are more likely to release further equity to support basic care in the home. This will result in a relation in (i) house price inflation and (ii) long term care decrement assumption.



Here is an illustrative list of factors which drive prepayment of lifetime mortgages. Due to large number of these drivers it is challenging to model pre-payment risk. These factors are divided in three categories: (i) Macro economic factors, (ii) Loan specific factors and (iii) Borrower specific factors.

Macro-economic factors:

- Changes in interest rate - The difference between the fixed interest rate paid by the borrower and alternative lower interest rates available is a financial incentive for the borrower to prepay.
- House price inflation – Higher house price inflation encourages borrowers to prepay their loan. Conversely, low or negative house price inflation discourages borrowers from prepaying.

Loan dependent factors:

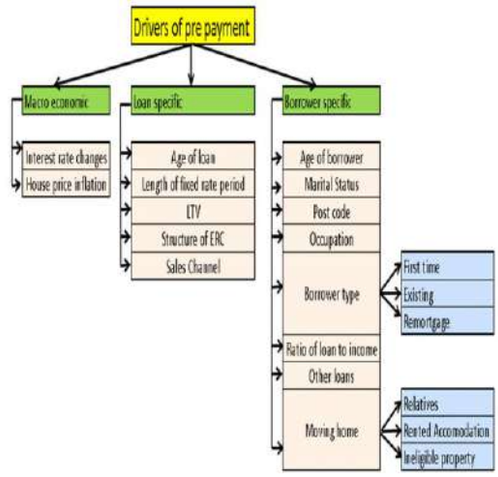
- **Age of loan (time into the fixed rate period) –** The number of months that the borrower had the fixed rate mortgage can be a potential driver of prepayment.
- **Length of fixed rate period –** A mortgage with a 2 year fixed rate period could exhibit different prepayment rates from one with a 4 year fixed rate
- **Sales channel (branch, telephone/internet and third party) –** Prepayment rates differ by channels normally. This is because different types of borrower choose different channels. Also because interactions with the lender's staff or third party advisers encourages or discourages prepayment.
- **Loan to value (LTV) -** Amount borrowed as a percentage of the value of the property at drawdown. Lesser the LTV, higher can be the pre-payment probability & vice versa.
- **Structure of early redemption charges –** (i) early redemption charge methods, (ii) size of the charge and (iii) the way that the charges are made may encourage or discourage prepayment behaviour.

Borrower dependent factors:

- **Age of borrower –** Experience analysis may reveal the prepayment tendency of borrowers at different stages in their lives.
- **Marital status of borrower –** One reason that sub-optimal prepayments occur is properties being sold to divide assets when couples divorce. For divorce policyholders there is no further probability of property being sold for the reason of divorce.
- **Postcodes** - Region where the borrower resides – Regional differences in macro-economic drivers and borrower specific drivers may impact prepayment probability
- **Occupation of borrower** –Differences between borrowers, due to salary, job and financial literacy, also impact increase or decrease in prepayment rates.
- **Borrower type (i) first time buyer, (ii) existing customer and (iii) re mortgage customer from another lender –** These borrower classifications are commonly used in the Equity Release industry. Difference in prepayment rates can be due to borrower type as well.
- **Ratio of loan to cash inflows for the borrower –** Where the borrower expects cash inflows in future then there is high probability of early redemption. Favorable changes to the borrower's financial circumstances result in higher pre-payment probability
- **Other products held with the lender by the borrower –** Borrower may choose prepayment depending on the changes in interest rates charged on other products.
- **Moving home:** Probability of prepayment increases where policyholder decides to move home:
  - Moving in with relatives or
  - Moving in rented accommodation or
  - Moving in ineligible properties (e.g. properties with short leaseholds, property abroad, certain types of sheltered accommodation)



These factors interact with each other and with a number of other variables to determine the likelihood of early prepayment.



Direction of movement in the early redemption rates:



- Small prepayment charges
- Late months in the fixed rate
- Broker/branch acquisition
- Large interest differentials
- High house price inflation
- Large loans
- First time buyers
  - Early months in the fixed rate
  - Small interest differentials
  - Large prepayment charges
  - Direct acquisition channels
  - Low house price inflation
  - Existing borrowers
  - Small loans

Many of the models developed to project early redemptions assume that there are two types of early redemptions:

- **Optimal (or systematic) early redemption –** These early redemptions are made when interest rate movements mean that it is rational to refinance
- **Sub-optimal (or unsystematic) early redemption –** These early redemptions are made because of changes in the circumstances of the borrower (e.g. death, divorce, inheritance, etc.). They are independent of interest rates. Empirical data should be used for its planning, estimation and management.

Models developed to project early redemptions, clearly demonstrate that the interest rate changes have a

rates. However, they typically assume that borrowers will exercise their early redemption option rationally. Also, empirical data of early redemption rates for different mortgage portfolios experiencing the same interest rate changes shows that early redemption rates vary considerably across portfolios. Challenge before actuaries is to develop reliable multi-factor models that are better predictors of early redemption rates. These models should attempt to explain why different sub-sets of broadly similar borrowers have different early redemption preferences.

Predictive modeling of early redemption behavior:

For building a predictive model it is required that mortgage customers are segmented into clusters with a similar risk profiles. Further, the model should identify factors (e.g. product or customer characteristics) that explain the risk profile of each cluster. Normally, to identify causal relationships various statistical or regression techniques that model the full distribution of all the variables can be applied. Since this modeling problem is similar to the problem faced by the motor insurers who classify motor insurance customers using customer characteristics that predict the likelihood of an insurance claim, a rate card similar to motor insurance-style can be developed to explain the early redemption risk in the mortgage portfolio.

The rate cards can be developed using Generalized Linear Modeling (GLM) techniques. GLM is one of a number of statistical techniques that could be used to develop predictive models of early redemption risk. GLMs relate a variable (called the response variable) for which prediction is required, to variables or factors (called predictors, covariates or independent variables) about which information or data is available. A GLM model estimates the impact of changes in individual drivers (product or customer characteristic) on early redemption rates whilst holding all other drivers constant. It is therefore, able to identify relationships between changes in early redemption rates due to changes in the underlying driver. The predictive modeling process builds from the insights gained from the experience analysis of clusters of homogeneous risk profiles using statistical modeling. However, it is quite possible that some of the drivers are not as significant as they appear to be and other drivers are responsible for the changes in early redemption rates observed when they were plotted. It is possible that a variable that appeared significant when charting the data may not remain significant when analyzing it statistically.

A standard GLM iterative modeling approach can be used, with a single loop as follows:

- A base pre-payment rate that represents the average early redemption rate for a typical customer is calculated
- Then the drivers that cause deviations in the early redemption rate are identified
- The impact of changes in each of the main drivers on the early redemption rate is estimated
- An error test is used to check the goodness of fit of the resultant model

An example is presented below for multiplicative rate model. Either additive or multiplicative models can be developed depending on the situation to be modeled.

Let us suppose the base early redemption rate for this model is x% per annum. Objective is to compute the early redemption rate for a mortgage drawn down four years ago with a financial incentive to prepay of 3% (i.e. the fixed rate less the current base rate is 3%). From the rate card:

- Drawdown four years ago - time since drawdown level 4 (= 110%)
- Rating for financial incentive to prepay - financial incentive to prepay level 3 (=140%)

We then multiply the weights for the parameter levels and the base rate together to calculate the early redemption rate for that mortgage i.e. early redemption rate = x% x 110% x 140%.

Predictive model illustration:

Base early redemption rate = x%

Driver	Level	Weight
Time since drawdown	1	80%
	2	90%
	3	100%
	4	110%
Financial incentive to prepay rating	1	90%
	2	100%
	3	140%
	4	160%
Loan size	Etc	Etc

Segment Prepayment Rate = Base rate x Time since drawdown x Financial incentive to prepay x...
= x% x 110% x 140% x etc...

This model is a very simple illustration with only two drivers and the segmentation of those parameters is restricted to four levels. The predictive models used by actuaries are considerably more complex. As a result highly customer specific early redemption rate predictions can be generated using them.

