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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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From the Desk of President

- Mr. Sunil Sharma



It gives me immense pleasure to connect with you in Pre GCA month via Actuary India. The profession is passing through a new phase with many challenges and opportunities. First and foremost I would like to invite you to the AGFA and 20th Global Conference of Actuaries scheduled between 4-6th of March, 2019.

This year the AGFA is scheduled on 4th of March and GCA Organising Group (OG) has been meticulously planning the event to make this proud event for the members of the Indian Actuarial profession a grand success. I have been told that there are many cultural programs being planned, in particular being performed by the members of the IAI. I am looking forward to this. I urge all members to enrol themselves for the GCA and take the benefit of early bird price.

GCA Papers advisory group is really working hard to put together best speakers from all across the world to get the best during the two days of GCA. I would like to convey my sincere thanks to the GCA Papers advisory group for their hard work.

In order for us to address lack of awareness of the actuarial profession, we have constituted an Advisory Group on Communication. This group is putting together communication plan to public at large and how can we utilise news - digital or print media, social media etc. to increase awareness and position the profession for growth.

While GCA related activities are moving with great enthusiasm and greater participation and volunteering within concerned groups, the professional front has been further advanced with two important seminars in the month of January, viz., 9th Capacity building seminar in General Insurance and 14th Seminar in Current issues in Life Insurance followed by 30th India Fellowship Seminar.

There is a famous quote by Alan Cohen, "Do not wait until the conditions are perfect to begin. Beginning makes the conditions perfect". The above quote makes sense of recent developments in the profession in India in particular. The waiting time for new course materials are over now and notified for our members without any further delay; however, the new scenario allows only hard copies due to certain soft copy related issues yet to be resolved. The price of the study material had to be raised by IAI owing to rise in royalty and input costs. Nevertheless, we remain committed and a lot of work is underway to provide more support to students.

The one off examination conducted in December 2018 has yielded good results in most of the subjects, albeit few disappointing observations particularly in subjects CT1 and CT3. The IAI office has done an excellent job in delivering the results in time enabling all members to plan and gear up for the next round, the examination dates for year 2019 have already been announced. Congratulations to all who cleared the December diet and good luck to those who could not make it. In view of enhanced syllabus and practical examinations for new subjects CS1, CS2, CM1 and CM2, the training department is planning for extensive support in terms of coaching and guidance for new subjects, including class room training for excel.

I am really pleased to share that the Council met three times so far within a period of 3 months to deliberate on various issues which helped the profession to move forward to a large extent. Most of the committees constituted under Section 21 and 26 under the Actuaries Act had their meetings twice on average during the immediate quarter ended now. We are working with Government and Regulators to serve cause of public interest. A significant development has been made to have IAI members act as Asset Valuation Professionals. We will come back with more update on this later.

The two day brainstorming workshop session held at Lonavala on 7th-8th of December 2018 has really helped in terms of identifying priorities for the profession. Some of the projects identified have already been picked up for execution and many are work in progress.

I would like to thank all volunteers who have been working diligently for the profession and I am confident that with all your help we will take the profession to the next level and eventually expand the profession and at the same time strengthen the core.

With this I would like to sign off for now and look forward to meeting you in upcoming seminars or at the GCA if not earlier.

IAI President, Mr Sunil Sharma & IAI ED, Mr. Dinesh Chandra Khansili felicitating LIC Chairman, Mr Hemant Bhargava (Agreement with LIC for Principal Partner of 20th GCA)



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From the Desk of Chief Editor

- Ms. Bhavna Verma

It is with great pleasure that I write my first editorial for the Actuary India magazine, taking over from Mr. Sunil Sharma, Chief Editor since 2015. Following on from the great job that Sunil has been doing is going to be quite a challenge. It is a great honor for me to take on this role.

I must start by congratulating Sunil on being elected as the President of the Institute of Actuaries. There are exciting times ahead for the profession with Sunil at the helm of affairs.

I would also like to thank Mr. Sanjeeb Kumar for his immense contribution to the profession as the President of the Institute for the last two years. We have achieved a lot under Sanjeeb's leadership, most notably, the initiative on "Wider areas for Actuaries".