Additional features that can be included in these models include:

- **Additional parameters** – Any number of parameters can be included
- **Additional levels within parameters** – The number of levels does not have to be the same for each parameter. Parameters that are more important can therefore be modeled in more detail using more levels
- **Time period specific models** – Separate models can be constructed for different time periods to take account of changes in the relationships between drivers and relative importance of drivers at different time points. For example, the financial incentive to pre pay is likely to be more significant at the end of the fixed rate period than at the beginning. This is because it takes time for base rates to move and hence incentive to become more significant. Therefore, more levels could be included for that parameter in the latter part of the fixed rate period.

There are some data challenges which are there while determining base lapse rate and parameters for GLM. Data challenges mainly pertain to (i) appropriateness, (ii) completeness and (iii)adequacy.

Appropriateness:

- Relevance of external or industry data to company's own exposure
- Continuous evolution of product designs and sales practice
- Relevance of products sold in the past to current products

Completeness:

- Availability of records of experience at the level of granularity required to assess risk by the risk drivers of prepayment
- Availability of records of actual lapses, experience against expectation or both

- Changes in experience monitoring approach over time

Adequacy:

- Relevance of experience data from historical commercial and regulatory environments to current valuation date?
- For how many years of experience data is available?
- Is available data really sufficient to set a 1 in 200 capital requirement?

Monitoring and fitting distribution:
Actual by expected ratio (A/E) can be computed in the run off triangle form for prepayment. An example of the same is below:

		Development year				
		1	2	3	4	5
Calendar year	2011	0.45				
	2012	0.67	1.6			
	2013	0.85	1.3	1.5		
	2014	0.95	0.96	1.03	1.35	
	2015	1.05	1.02	0.98	0.85	1.48

Volatility of ratios in above triangle can be computed for each

- Annual cohort of business
- Calendar year of business

An area of actuarial judgment is around the choice of prepayment assumptions which can be used to derive A/E. Choice is to be made between (i) pre-payment assumptions in force currently or (ii) pre-payment assumptions which were in force at the point of sale. Normally, volatility of A/E computed using expected assumption as current assumptions will be lesser than where expected assumptions of point of sale are taken. Then monitoring exercise can focus on extreme values in the triangle and attempt to control outliers in future.

Pre-payment statistical distribution fitting: Frequency table with different class intervals of A/Es can be made from the above triangle. Resulting histogram from such frequency distribution can be used to determine which statistical distribution fits pre payments closely. Such distribution can then be parameterized and used for individual capital assessment/internal model/economic capital computations relating to equity release.

Probability of policy holder going in for Long term care:

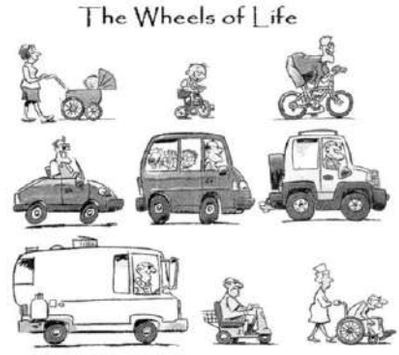
Another most prevalent reason for repayment of equity release loan involves the homeowner or, in the case of joint homeowners, the survivor, moving into long-term care. Only limited data is available publically for entry in the Long Term Care (LTC) for the equity release population. There is normally some bridging period before any move into long term care is considered as contract termination. The nature of the provider's exposure to long term care risk is similar to that of longevity risk.



Multiple state model is useful to accurately capture this risk. It is challenging to calibrate parameters for such model. Long term transition assumption for every provider will differ based on its own specific experience and circumstances.

Higher house price inflation may result in lower rates of long term care entry as customers can afford greater levels of care at their own home if they have more equity in their property although this will result in higher rates of mortality (qx). LTC can be incorporated in the mortality rates by increasing them with a particular loading factor in order to model LTC decrements. This modeling approach implies perfect correlation in LTC and mortality rates. For economic capital computation purpose, because of unavailability of sufficient data on LTC transitions, the stress on LTC assumption should be more prudent than stress on mortality for a particular confidence level.

Dullaway & Elliot (1998) proposed an insurance product, Partial Equity Release Insurance (PERI). PERI has a feature wherein homeowners can give up a fixed proportion of the value of their home, in return for insuring that they will not risk losing it all should care be required. This has particular appeal to those who may be seeking to protect an inheritance. In addition, the cashless nature of the transaction is also attractive.



Drawdown:

The equity release drawdown product includes the facility for policyholders to take additional loans up to limit agreed at the point of sale. The additional lending is (i) at the then current lending rate for new loans or for some products agreed (ii) at the lending rate at point of sale. Future draws might be expected to increase in situations where re-financing is more difficult.

Valuation of future draws requires determination of age dependent:

- Probability of policyholder opting for draw in a particular future year
- Amount of draw taken in a particular future year

It may be relevant to model interaction of above two assumptions with changes in the property valuation.

Lending rate for further draws mostly is not adjusted for the additional risks associated with further draw. Additional risk comes from the feature that:

- Further draw amount agreed at the point of sale is independent of fall in property value in future. Future draws typically give rise to an increase in no negative equity guarantee (NNEG), particularly in

Mathematical representation of the four major triggers of repayment (death or prepayment):

λ_{x+s}: Age dependent factor to scale down at-home mortality

K_{x+s}: Age dependent factor that relates to Long term care incidence to morality

q_i^{pre}: Duration dependent annual prepayment probability

q_i^{refin}: Duration dependent annual refinancing probability

Using above defined variables we can say that in-force probability of the equity release contract is:

$$ {}_tP_x = exp\{\int_0^t (\lambda_{x+s} + K_{x+s})\hat{\mu}_{x+s}\, ds\} \prod_{i=1}^{t}[(1 - q_i^{pre})(1 - q_i^{refin})] $$

conjunction with falls in property values

- Further draws increase loan to value (LTV). For example, the additional loan may represent an increase from 30% to 45% of the property value, which Is proportionally riskier than the first loan which is up to 30% of the property value

Future draws can also give rise to profits in favorable scenarios as they can be equated with the new business. The direction of policyholder behavior is likely to be opposite to that for lapses for future draws.



Next part of this series will focus on property valuation and roll forward using different housing price indexes.

About the Author



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Mr. Saket Vasisth is involved in Asset Liability modelling for life insurance. He is a student member of IAI and works for AIG.



A psychologist was studying the problem-solving abilities of engineers and actuaries. During a joint interview with one engineer and one actuary, the engineer was asked "If there was a fire in the wastebasket and a bucket of water on my desk, what would you do?" The engineer responded that he would put out the fire with the bucket of water. Then the actuary was asked "If there was a fire in the wastebasket and a bucket of water on the window sill, what would you do?" The actuary's studied reply was "I would move the bucket to the desk, thus reducing the problem to the previously solved one.





Many Happy Returns of the day

MR. HANUMANTHA K. RAO

MR. CHANDAN K. KHASNOBIS

MR. RAJAGOPALAN V.

MR. A. P. PEETHAMBARAN

MR. A. VENKATASUBRAMANIAN

MR. M. VENKATESAN

THE ACTUARY INDIA WISHES MANY MORE YEARS OF HEALTHY LIFE TO THE FELLOW MEMBERS WHOSE BIRTHDAY FALL IN FEBRUARY 2016.

Pension plans have always driven the government to take steps in order to manage its cost by keeping the underlying benefit attractive and the contribution rate stable. This article is written in light of EPS-95, which offers benefits in terms of final salary with salary dependent contributions. Several projections are being made to analyse the cost of pension which generally depends on several factors like longevity, future earnings, current contribution and expected payouts, inflation etc. Average age of the Indian population is around 30 years currently and it is expected to grow slowly as the longevity increases. Also, life expectancy at retirement in 2050 is expected to rise by 8 years and this could perhaps lead to 100 more monthly pension payments. Figure-1, the shift in population mix in a long run implies that an ideal population pyramid almost turns into a cylinder in five decades indicating the ageing effect. Though the picture in India is not as worse when compared with other counties like, USA, Japan or China, as illustrated in Figure-2.