2018 had a lot going on for the actuarial profession globally. Nearly everyone heaved a sigh of relief with IFRS 17 implementation pushed out a year, although we eagerly await an extension in India. I hope the extra year (or two!) makes the miraculous difference every actuary and accountant has been wishing for! For those working on US GAAP, life isn't any easier with US GAAP targeted improvements being announced. Closer home, the IRDA is thinking strategically about the future to position the Indian insurance industry as a strong and resilient one. In short, the year ahead looks pretty packed already and I hope we have all geared up well in the first month of the year with a lot of energy to take on the opportunities and challenges of 2019.

A common theme I have picked up at various actuarial events and publications all throughout the last year is how actuaries can contribute to machine learning and data analytics. The IFoA held a very interesting webinar on this topic earlier in the year (The Role of Actuaries in the Expanding Field of Data Science, July 11, 2018). The revised actuarial exam curriculum



incorporates computer based exams using statistical programming software 'R', signifying the importance of statistical and data analysis for future actuaries. This is good time for students and even qualified actuaries to think about this evolving field where actuarial skills could prove to be very useful.

As we step into a fresh New Year and bid good-bye to a lightning fast 2018, let us resolve to remember our new-year resolutions for a bit longer than last year! It is a good time to make new resolutions, if you haven't already. And if you need help, here's one for you - contributing at least one article to the Actuary India magazine in 2019! I would like the GCA theme **"Expanding the horizon, strengthening the core"** to be the overarching theme for the Actuary India magazine this year. Look forward to your contributions to the magazine on a wide variety of topics in the months ahead.

My effort as your magazine's Chief Editor will be to bring a fresh perspective to you every month about our professional lives. Please feel free to write in to library@actuariesindia.org and let me know your thoughts about our profession in India.

From the Desk of Chairperson, 20th GCA Organizing Group

- Mr. Sanjeev Kumar Pujari



Just the light nip in the morning air, the brief Mumbai winter has gone past, fleetingly as ever. There is spring in the Mumbai air and as always at this time of the year, Global Conference of Actuaries (GCA) organized by Institute of Actuaries of India is just round the corner.

The Renaissance Mumbai Convention Center Hotel continues to be the ideal site to host this year's conference. If you are passing by the Powai lake and are heading East, look to your left and you wouldn't miss the expansive but serene view of the hotel in the backdrop of the glistening water of the Powai lake.

4th to 6th of March 2019 is the dates for the 20th GCA, something that we as a profession look forward to every year. This time like earlier, the conference would have lot to offer to make your participation worth your while. We have the distinguished guests, technical paper presentations, panel discussions by experts from all over the globe. Also look forward to a healthy dose of cultural programs and entertainment to go along with the academics.

The AGFA 2019 (Actuarial Gala Function and Awards), for the new Fellows and awardees would be one of the most fulfilling evening of their lives. This year, the AGFA reclaims its pride of place as a standalone event. This will be held on the 4th evening as a curtain raiser and the atmosphere is going to be as celebratory as it can get. Students, please make it a point to attend, to cheer your friends who would go up the dais to receive their prizes. The evening would also present you the opportunity to rub shoulders with the seniors and the veterans of the profession and get inspired. To the lucky ones who would go up the dais, please bring along your parents, spouse, relatives and friends; let them feel proud of your exalted status in the profession. Please note that you can register for the AGFA 2019 separately.

The theme of this year's event gives a lot away as regards its likely content. Going back to some of the

earlier themes - "Actuaries through the crystal ball", Evolving Frontiers, exciting prospects", Waves of reforms, exciting opportunities" are all about change, reform, looking ahead, expanding, opportunities etc. This year's theme is broadly on similar lines but looking closer, the theme covers both sides of the coin (a) strengthening the Core, essentially seeking to bolster the fundamentals of actuarial science (b) building on this Core to expand into areas where we have not gone before or may be at best have just about scratched the surface.

There are two groups (GCAOG & GCAPSG) within the profession that are currently working hard to make the conference a deeply fulfilling one, for one and all along with External Affairs & Research Committee (EARC) of the Institute.