Figure-1

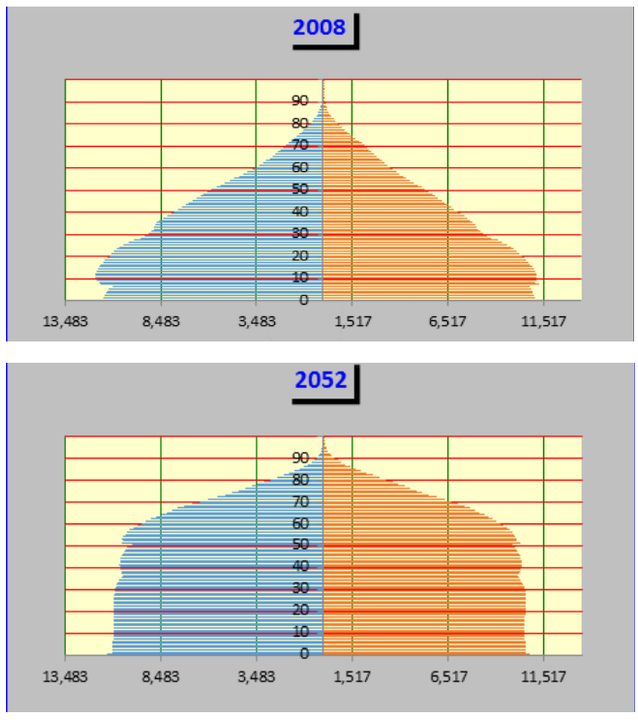
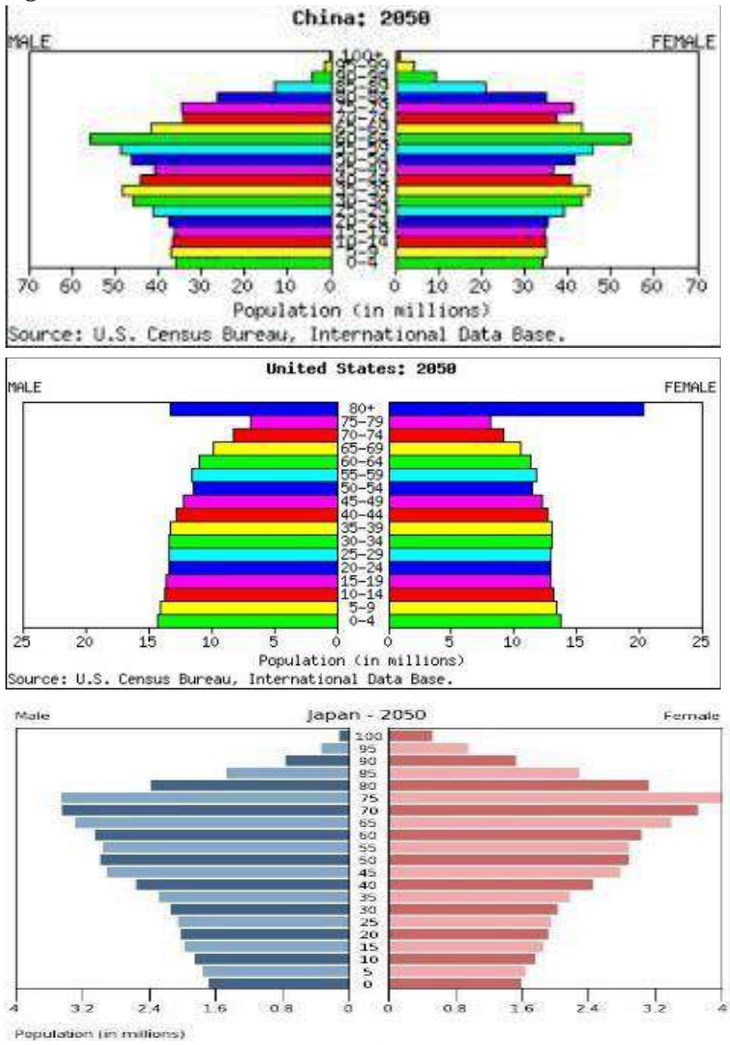
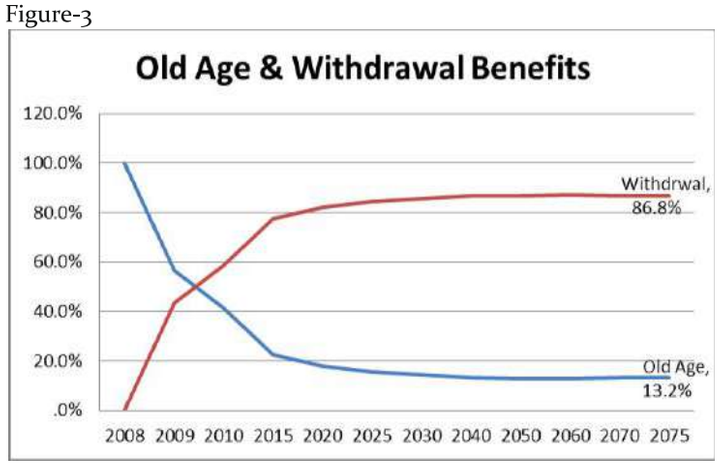


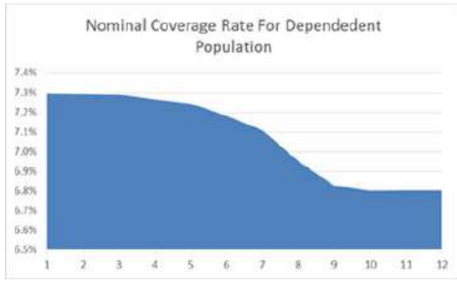
Figure-2



If the existing pension system beneficiaries are split into 2 categories, i.e. those availing old age benefit and those availing withdrawal benefit under EPS, the projected numbers clearly represent that as time elapses young people now who will grow old in future thereby increasing the withdrawal benefits and decreasing old age benefits (Illustrated in Figure-3). Nevertheless, the EPS of India has not been successful to reach those people who do not have the capacity to save for future long term consumption because of the coverage thresh hold and as shown in Figure-4, Nominal Coverage Rate seems to be insufficient.

Figure-3





The increasing dependency ratio as shown in Figure-5, is also responsible in effecting the economy's capacity over the period that is sustaining the elderly. In countries, where the provision of public pension increases, there is a need for private savings and need to privately hoard wealth declines. An important consequence then is that there would be increased fiscal pressure through higher government spending on social security, healthcare and other welfare programs of the Government to benefit the elderly. And, this would be accompanied by lower tax collection consequent to declining proportion of the productive labour force. Therefore, it is necessary that fiscal preparation for a rising pensionary burden, due to longevity, should be taken into account by the policy makers in India.

In general, conventional, Pay As You Go (PAYG) pension system is characterized by the fact that the young workers agree to pay the pension of retired people in lieu of a promise that their younger generation will follow the suit. The forecast towards Total PAYG Expenditure is revealed in Figure-6. But once funding is adopted, each individual of each generation contributes a share of their current income to a fund which accrues over a period of time. The returns on such assets or a portion on such accumulated assets is used for paying pensions. Here both of the above discussed pension system provide an economic function of transferring income from working years to post-retirement years. There is some risk that the actual pension payments received will be less than those expected when the plan was initiated.

Figure-5

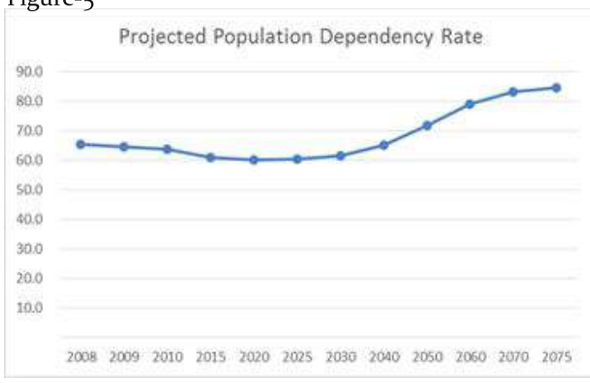
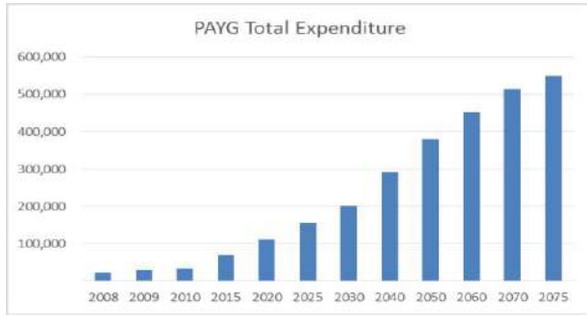


Figure-6



This projected cost depends on parameters being used for the projection, and it varies with any sudden change in parameters. For example, an increased medical support may lead to increased higher than expected longevity, or an epidemic will lead to a fall in population growth, or a sudden crash in investment market will dramatically increase cost of pension provision. In addition to an insignificant percentage of the informal workforce who do not have the capacity to save for future long term consumption, financial literacy is also inadequate. Therefore, clearly the existing NPS has to be made popular to serve in the best interest of workers. Owing to above reasons the new pension scheme has seen a lukewarm response so far, with a majority of subscribers being central and state government employees, for whom the scheme is mandatory. Moreover, the NPS does not even guarantee a minimum pension, thus defeating its objective of "welfare" orientation. Thus, there is a necessity to modify pension schemes in India which not only ensure a minimum pension and try to cover majority of the work force but also lower the fiscal cost of the country. Nevertheless, it is to be mentioned that the efforts of the Government of India towards the existing pension system have encouraged people from the unorganised sector by voluntarily saving for their retirement leading to lower cost of operations. For example, a co-contributory scheme called "Swavalamban" is expected to benefit about 7 million NPS subscribers i.e. 15% to 20% of the unorganised sector in the next two-three years.