The GCA Paper Selection and Programme Advisory Group (GCAPSG) is receiving and scrutinizing the papers that are coming in on topics such as life, pension, banking, asset management, risk management, data science etc. This group is also meticulously scheduling the sessions; bringing in experts on subjects such as IFRS, ERM, Banking, Health etc. The focus this year is surely on expanding the boundary of the actuarial profession, encouraging, facilitating and supporting their entry into wider fields. The 20th GCA Organising Group (GCAOG) is working out the logistics, partnerships etc.

The Registrations for the conference has started. I encourage you to secure a seat quickly by 5th February 2019 to avail Early bird discount on registration fees. Visit <http://www.gca.org.in> for further details.

I would also take this opportunity to thank the industry, all the life, Non-Life, Health and the reinsurance companies and all those associated for standing by the actuarial profession and providing the support and the drive which is so essential to its growth.

To conclude, I reiterate that the GCA, the flagship event that it is for the profession, offers a forum for all of us who are associated with the industry to listen, learn, reflect, share, reinforce, relate and engage. Every GCA is indeed a critical milestone in the path of success and progress of the profession into the future. This one, for sure will be no different.

9th Capacity Building Seminar in General Insurance (GI)

Organised by: Advisory Group on General Insurance, IAI
Venue: Hotel Sea Princess, Mumbai **Date:** 11th January, 2019

Welcome Address : Mr. Jatin Arora



Mr. Jatin Arora expressed this happiness that this first seminar of the new GI advisory is able to attract the most number of participants in any GI event till date with 116 registrations. He said the advisory group searching for the most relevant topics for the seminar has decided on IFRS 17 and Reinsurance (RI). He welcomed all the participants and speakers and said the objective of the session is to get deeper insights into the topics and build the required capacity among actuaries.

Inaugural Address : Mr. Sunil Sharma



Mr. Sunil Sharma started on a historical note as to how the erstwhile Actuarial Society of India (ASI) has transformed

into the vibrant Institute of Actuaries of India (IAI) of today. He outlined the different initiatives of the Institute and the engagement with the government and other related professional bodies. He also explained in detail the outcome of the recently held two day brainstorming session and urged the members to actively engage with the profession to take it to the next level. He informed the members that the Institute is planning to float private limited companies for education and training and exploit the potential of actuaries in the valuation space. He said that IFRS being a principle based accounting standard will have edge all over the world and also urged the actuaries to utilise this opportunity to build individual expertise in the subject. He ended his address requesting all actuaries to read and internalise the vision, mission and values of the profession.

Session : IFRS 17 - Financials under the New Regime

Speakers: Mr. Shrenik Baid, Mr. Hasmukh Raval



Session Highlights

Mr. Shrenik Baid started with an introduction to IFRS 17 and a brief roadmap for its implementation. He said the key objectives of IFRS 17 is to introduce for the first time a single accounting model for all types of insurance contracts, make it highly transparent and align with IFRS accounting of other industries. He also explained the primary features of the standard. The scope of the

standard, its application to different contracts and the measurement approaches namely the General Model or Building Block Approach (BBA), the Premium allocation Approach (PAA), the variable fee approach and the Modified BBA methods were touched upon. He mentioned that globally, the implementation of IFRS 17 has been pushed ahead by one year to 1st January 2022.



Mr. Hasmuk Raval explained the key changes from the current GAAP to IFRS, the aggregation of contracts to onerous, profitable & other, the recognition and measurement models and the transition approaches in detail. In addition the concept of Contract Boundary and approach to be adopted for reinsurance contracts were discussed in detail. The three transition approaches viz. Retrospective approach, Modified retrospective approach and the Fair value approach were discussed. He also gave an overview of financial statements and mapping of the current presentation formats to that under IFRS 17. The session concluded with detailed discussion of the implementation model including the diagnostic and impact analysis, system assessment and development followed by a highly interactive Q&A session.

Session : IFRS 17 - Key Issues and Challenges from Actuarial Perspective

Speaker: Mr. Sourav Roy

Session Highlights

Mr. Sourav Roy set the agenda of the discussion broadly as getting the numbers right, getting them on time, understanding and communicating the results. In the first part, he delved upon the measurement models available namely the Premium Allocation Approach (PAA) for unexpired and expired risk, the General Measurement Model (GMM) and the PAA eligibility test to determine the method to be adopted. There was also a discussion on what constitutes an onerous contract, measurement of fulfilment cash flows and the contract boundaries. As IFRS 17 reflects the time value of money, there was considerable discussion on the possible approaches to determining the discount rate. While the standard



necessitates risk adjustment, the choice of method is not prescribed. Hence considerable time was spent in discussing the different methods like, Value at Risk (VaR), Time Value at Risk (TVaR) and Cost of Capital approaches to risk adjustment. In addition there was also discussion on the Contractual Service Margin (CSM) roll forward under GMM approach.

He said that reinsurance contracts need to be accounted separately. He also explained the Actuarial model that needs to be industrialised and a flow chart on understanding the result drivers as to how the different components like the cash flows, time value of money, risk adjustment, release of CSM etc. flow into the P&L and the different components of the claim reserves. There was active participation in the discussion on different commercial and implementation issues and the role GI actuaries are expected to play in the journey to IFRS 17.

Session : IFRS 17 - Data and Disclosure requirements

Speaker: Mr. Rajesh Dalmia



Session Highlights

Mr. Rajesh Dalmia explained what disclosure requirements are changing under the new standard, its implications on the data that will be needed and processes for preparation of the same. He discussed the

amounts arising from contracts that need to be recognised in the financial statements, the significant judgements to be made in the application of IFRS 17 and the nature and extent of risks that arise from contracts within the scope of the standard. He also said that the methods used to measure the insurance contracts, the process to estimate the inputs and any changes in methods or input estimation need to be explained and disclosed in detail.

He explained the exposure to risks, mainly the market, credit and liquidity risks, how they arise, their disclosure and a brief description on how the risks are managed. According to the disclosure requirements for financial risks, the entities are also required to disclose qualitative and quantitative information about non financial risks. In addition IFRS 17 standard requires insurers to disclose information about insurance risk, the sensitivity analysis and claim development. The sample disclosures that he showcased helped to get a clear picture of the actual disclosure requirements. In addition to the disclosure requirements, the data implications, system and processes that are important to IFRS 17 were discussed in detail. The conceptual data flow and detailed data requirements for different systems, layers and calculation engines were very informative.

Session : RI Programme Design and Assessment - Practitioner's view

Speaker: Mr. Subrahmanyam Brahmajosyula



Session Highlights

Mr. Subrahmanyam Brahmajosyula started with the key objectives of a RI programme, the key issues in design and implementation and placement of RI. While the key objectives of a RI program are known to the audience, the speaker explained the different aspects to be considered in the design of RI programme, the company's attitude towards risk, the growth plans, economic and legislative factors, financial strength, risk

exposure, accumulation & potential catastrophe exposure. The factors on which the retentions depend on for different classes of business were also discussed. He also touched upon the different aspects to be borne in mind while calculation of Probable Maximum Loss (PML), the implications of PML based RI programme and the practical aspects of RI placement, direct or otherwise followed by an active Q&A session.

Session : Reinsurance Reserving and Portfolio Management

Speakers: Mr. Amitabha Ray, Ms. Prerana Sadarangani



Session Highlights

Mr. Amitabha Ray started off with an overview of the need for reserving, the consequences of under/over reserving, the volatility of results and their impact on the business decisions. He also touched upon the different basis of reserving and the different types of RI contracts.



Ms. Prerana Sadarangani explained the RI reserving process, different components of reserves and the portfolio segmentation by top down approach, the reserving triangle, IBNR calculation and the technical development of an underwriting year. She also touched upon the areas of judgment which influence the RI

decisions namely the individual claims amount, the development of paid vs. incurred, allowance for trends, tail factors, reserving for special risks etc. She also made a comparison of different methods and the differences in reserving for direct and reinsurance contracts.

It was Amitabha's turn again to explain in detail the different graphical and numerical diagnostic tools and management information reports and the inferences to draw from them. The Heat Maps that he included in the graphical representation are especially useful to the senior management to make informed decisions.