All the same, be it EPS or NPS, it will be better to take early steps for managing the pension cost forecast.

The above article is prepared in light of information gathered from various sources by the author and hence forecasts may be treated as representative figures.

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18TH GCA PRESS RELEASE

Actuaries' torchbearers of trust'; should ensure customer centricity – IRDA Chairman

18th Global Conference of Actuaries begins; delegates deliberate on building growth momentum

Mumbai, February 01, 2016: The 18th Global Conference of Actuaries (GCA) organised by the Institute of Actuaries of India (IAI) was inaugurated with a key note address by **Mr. T. S. Vijayan, Chairman IRDA.** With the governments across the world introducing reforms to sustain and push growth, the forum provides a platform to discuss the opportunities and challenges that arise due to changing economic and business landscape.

Inaugurating the conference, **IRDA Chairman Mr. T. S. Vijayan** spoke on how actuarial profession is at the forefront of building the trust in the insurance industry in general and customers in particular.

We have to get a better deal for the customers. The industry has seen close to rupees 25 lakh crores invested by the customers. This is due to the trust and commitment reposed by the customers in the industry. Trust is not a onetime affair; it has to be renewed every time. Actuaries have a great responsibility to ensure that we remain trusties of the customers through the changes in technology, products as well as regulations, said **Mr. T. S. Vijayan.**

Mr. Vijayan also reposed his faith in the Indian insurance industry to grow at a much faster pace than experienced currently.

The Asian markets have recorded a real growth of 6.5 percent, emerging markets grew at 7.4 percent, and advanced countries grew by 2.9 percent while India could only grow at 1.8 percent in 2014-15. In this year we should be able to make up for the growth and industry need to identify which are the things relevant for capturing customer's mind and wallet share, said **Mr. T. S. Vijayan.**



Mr. Rajesh Dalmia, President of Institute of Actuaries of India, the organizers of the Global Conference of Actuaries, discussed the developments in the Indian actuarial profession and outlined the strategies to ensure the development of the talent pool to support industry's growth.

Actuaries as a profession are in great demand, but there is a shortage of about 40,000 actuaries globally while we have around 70,000 working actuaries globally. Our institute'sfellow membership stands at 300, and have close to 35 newly qualified actuaries this year, our aim is to take this number to 100 newly qualified actuaries each year, said **Mr. Rajesh Dalmia.**

IAI believes that in the changing economic scenario, actuarial services could be utilised in other industries as well.

Mr. Dilip Chakraborty, Chairman, 18th GCA Organizing Group commented: We are facing shortage of opportunities for student and part qualified actuaries. As more actuaries qualify, we need to go out to non-traditional business such as banking industry, where actuarial expertise is needed, to be able to grow the profession. This will require the support of the Regulators.

The programme covered four plenary sessions and fifteen concurrent sessions, providing insights into the current Issues related to the actuarial profession & industry. The concurrent sessions cover Life Insurance, General Insurance, Health Insurance, Pension & Employee Benefits, Data Sciences & ERM & Pension.

The GCA is organised annually since 1999 and is a major event attracting stakeholders in the insurance and financial sectors including actuaries and non-actuaries. Since the 13th GCA in Feb, 2011, the event has been launched on the global scale, attracting international audience. Apart from IFoA, UK, Society of Actuaries (SOA), USA and Casualty Actuarial Society (CAS), USA are also participating in this event. It may be further noted that Institute has recently agreed on MRA with CAS.

Mr. T.S. Vijayan, Chairman, IRDA, India, **Mr. Dilip Chakraborty,** Chair – 18th GCA Organising Group, India, **Mr. Thomas Mathew,** MD & CEO, RGA Services Pvt. Ltd., **Mr. Rajesh Dalmia**, President – Institute of Actuaries of India, **Mr. Bob Miccolis**, Board Chair/ Past President, CAS, US, **Mr. Allan O' Bryant**, EVP, & Head of Asia RGA, USA and **Mr. Sanjeeb Kumar** VP, IAI India, were some of the eminent panellists who participated in the inaugural session of the 18th GCA.

Having underscored the message that the actuarial profession is a custodian of customer's trust, the 18th GCA is truly a global event having witnessed participation of over 726 delegates from 16 countries.

PRINT COVERAGE

The Economic Times
Mentions 18th Global Conference of Actuaries, IRDA Chairman, TS Vijayan

'Control on Mgmt Can Better Curb Norms Violation'

Our Bureau

Mumbai: The Insurance Regulatory and Development Authority (Irda) has said that controls on management is a better way to curb breach of expense norm to deal with non-compliance than imposing nominal monetary penalties.

"If they are breaking the expense limit what are the penalties. Previously it used to be penalty. The moment we said we are going to control the branches that put the people on alert," said Irda chairman TS Vijayan on the sidelines of the 18th Global Conference of Actuaries in Mumbai.

When the expenses go up, the shareholders are supposed to put in the money, said Vijayan. "Beyond a point if the volumes do not justify shareholders, we would like to alert the customers. It has to be profitable in the long run...If they want to be profitable or be running profitably, a certain mix is required," he said.

As per the current norms, the salary of CEOs beyond ₹1.5 crore is borne by the shareholders.

The Hindu Business Line
Mentions Institute of Actuaries of India Summit, IRDA Chairman, TS Vijayan

Simplify product distribution, IRDAI chief tells insurers

OUR BUREAU
Mumbai, February 1

The regulator has asked insurers to simplify the way insurance products are distributed.

"Insurers can bring in simplified distribution within the existing framework itself," said TS Vijayan, Chairman, Insurance Regulatory and Development Authority of India (IRDAI), on the sidelines of the Institute of Actuaries of India summit.

Through regulations, such as management of expenses and commissions, IRDAI is trying to encourage companies to roll out simplified distribution structures.

He added that for simple products insurers can look at distributors, such as point of sales persons, while agents can be trained more comprehensively for selling more complex products.


TS Vijayan, Chairman, IRDAI

Expense management

When asked whether IRDAI is having a re-look at the expenses management circular, Vijayan said shareholders must take cognisance of the expenses incurred by insurers. The IRDAI chief said unlike earlier where insurers had to pay penalties for exceeding their expense limits, the current proposed provisions, such as restriction on opening new branches, are likely to have a bigger impact.

Vijayan also said catastrophe insurance premiums could go up after the massive losses insurers faced in the Chennai floods recently.

Asian Age
Mentions 18th Global Conference of Actuaries (GCA), IRDA Chairman TS Vijayan

Actuaries meet inaugurated

Mumbai: The 18th Global Conference of Actuaries (GCA) organised by the Institute of Actuaries of India (IAI) was inaugurated with a key note address by T. S. Vijayan, chairman, IRDA. With the governments across the world introducing reforms to sustain and push growth, the forum provides a platform to discuss the opportunities that arise due to changing economic and business landscape. Mr Vijayan spoke on how actuarial profession is at the forefront of building the trust in the insurance industry in general and customers in particular.