Session : Reinsurance Evaluation: Technical Pricing & Optimisation

Speaker: Mr. Manish Singh



Session Highlights

Mr. Manish Singh talked about three main ideas namely the need for RI programme, its evolution and most importantly the RI contract evaluation. He said the main excuses for not adopting a RI programme is the resistance to change, the scepticism of the management and also stressed upon the fact that choosing the right programme is the key to risk management. The technical pricing approach was the much appreciated part of the session that actually explained the different approaches to use and the different methods to be adopted. The graphical comparison of the outputs from different methods was a useful tool in selection of the right RI programme. In addition he also discussed an RI optimisation case study as to how the ROC will impact under different RI programmes. The selection of RI programmes to achieve the objective of largest capital reduction, smallest expected profit reduction or largest expected ROC uplift. The discussion on RI optimisation and practical considerations was followed by a highly interactive Q&A session.

Vote of Thanks



Mr. Puneet Sudan thanked all the speakers for sharing their valuable insights, the audience for their active participation, IAI staff for a well organised event and other contributors. He said that it was a good experience to learn from the industry experts. He urged the members to actively participate in the initiatives of the institute.



The entire event was well compered by Ms. Sana Konnur who introduced the speakers and acted as the time keeper. However the highlight of the event was the live poll after each session which was well participated and appreciated by all.

Written by



Mr. Sateesh Bhat



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“ Mr. Sateesh Bhat is working as Vice President Actuarial, Raheja QBE General Insurance Company Ltd, Mumbai. ”



Announcement

2nd Capacity Building Seminar on IFRS 17

Organized by: Advisory Group on IFRS 17 (IND AS 117)
Date: 14th February, 2019 **Venue:** Hotel Sea Princess, Mumbai

Seminar Topics:

1. Step-by-step illustration of computations required for different components of IFRS 17 statement for a Non-Par savings product
2. Step-by-step illustration of computations required for different components of IFRS 17 statement for a Unit Linked product
3. Methodology deep-dive: transition approach – Fair Value assessment
4. Methodology deep-dive: measurement approach for participating products
5. Premium Allocation Approach ("PAA") Eligibility.

Any Pre-Reads?

Participants are encouraged to have read the IFRS 17 standard, its Basis of Conclusions, IASB staff papers for the topics listed above. It is also encouraged that IRDAI's report on Report of the Working Group on New Standard on Insurance Contracts (equivalent to IFRS 17 Insurance Contracts) dated 31 Oct 2018 is also read.

General Points:

- ~ CPD Credit for IAI members: 6 hrs. Technical (Any one practice Area as per APS 9 -Rev. Ver 3)
- ~ Point of Contact: Ambreen@actuariesindia.org
- ~ Register at: <http://www.actuariesindia.org/SeminarRegistration.aspx>

Registration Fees (Excluding 18% GST):

- ~ Students & Associate Members: ₹ 2,500/-
- ~ Affiliate & Fellow Members: ₹ 5,000/-
- ~ Non-Members: ₹ 6,000/-

2nd Seminar on Banking, Finance & Investment

Organised By: The Advisory Group on Banking, Finance and Investment.
Date: 15th February, 2019 **Venue:** Hotel Sea Princess, Mumbai

Seminar Topics:

1. Actuaries in Banking Sector
2. Risk assessment using stochastic modelling in today's dynamic environment
3. Investment Actuarial Profession – An international perspective
4. Actuaries in Valuation and Asset Management
5. The FRTB, released by the Basel Committee on Banking Supervision (BCBS) in 2016
6. Panel Discussion on Risk Management in Indian Banking Sector

General Points:

- ~ CPD Credit for IAI Members: 6 hours Technical –Finance, Investments and Management
- ~ Point of Contact: Ambreen@actuariesindia.org
- ~ Register at: <http://www.actuariesindia.org/SeminarRegistration.aspx>

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(As on 1st February 2019)



Actuarial Gala Function & Awards 2019

Join us for a sparkling night of celebration

This year, the AGFA 2019 reclaims its pride of place as a standalone event scheduled on the evening of 4th March, 2019 as a curtain raiser for 20th GCA, and the atmosphere is going to be as celebratory as it can get.

What to expect from the Actuarial Gala Function & Awards 2019

The AGFA 2019 Actuarial Gala Function and Awards , awarding the new Fellows, volunteers and various others, would be one of the most fulfilling evening of their lives. Students, please make it a point to attend and cheer your friends who would go up the dais to receive their prizes. The evening would also present you the opportunity to rub shoulders with the seniors and the veterans of the profession and get inspired. To the lucky ones who would go up the dais, please bring along your parents, spouse, relatives and friends; let them feel proud of your exalted status in the profession.

You can register for attending only AGFA 2019 separately. Click on (http://www.actuariesindia.org/gca/FRM_AGFA_Registration.aspx) to register now, if not already done. However if you have registered for 20th GCA, the fees includes complimentary AGFA 2019 registration.

This year watch for IAI student members from Mumbai, Gurgaon, Bengaluru & IAI staff showcasing their Artistic skills whilst competing to claim best performers spot. Let us make it a memorable evening for national and international guests and all our awardees & toppers who have proved they have the skills, expertise and emotional intelligence to succeed. Be there to network with cutting-edge professionals and toast the successes of an industry sector that is pushing to the forefront of Wider Areas.

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For regular updates, visit <http://www.gca.org.in/home>



20th Global Conference of Actuaries Registration Started.....



20th Global
Conference of Actuaries
4th - 6th March, 2019 | Mumbai, India

Subsequent to the announcement by the President that 20th Global conference of Actuaries (GCA) is going to be held on 5th & 6th March, 2019 at Hotel Renaissance, Mumbai with pre evening Actuarial Gala Function & Awards (AGFA 2019) event on 4th March, we are pleased to inform you that the GCA Web portal is now live and open for Registration.

The theme for this year's GCA is "Expanding the Horizon, Strengthening the Core". The Inaugural address shall be delivered by **Dr. Subhash Chandra Khuntia**, Chairman, IRDAI.

To Register Now please visit <http://www.gca.org.in/registration-guidelines>

Registration Fees applicable for 20th GCA:-

Categories	Early Bird Rate till 5 th Feb, 2019	Standard Rate-6 Feb 2019 till 28 th Feb, 2019	Onsite Rate - 1 March, 2019 till 6 th March 2019
20 th GCA*			
Student	₹ 6,000/-	₹ 8,000/-	₹ 10,000/-
Associates	₹ 12,000/-	₹ 16,000/-	₹ 20,000/-
Affiliates	₹ 18,000/-	₹ 24,000/-	₹ 30,000/-
Fellows & Non Member	₹ 18,000/-	₹ 24,000/-	₹ 30,000/-
Fellows above 70	₹ 12,000/-	₹ 16,000/-	₹ 20,000/-
Delegates paying in foreign currency	USD 300	USD 400	USD 500

This includes complimentary entry to AGFA 2019

AGFA 2019 only	
Any person (Only AGFA 2019)	₹ 2,500/-
The above mentioned rates are exclusive of 18% GST	

CPD - Members can claim CPD credit of 6 hrs per day for attending 20th GCA (Total 12 hrs for 2 days). More information is available on 20th GCA website.

Accommodation - We have negotiated special rates with Hotel Renaissance, venue for the conference. Please make your hotel reservations without delay to secure your room at subsidized rates, before our room block is either sold out or any unsold rooms are released. For details refer 20th GCA website <http://www.gca.org.in/>

IAI Student Event - Student Event is scheduled on both the days of conference.

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Pune

OBITUARY

LATE T BHARGAVA - 26 DEC 1949 - 13 JAN 2019



I am very sad to bring to the notice of our actuarial fraternity that my [our] beloved friend Mr Bhargava suddenly expired due to massive heart attack on early hours of 13 Jan 2019.

A past Council Member after ASJ became IAJ. He contributed a lot to the growth of the actuarial profession in India. Always simple and humble. Cheerful.

He worked in LIC of India for many years. He worked as Appointed Actuary of LIC of India, and also GIC RE-Life section. Before his death, he was working as Employee Benefits Consulting Actuary.

He was also in the interview committee constituted by Government of India to select Chairman/MDs of LIC of India, and also Members of IRDAI in the recent past.

He was very close to many of us: cheerful, helping, friend, philosopher and guide.

A great loss to me and my family members. We pray that his soul should rest in peace.

~ Mr. K. Subrahmanyam ~



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Lump sum Post Employment Benefit : Global Comparison

Employee benefits comprise of various forms of compensation provided to employees in addition to their normal salary. In modern times, as companies are striving to compete globally for the best talent, employee benefits form a vital part of any organisation's reward scheme. Employers have an option to choose the benefits that they would like to offer to their employees within the permissible legal and regulatory framework. Employee benefit practices vary significantly from country to country based on government social schemes, size and competitiveness of labour markets, and national culture and tradition.