The Financial Express
Mentions 18th Global Conference of Actuaries (GCA), IRDA Chairman, TS Vijayan

Irdai calls for price corrections to help general insurers

fe Bureau

Mumbai, Feb 1: In the last few years, profits of the general insurance companies were hit by three major natural catastrophes – floods in Tamil Nadu and Jammu & Kashmir floods and cyclone Hud-Hud. To ensure that natural calamities do not adversely impact the insurance companies, the regulator feels the need for some price correction for general insurance companies.


Irdai chairman Vijayan

Speaking on the sidelines of the 18th Global Conference of Actuaries (GCA) TS Vijayan, chairman of the Insurance Regulatory and Development Authority of India (Irdai), said, "General insurance is not making a lot of money. I think some price correction will be required when there is a disaster, especially in a concentrated area." The Indian insurance industry received claims worth over ₹10,000-12,000 crore following various catastrophes in the last three years. Insurers have already received claims of around ₹4,900 crore after the recent floods in Tamil Nadu.

Irdai chairman also reposed his faith in the insurance industry to grow at a faster pace than being experienced currently. "The Asian markets have recorded a real growth of 6.5%, emerging markets grew at 7.4%, and advanced countries grew by 2.9%, while India could only grow at 1.8% in 2014-15. In this year, we should be able to make up for the growth and industry need to identify which are the things relevant for capturing customer's mind and wallet share," said Vijayan.

Vijayan said actuaries have great responsibility to ensure that we remain trustees of customers through the changes in technology, products as well as regulations. "We have to get a better deal for the customers. The industry has seen close to ₹25 lakh crores invested by customers. This is due to the trust and commitment reposed by customers in the industry. Trust is not a one-time affair; it has to be renewed every time," concluded Vijayan.

The Economic Times
Mentions 18th Global Conference of Actuaries, IRDA Chairman TS Vijayan
http://economictimes.indiatimes.com/news/economy/finance/controls-on-management-can-better-curb-norms-violation-irda/articleshow/50817052.cms



Controls on management can better curb norms violation: IRDA

By ET Bureau | 2 Feb, 2016, 11.16AM IST

READ MORE ON » TS Vijayan | salary | insurance

MUMBAI: The Insurance Regulatory and Development Authority (Irda) has said that controls on management is a better way to curb breach of expense norm to deal with non-compliance than imposing nominal monetary penalties.

"If they are breaking the expense limit what are the penalties. Previously it used to be penalty.

The moment we said we are going to control the branches that put the people on alert," said Irda chairman TS Vijayan on the sidelines of the 18th Global Conference of Actuaries in Mumbai.

Business Standard
Mentions Global Conference of Actuaries, IRDA Chairman, TS Vijayan
http://www.business-standard.com/article/pti-stories/catastrophe-insurance-premium-may-go-up-says-irdai-chief-116020101290_1.html



Catastrophe insurance premium may go up, says Irdai chief

Press Trust of India | Mumbai
February 1, 2016 Last Updated at 22:42 IST

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Regulator Irda has indicated that the premium in the case of a "catastrophe insurance" may go up in light of a number of natural disasters hitting various parts of the country in the recent past.

"The general insurance industry on a whole is not making a lot of money. It requires some base correction in premium rate, especially in a case like the recent heavy rains in Chennai, which resulted in a huge loss," Irdai Chairman T S Vijayan said here today.

He was interacting with reporters on the sidelines of a global conference of actuaries.

Business Standard
Mentions Global Conference of Actuaries, IRDA Chairman, TS Vijayan
http://www.business-standard.com/article/finance/price-correction-needed-in-non-life-sector-says-irdai-chairman-116020300070_1.html



Price correction needed in non-life sector, says IRDAI chairman

Says some revision in pricing is required especially in areas like insurance for natural catastrophe

BS Reporter | Mumbai
February 1, 2016 Last Updated at 22:35 IST

T S Vijayan

Price correction is needed in the general insurance segment said TS Vijayan, chairman of Insurance Regulatory and Development Authority of India (IRDAI).

Speaking on the sidelines of the Global Conference of Actuaries organised by Institute of Actuaries of India, Vijayan said: "Some revision in pricing is required especially in areas like insurance for natural catastrophe."

The Hindu Business Line
Mentions Institute of Actuaries of India summit, IRDA Chairman, TS Vijayan
http://www.thehindubusinessline.com/money-and-banking/irda-asks-insurers-to-employ-simplified-ways-of-distribution/article8179422.ece



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Simplify product distribution, IRDAI chief tells insurers

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The IRDAI chief expects catastrophe insurance premiums to go up after the massive losses insurers faced in the Chennai floods recently

MUMBAI, FEB 1:

The regulator has asked insurers to simplify the way insurance products are distributed.

"Insurers can bring in simplified distribution within the existing framework itself," said TS Vijayan, Chairman, Insurance Regulatory and Development Authority of India (IRDAI), on the sidelines of the Institute of Actuaries of India summit.

Through regulations, such as management of expenses and commissions, IRDAI is trying to encourage companies to roll out simplified distribution structures.

The Financial Express
Mentions 18th Global Conference of Actuaries (GCA), IRDA Chairman, TS Vijayan
http://www.financialexpress.com/article/markets/indian-markets/irdai-calls-for-price-corrections-to-help-general-insurers/205507/



THE FINANCIAL EXPRESS

Home | Markets | Indian-markets | Irdai calls for price corrections to help general insurers

Irdai calls for price corrections to help general insurers

In the last few years, profits of the general insurance companies were hit by three major natural catastrophes – floods in Tamil Nadu and Jammu & Kashmir floods and cyclone Hud-Hud.

By: FE Bureau | February 2, 2016 12:28 AM

MORE ON THIS STORY

Agents of change: Perks up

Irdai to launch portal for health insurance plans information

In the last few years, profits of the general insurance companies were hit by three major natural catastrophes – floods in Tamil Nadu and Jammu & Kashmir floods and cyclone Hud-Hud. To ensure that natural calamities do not adversely impact the insurance companies, the regulator feels the need for some price correction for general insurance companies.

Speaking on the sidelines of the 18th Global Conference of Actuaries (GCA) TS Vijayan, chairman of the Insurance Regulatory and Development Authority of India (Irdai), said, "General insurance is not making a lot of money. I think some price correction will be required when there is a disaster, especially in a

DNA
Mentions Global Conference of Actuaries, IRDA Chairman, TS
http://www.dnaindia.com/money/report-catastrophe-insurance-premium-may-go-up-due-to-increase-in-natural-disasters-in-india-says-irdai-chief-2172952



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Catastrophe insurance premium may go up due to increase in natural disasters in India, says Irdai chief

Mon, 1 Feb 2016-11:33pm , Mumbai , PTI

Irdai is not content with the 1.8% expansion the insurance industry during the last fiscal and is hoping for a pick-up in growth in 2015-16.

Regulator Irda has indicated that the premium in the case of a "catastrophe insurance" may go up in light of a number of natural disasters hitting various parts of the country in the recent past.

"The general insurance industry on a whole is not making a lot of money. It requires some base correction in premium rate, especially in a case like the recent heavy rains in Chennai, which resulted in a huge loss," Irdai Chairman T S Vijayan said here on Monday.

He was interacting with reporters on the sidelines of a global conference of actuaries.

Asia Insurance Post
Mentions 18th Global Conference of Actuaries, IRDA Chairman, TS Vijayan
http://www.asiainsurancepost.com/NewsFull.aspx?Id=1602000002



Mumbai:

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He was interacting with reporters on the sidelines of 18th Global Conference of Actuaries.

India Education Diary
Mentions 18th Global Conference of Actuaries (GCA), IRDA Chairman TS Vijayan
http://indiaeducationdiary.in/Shownews.asp?newsid=37496

18th Global Conference of Actuaries begins; delegates deliberate on building growth momentum

Monday, February 01, 2016

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Tuesday, February 02, 2016

Report by India Education Bureau, New Delhi: Shri Venkaiah Naidu, Honourable Minister of Urban Development, Housing and Urban Poverty Alleviation

Mumbai: The 18th Global Conference of Actuaries (GCA) organised by the Institute of Actuaries of India (IAI) was inaugurated with a key note address by Mr. T. S. Vijayan, Chairman IRDA. With the governments across the world introducing reforms to sustain and push growth, the forum provides a platform to discuss the opportunities and challenges that arise due to changing economic and business landscape.