Employee benefits cover a broad spectrum of benefits i.e. short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.

According to Indian Accounting Standard 19 akin to International Accounting Standard 19, Post-employment benefits (other than termination benefits and short term employee benefits) are employee benefits that are payable after the completion of employment i.e. on death, resignation, retirement or superannuation.

Post-employment benefits includes:

- (a) Retirement benefits (e.g. pensions and lump sum payments on retirement); and
- (b) Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Out of the many post-employment benefits offered by employers, the most common lump sum post-employment benefit is Gratuity. Gratuity is defined as the sum of money paid by the employer to his employee on cessation of his/her services either because of death, disablement, resignation or retirement. Gratuity is actually a benefit for services rendered in the past. It is a reward of good, efficient and faithful service for a substantial period of time. It serves as a key social security legislation to wage earners in industries, factories and establishments. The rationale for gratuity is to encourage employees to offer longer service to the employer and to ease the termination of contract of employment by offering the sum of gratuity as consolation.

Lump sum benefits are distinctively named across countries. In this paper, we have summarized various

lump sum post-employment benefit schemes in ascending order of the accrued liability calculated in their respective home currencies.

Thailand

Section 118 of The Labour Protection Act specifies that an employer shall pay Severance Pay to an employee who is terminated as follows:

Benefit Amounting to Salary for	Eligible years of service
30 days	120 days but less than 1 year
90 days	1 year but less than 3 years
180 days	3 years but less than 6 years
240 days	6 years but less than 10 years
300 days	10 or more years

An employer is not required to pay statutory severance pay to an employee on termination of employment where the:

- Employee has been employed for a continuous period of less than 120 days.
- Employment is considered to be a fixed-term contract (as defined under the relevant law and according to Supreme Court guidance) and the termination of employment occurs on the expiry date of the contract.
- Termination is for one or more of the grounds under section 119 of the Labour Protection Act

Indonesia

Indonesian Law number 13 of 2003 regarding Manpower (Labour Law), specifies Gratuity benefits as a result of separation. Gratuity is calculated as under:

Benefit Amounting to Wage for	Eligible years of service
2 months	3 years or more
3 months	6 years or more but less than 9 years
4 months	9 years or more but less than 12 years
5 months	12 years or more but less than 15 years
6 months	15 years or more but less than 18 years
7 months	18 years or more but less than 21 years
8 months	21 years or more but less than 24 years
10 months	24 years or more

Sri Lanka

As per Payment of Gratuity Act in Sri Lanka, Gratuity is paid to workmen for a period of not less than five completed years under that employer at the rate of half a month's wage or salary for each year of completed service, computed at the rate of wage or salary last drawn by the workman.

$$\text{Accrued Benefit} = \frac{15}{30} \times \text{Past Service} \times \text{Last Drawn Salary}$$

India

The Payment of Gratuity Act, was passed by Parliament in 1972. Under the Act, Gratuity shall be payable to an employee on termination of employment after he has rendered continuous service for not less than 5 years in a single organisation. The termination can be due to:

- ♦ Superannuation.
- ♦ Retirement or Resignation.
- ♦ On Death or Disablement due to accident or disease.

The completion of continuous service of 5 years is not required where termination of employment is due to death or disablement. In such case mandatory gratuity is payable.

Gratuity is paid at a rate of 15 days wages for every completed year of service or part thereof in excess of six months. The wages here means wages last drawn by the employee. Recently, the maximum ceiling as per the Act changed from 10 lakhs to 20 lakhs.

$$\text{Accrued Benefit} = \min \left\{ \left(\frac{15}{26} \times \text{Past Service} \times (\text{Monthly Basic Salary} + \text{D.A.}) \right), 2,000,000 \right\}$$

Qatar

Article 54 of Labour Law of Qatar states that, "In addition to any sums to which the worker is entitled to upon the expiry of his service, the employer shall pay the end of service gratuity to the worker who has completed employment of one year or more. This gratuity shall be agreed upon by the two parties, provided that it is not less than a three-week wage (21 days) for every year of employment. The last basic wage shall be the base for the calculation of the gratuity.