Inaugurating the conference, IRDA Chairman Mr. T.S. Vijayan spoke on how actuarial profession is at the forefront of building the trust in the insurance industry in general and customers in particular

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share," said Mr. T.S. Vijayan. Rajesh Dalmia, President of Institute of Actuaries of India, the organizers of the Global Conference of Actuaries, discussed the developments in the Indian actuarial profession and outlined the strategies to ensure the development of the talent pool to support industry's growth.

"Actuaries as a profession are in great demand, but there is a shortage of about 40,000 actuaries globally while we have around 70,000 working actuaries globally. Our institute's fellow membership stands at 300, and have close to 35 newly qualified actuaries this year, our aim is to take this number to 100 newly qualified actuaries each year" said Mr. Rajesh Dalmia. IAI believes that in the changing economic scenario, actuarial services could be utilised in other industries as well.

Dilip Chakraborty, Chairman, 18th GCA Organizing Group commented: "We are facing shortage of opportunities for student and part qualified actuaries. As more actuaries qualify, we need to go out to non-traditional business such as banking industry, where actuarial expertise is needed, to be able to grow the profession. This will require the support of the Regulators".

The programme covers four plenary sessions and fifteen concurrent sessions, providing insights into the current Issues related to the actuarial profession & industry. The concurrent sessions cover Life Insurance, General Insurance, Health Insurance, Pension & Employee Benefits, Data Sciences & ERM & Pension.

India TV News
Mentions Global Conference of Actuaries, IRDA Chairman TS Vijayan
http://www.indiatvnews.com/business/india/catastrophe-insurance-premium-may-go-up-hints-irdai-chief-21027.html

Catast[illegible]e insurance premium may go up, hints Irdai chief

PTI [Updated: 01 Feb 2016, 22:48:55]



ALSO READ

Catastrophe insurance premium may go up, hints Irdai chief

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Mumbai: Regulator Irda has indicated that the premium in the case of a "catastrophe insurance" may go up in light of a number of natural disasters hitting various parts of the country in the recent past.

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He was interacting with reporters on the sidelines of a global conference of actuaries.

News Today
Mentions Global Conference of Actuaries, IRDA Chairman TS Vijayan
http://newstodaynet.com/business/catastrophe-insurance-may-go-warns-irda

Tuesday, 2 February 2016

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Catastrophe insurance may go up, warns IRDA

PTI Tuesday, 2 February 2016



Mumbai: Insurance regulator IRDA has indicated that the premium in the case of a "catastrophe insurance" may go up in the light of a number of natural disasters hitting various parts of the country in the recent past.

"The general insurance industry on a whole is not making a lot of money. It requires some base correction in premium rate, especially in a case like the recent heavy rains in Chennai, which resulted in huge loss," IRDAI chairman T S Vijayan said here yesterday.

He was interacting with reporters on the sidelines of a global conference of actuaries.

Orient Publication

Mentions 18th Global Conference of Actuaries, IRDA Chairman TS Vijayan

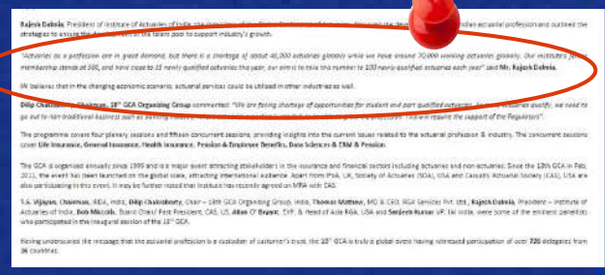
http://www.orientpublication.com/2016/02/actuaries-torchbearers-of-trust-should.html



Actuaries' torchbearers of tr hould ensure customer centricity – IRDA Chairman

18th Global Conference Of Actuaries

18th Global Conference of Actuaries begins; delegates deliberate on building growth momentum



Rajesh Dalmia, President of Institute of Actuaries of India, the organizers of the Global Conference of Actuaries, discussed the developments in the Indian actuarial profession and outlined the strategies to ensure the development of the talent pool to support industry's growth.

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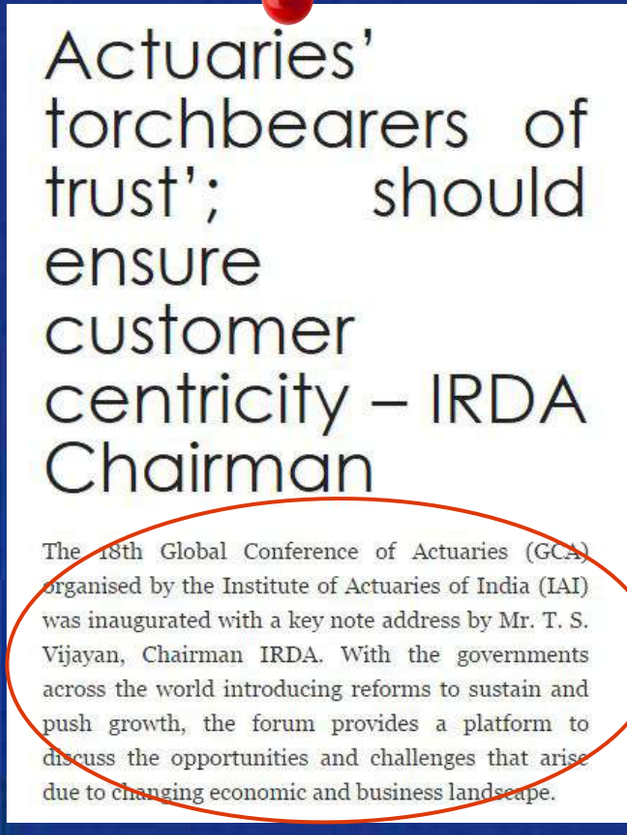
IAI believes that in the changing economic scenario, actuarial services could be utilised in other industries as well.

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Webnewswire

Mentions 18th Global Conference of Actuaries, IRDA Chairman TS Vijayan

http://www.webnewswire.com/content/actuaries%E2%80%99-torchbearers-trust%E2%80%99-should-ensure-customer-centricity-%E2%80%93-irda-chairman



Actuaries' torchbearers of trust'; should ensure customer centricity – IRDA Chairman

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SUCCESS STORIES

Ms. Garima Gupta
(CA3 TOPPER November 2015)



1 Congratulations! Ms. Garima Gupta, for being Topper in CA3 Exam held in November 2015. Tell us about yourself, your educational background and your hobbies

Thank you. This is Garima Gupta, having 4+ years of work experience in Risk Management and Consulting.

By education, I am a computer science engineer from Netaji Subhas Institute of Technology, Delhi University.

I started my professional career with Towers Watson life consulting, India in 2011 where I picked up most of my actuarial knowledge and skill-set.

Last year, I moved base to London and joined the analytics division of Aon Benfield. In addition to consulting, I also look after the development of Aon's propriety software - ReMetrica for Life, Health & Pensions (LH&P).

Personally, I am a sports enthusiast, love to dance and travel. I believe that one should always have a drive for acquiring new skills and following the same philosophy, I am now learning Spanish language and the art of Muay Thai.

2 How did your parents, family and friends contribute to your success?

My parents are my strength. They have been instrumental in instilling in me all values, ethics and the importance of studies right since school time.

They taught me to give my best in whatever I did and all throughout my career, I have tried to follow the same.

The patience and confidence to take exams irrespective of the result is something I have absorbed from my elder brother.

Last but not the least my friends with their endless support have been my energy to keep going.

3 How many hours of study on average per day did you put in to top the CA3 result where in only 21 candidates passed out?

I never expected to top the exam but I believe practical experience and working in the consulting industry has helped a lot. More than regular study, I made it a point to stress on better communication and presentation of ideas in my day-to-day work.

4 How much time do you think one requires for serious preparation for this examination?

I believe the CA3 exam is more about experience than preparation time. It tests your communication skills which is integral to an actuary's work.

The pre-course assignment is definitely a good start but apart from that, one should really try and make a conscious effort in their routine work to improve their softer skills.

Simple ways like presenting results in a graphical format or a presentation can vastly help.

5 Did you face any difficulty while studying this subject?

Not really, the CA3 pre-course workbook provided a good introduction to the exam and the feedback on the workbook answers helped me in understanding what the examiners are looking for.

However, since there is no subject matter that you will be directly tested on, the exam remains a bit of a mystery till the end but I guess that's what the exam is about. It gives a real life feel of day-to-day tasks for an actuary where good communication would be key.

6 This communication based exam tests an individual's presentation and written skills. How this exam has professionally helped you in your day to day communication at work?

Having good communication skills is key to an actuary's job. Preparation for this exam taught me how important it is to tailor your content and jargon based on the audience you are addressing.

My work requires me to interact with people from non-financial/non-actuarial background on a day-to-day basis and preparing for this exam has actually made a lot of difference in my approach.

7 How do you think you can add value to the Actuarial Profession?

Life insurers and reinsurers are being driven by regulations, such as Solvency II, rating agencies and shareholders to develop a stochastic view of their key risks, rather than traditional scenario-based modelling.

This is where advanced computing power and modelling softwares come into picture. Being both a computer science engineer and an actuary, I can appreciate the importance of this and can actually contribute towards better modelling practices.

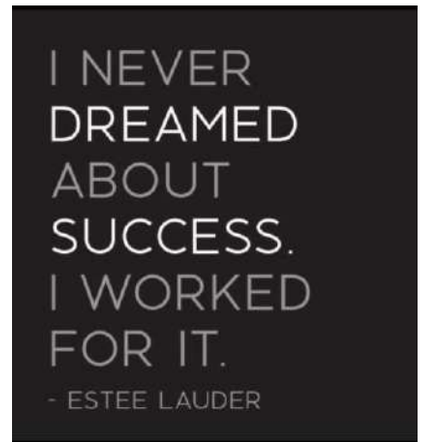
My current job fits in perfectly here as it allows me to offer unique enterprise-wide actuarial and risk software solutions to clients with the use of ReMetrica LH&P.

Also, I hope I will be able to use my experience in the Indian and the UK market to combine best practices in whatever role I contribute to the industry in the future.

8 What was your purpose while selecting this course – Communications?

This exam was my last exam for fellowship. The idea of being called a qualified actuary was the main driving force.

However, appearing for this exam has actually helped me improve the most important requirement for any profession – having good presentation skills and hence I believe this course is a must for all professionals.



SUCCESS STORIES

Mr. Akshay Agarwal
(ACET TOPPER – DECEMBER 2015)



1 What were the basic mantras of your success?

The basic mantras of my success were regular study and strengthening the basics concepts.

I completed the syllabus beforehand and thus got much more time to practice questions which also helped me in the exam.

2 Tell us about yourself, your educational background and your hobbies

I am currently working in Fair Isaac Corporation (FICO) as a software engineer in Bangalore.

I completed my dual degree (BE. in Electronics & Instrumentation and MSc. in Mathematics) from BITS Pilani in 2015.

My hobbies include playing badminton, listening to music and reading novels.

Apart from this I also have a keen interest in solving mathematics puzzles.

3 When did you decided to take up Actuarial professional course?

I have always had keen interest in mathematics, particularly statistics. In my college final year I came across the Actuarial professional course through some of my friends and that is when I decided to pursue it.

4 How did you come to know about the ACET?

I came to know about ACET through my peers in college.

5 How much time do you think one requires for serious preparation for this exam?

Preparation for this exam depends on your academic background. I being from an Engineering as well Mathematics background was fairly proficient with the topics, therefore, it took me about 3 to 4 weeks of regular study for preparation of exam.

6 How did you start preparation for the ACET?

I studied from FAC pack & STAT packwhile solving numerous problems. I concentrated on each topic and prepared short notes with important formulae.

The study material provided by ACET was well structured and contains detailed explanation of each topic, so I didn't feel the need to refer to any other sources.

7 Which is the most difficult part of this examination and why? What was your strategy to tackle this difficult part?

I found integration and regression particularly difficult and my primary strategy was to spend more time solving problems from these topics.

8 Did you prepare notes? How helpful are the notes? What is your advice on notes-making?

Yes I prepared short and organized notes for important formulae and they were quite helpful for speedy revision. My advice on note making would be that it should be small, precise and quick to revise.

9 How do you visualize your success?

ACET is doorway, and hence, my first step into Actuarial profession. Being the topper has indeed been a morale booster motivating me to pursue this course with enthusiasm. I will work hard for coming actuarial exams.

10 What were your strong points which enabled you to achieve success in ACET?

My interest for Mathematics along with my ability to stay focused were the strong points for my success. Also having appeared for many competitive exams, my time management skills got enhanced.

11 How do you think you can add value to the Actuarial Profession?

I am passionate about making data-driven decisions. I like analyzing mathematical problems in great detail. Actuaries involve studying the past data and predicting the future which totally aligns with my interest. I think with my logical and analytical abilities I can provide a wide range of ideas to solve critical problems.

12 Are you working somewhere? Describe a typical work week?

Yes, I am working at Fair Isaac Corporation (FICO) as a software Engineer. FICO is a software company which is known for FICO Score, a measure of consumer credit risk. My work involves gathering as well as processing data about consumers from banks and credit bureaus which is then used to compute FICO Score.

13 What are you passionate about?

I am passionate about numbers, analyzing data and solving complex problems.

14 Behind one topper are many people who stood by him/her during those uncertain times when he/she was merely an 'aspirant'. Who were those people in your case? Any specific incidence that you would like to share with us?

My parents and my elder brother have played a vital role in my success. They have always believed in me and motivated me at every step. Also, my friends have been quite helpful. I thank them all for their love and support.

15 What are some of the mistakes that an average aspirant can avoid for better time management? What is your message for them?

I think the time given to finish the exam is sufficient to solve all the problems. Just read all the questions carefully to avoid silly mistakes. Keep calm and concentrate on your work and focus on one question at a time.

16 Any comments on your experience with ACET process.

ACET process was very smooth, right from filling the application form to conducting exam and releasing results. Apart from this the study material provided was excellent.

SUCCESS STORIES

Mr. DOGGA TARUN SATYA SAI
(ACET TOPPER – DECEMBER 2015)



1 What were the basic mantras of your success?

Practice and hard work are the keys to my success

2 Tell us about yourself, your educational background and your hobbies

I graduated from Indian Institute of Technology, Madras with a Bachelors of Technology Degree in Civil Engineering in 2015. I have completed 12 years of my schooling in Visakhapatnam. I spend most of my free time in reading fantasy novels, watching movies and I also like reading history.

3 When did you decided to take up Actuarial professional course?

I have always had a strong interest in Mathematics and I also want to pursue my career in the business field. I decided to take up Actuarial professional course when I understood that the exam system was set up to have specific rewards for those that worked hard and passed exams.

4 How did you come to know about the ACET?

I got to know about ACET from colleagues in my office who were already students of IAI. They encouraged me to take up this course. After acquiring enough knowledge about the course, I decided to give the exam.

5 How much time do you think one requires for serious preparation for this exam?

I feel that more than time the way we plan our preparation is more important for this exam as there are many concepts to learn. Based on this I think preparation time varies from person to person. I dedicated nearly a 2 hours of quality time (this also includes revision period) for each chapter.

6 How did you start preparation for the ACET?

I started the preparation by going through all the course objectives and chapter summaries at the end of each chapter in the study material provided for ACET exam. This helped me to learn the contents of the chapter and to assess how good I am in that particular chapter.

7 Which is the most difficult part of this examination and why? What was your strategy to tackle this difficult part?

As I am from engineering background I faced some difficulty understanding the statistics part. So I made sure that after completion of each chapter I am good at all the concepts provided in the summary and I self-assessed myself with the chapter objectives.

8 Did you prepare notes? How helpful are the notes? What is your advice on notes-making?

No, I did not make any notes. I felt that the study material provided is sufficient enough for preparation but I practiced all the problems provided in the material in a separate note which helped me as a good revision material.

9 How do you visualize your success?

I look this success as the first milestone in the long journey to come.

10 What were your strong points which enabled you to achieve success in ACET?

As I mentioned earlier hard work and practice are my strong points which helped me to achieve success in ACET.

11 How do you think you can add value to the Actuarial Profession?

The world is becoming more interconnected and we are generating humongous volumes of data about the customers be it from healthcare, motor vehicle records, social media and other sources, all this data can improve the decision making at the insurers end if properly leveraged, I want to be at the forefront of this revolution where we will be able to leverage data through latest technologies and set industry benchmarks.

12 Are you working somewhere? Describe a typical work week?

Right now I am working in the Actuarial Department of ICICI Lombard GIC Limited as Product Manager. I'm at the early stage of my career. Typical days of my week include working with data to produce analysis and exhibits and then sending them or presenting them to my colleagues or other departments. I spend more time at my desk organizing data, analyzing data and developing models using Excel and other data analysis software.

13 What are you passionate about?

I've a passion for reading books and comics. I always try to find some spare time I can devote to reading. It's enjoyable and it helps me relax

14 Behind one topper are many people who stood by him/her during those uncertain times when he/she was merely an 'aspirant'. Who were those people in your case? Any specific incidence that you would like to share with us?

I would like to thank my parents for supporting my career choice and I also would like to thank my colleagues for giving me a proper support and guidance during the preparation for the exam.

15 What are some of the mistakes that an average aspirant can avoid for better time management? What is your message for them?

I advise future aspirants to have a thorough understanding in all the concepts provided in the study material and self-assess the concepts by solving the practice questions provided in the study material.

16 Any comments on your experience with ACET process.

I had a great time preparing for ACET. The material provided a clear understanding to the basics of mathematics and statistics. The exam was well structured and tested well for the required skillset in the aspirants.



COUNTRY REPORT
NEW ZEALAND

Insurer Data Collection

Reserve Bank for New Zealand will provide specific feedback to insurers on the annual insurer return, quarterly statistical returns and half-yearly solvency returns(1). Once consistency is achieved, summary industry information will be published during 2016.

All licenced insurers have received either a consultation letter or modified licence conditions, aligned to insurer's reporting dates, latest solvency standards and solvency disclosure.

The Bank reminded insurers they are responsible for fit and proper certification of Directors and relevant officers after undertaking 'due enquiry'. Any section 38 exemptions for overseas insurers only applies to directors not relevant officers.

Statutory Funds

All New Zealand life insurers established one Statutory Fund in mid-2013 for all life policies as defined by section 84 of the Insurance (Prudential Supervision) Act 2010(2). Interestingly, no insurer created more than one Statutory Fund which would enable participating contracts to be ring-fenced from non-participating contracts.

Most life insurers complied with the Statutory Fund regulations. However, some weaknesses were identified with particular insurers. These included mingling of balance sheet items, mishandling transactions, trust arrangement for non-exempt branches and profit and loss disclosure. RBNZ will write to individual insurers about weaknesses in their own returns, expand guidance, gather information on restricted investments and conduct a follow-up review within two years.

Review of Financial Advisers Act

The Ministry of Business, Innovation and Employment has put out an options paper for public consultation setting out proposed changes to supervision of Financial Advisers(3). Submissions close on 26 February 2016. The aim to promote public confidence in professionalism of advisers without undue compliance costs, whereby: consumers can access advice; consumers have access to effective redress; and advice improves consumers' financial outcomes.

Barriers to achieving a more informed and confident consumer are: difficulty for consumers to know where to seek financial advice; certain types of advice aren't being provided; some advisers don't have adequate knowledge, skills or competence; conflict of interest (e.g. commission) may lead to sub-optimal outcomes for consumers; and consumers don't always understand limitations of different types of advice.

Potential changes to regulation of advisers include: remove distinction between personalised and class advice; extend ethical requirements for Authorised Financial Advisers (put consumer's interest first and avoid conflicted remuneration) to Registered Financial Advisers; greater role for industry bodies to supervise compliance of their members; allow robotic-advice by licenced entities through internet; providing information to help consumers find advisers; standardising disclosure; increasing competency requirements and provider greater consistency for dispute resolution.

Claim experience study

All the major life insurers are currently compiling information on death, critical illness and total and permanent disability claims for the period 2008 to 2014. Industry results will be compiled by Gen Re and are expected to be circulated to participating offices later this year.

Population studies continue to show secular improvement for mortality. However, anecdotal evidence points to lack of selection and increased incidence rates for critical illness. It will be interesting to see whether the assured lives study confirms these trends.

Recent studies of Australian disability income experience showed that probability of claim is similar across benefit period, replacement ratio and duration an insurance policy has been in force. However, these factors are relevant for termination rates. Return to work can be significantly better for newer rather than older policies.

Conference

The biennial conference for the New Zealand Society of Actuaries will be held in Tauranga from 20 to 23 November 2016. Reports of recent NZSA events can be found in their newsletter(4)

References:

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About the Author



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Mr. John Smith is the Appointed Actuary of Fidelity Life the largest New Zealand owned Life Insurer.



18TH GCA AWARDS

BEST ARTICLES & REPORTAGE AWARDS FY 2015

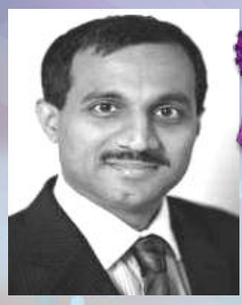


MS. VICHITRA MALHOTRA

TYPE OF ARTICLE FEATURES

TITLE OF ARTICLE : ARE SURRENDER PROFITS A BAD SOURCE OF PROFITS

PUBLISHED IN : OCTOBER 2015



MR. SANKET KAWATKAR



MR. PHILIP JACKSON

TYPE OF ARTICLE FEATURES

TITLE OF ARTICLE : INSURANCE LAWS AMENDMENTS: FDI EIGHT MONTHS ON

PUBLISHED IN : NOVEMBER 2015



MS. ROOPA BHAT

TITLE OF REPORTAGE: 11TH CURRENT ISSUES IN LIFE ASSURANCE

PUBLISHED IN : DECEMBER 2015



MR. RAJESH S.

TITLE OF REPORTAGE: WORKSHOP ON THE FINANCIAL CONDITION ASSESSMENT REPORT (FCAR) FOR GENERAL INSURANCE

PUBLISHED IN : JANUARY 2015



18TH GCA Lucky Draw WINNERS

The lucky draw on 2nd February, 2016 was drawn at around 7.00 pm at the close of IAI student event in presence of the students, IFOA team & **Mr. Dilip Chakraborty**. The coupons were taken out by **Mr. Dilip Chakraborty** Chairperson, The External Affairs and Research Committee. The Two Apple I- Pad mini 4 Wi-Fi 16GB were given out by **Mr. Nishit Majmudar**, CEO, Aviva Ltd. to following student members:

1. **Mr. Luv R. Pilane, membership ID 4708**
2. **Mr. Kartikey Laxmanprasad Kandoi, membership ID 25424**



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The Actuary India – Editorial Policy

Version 2.00/23rd Jan 2011

A: "The Actuary India" published monthly as a magazine since October, 2002, aims to be a forum for members of the Institute of Actuaries of India (the Institute) for;

a. Disseminating information,
b. Communicating developments affecting the Institute members in particular and the actuarial profession in general,
c. Articulating issues of contemporary concern to the members of the profession.
d. Cementing and developing relationships across membership by promoting discussion and dialogue on professional issues.
e. Discussing and debating issues particularly of public interest, which could be served by the actuarial profession,
f. Student members of the profession to share their views on matters of professional interest by way of articles and write-ups.

B: The Institute recognizes the fact that;

a. there is a growing emphasis on the globalization of the actuarial profession;
b. there is an imminent need to position the profession in a business context which transcends the traditional and specific actuarial applications.
c. The Institute members increasingly will work across the globe and in global context.

C: Given this background the Institute strongly encourages contributions from the following groups of professionals:

a. Members of other international actuarial associations across the globe
b. Regulators and government officials
c. Professionals from allied professions such as banking and other financial services
d. Academia
e. Professionals from other disciplines whose views are of interest to the actuarial profession
f. Business leaders in financial services.

D: The magazine also seeks to keep members updated on the activities of the Institute including events on the various practice areas and the various professional development programs on the anvil.

E: The Institute while encouraging stakeholders as in section C to contribute to the Magazine, it makes it clear that responsibility for authenticity of the content or opinions expressed in any material published in the Magazine is solely of its author and the Institute, any of its editors, the staff working on it or "the Actuary India" is in no way holds responsibility there for. In respect of the advertisements, the advertisers are solely responsible for contents of such advertisements and implications of the same.

F: Finally and most importantly the Institute strongly believes that the magazine must play its part in motivating students to grow fast as actuaries of tomorrow to be capable of serving the financial services within ever demanding customer expectations.

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