$$\text{Accrued Benefit} = \frac{21}{30} \times \text{Past Service} \times \text{Last Drawn Salary}$$

Kuwait

A lump sum payment known as end of service benefit is given to employees when the employment is terminated in Kuwait. As per Article 51 of Kuwait Labour law, the worker shall be entitled to end of service benefit as follows:

- ♦ The worker shall be entitled to a 10 days remuneration for each of the first five years of service and a 15 days remuneration for each year thereafter.
The total of the end of service benefit shall not exceed one-year remuneration for employees who are paid on daily, weekly, hourly or piecework basis.
- ♦ The worker shall be entitled to a 15 days remuneration for each of the first five years of service and one month remuneration for every year thereafter.
The total of the end of service benefit should not exceed one and a half year remuneration for employees who are paid on a monthly basis.

Oman

As per Oman Labour Law, employees are generally entitled to an end-of-service gratuity payment on the termination of their employment contract. Gratuity is calculated based on the final basic salary. No end of service benefit applies to employees who have been employed for less than a year. End of service gratuity is equal to the salary of fifteen days for each year of service for the first three years, and the wage of one month for each of the following years.

For employees with service less than or equal to 3 years,

$$\text{Accrued Benefit} = \frac{15}{30} \times \text{Past Service} \times \text{Last Drawn Basic Salary}$$

For employees with service more than 3 years,

$$\text{Accrued Benefit} = \left(\frac{15}{30} \times 3 \times \text{Last Drawn Basic Salary} \right) + \left(\frac{30}{30} \times [\text{Past Service} - 3] \times \text{Last Drawn Basic Salary} \right)$$

United Arab Emirates (UAE)

Article 132 of the UAE Labour law states that worker who has completed one or more years of continuous service shall be entitled to severance pay at the end of his employment. The days of absence from work without pay shall not be included in calculating the period of service. The severance pay shall be calculated as follows:

- ♦ 21 days' wage for each of the first five years of service.
- ♦ 30 days' wage for each additional year of service provided always that the aggregate amount of severance pay should not exceed two year's wage.

Further Article 137 of the UAE Labour law states that where a worker under an indefinite term contract abandons his work at his own initiative after a continuous service of not less than one year and not more than three years, he shall be entitled to one-third of the severance pay provided for in the preceding article. Such a worker shall be entitled to two thirds of the said severance pay if his continuous service exceeds three years up to five years, and to the full severance pay if it exceeds five years.

Bhutan

According to The Royal Government of Bhutan, civil servants resigning after a service of 5 years are paid gratuity which is calculated as the last basic pay times the number of completed years of service, subject to a maximum of Nu. 600,000. In keeping with the salary revision, the Royal Government decided to revise the maximum limit by 50 % higher to Nu. 900,000 and has further revised it to Nu. 1,500,000 in 2014.

$$\text{Accrued Benefit} = \min (\text{Past Service} \times \text{Basic Pay}, 1,500,000)$$

Nepal

As per Labour Act, 2048, for employees who have served the organisation till 03-09-2017

In the event that any permanent worker or employee of the establishment who has completed three years or more of service retires because of age bar or after having his resignation approved, or leaves the service of the establishment in any other way, he shall be entitled to gratuity in a lump sum at the following rates:

- ♦ For each year of the first seven years of service, half of the monthly salary drawn by him in the year concerned;
- ♦ For each year between seven and 15 years of service, two-thirds of the monthly salary drawn by him in the year concerned;
- ♦ For each year of service exceeding 15 years, one month's salary drawn by him in the year concerned.

As per Labour Act, 2074, for employees who will serve the organisation after 03-09-2017

There is no restriction for the duration of service in the entity for the calculation of the amount of Gratuity as per the new act. The employee is eligible for the gratuity benefit at the rate of 8.33% of basic remuneration every month for the months served after 03-09-2017.

Bangladesh

The Bangladesh Labour Act, was passed by Parliament in 2006. The Act defines gratuity as wages payable on termination to a worker on the basis of his latest basic salary for a completed year of service or for service for a period of more than six months, salary of minimum 30 days, or salary of 45 days for a continuous service for more than ten years.

For employees with service less than or equal to 10 years,

$$\text{Accrued Benefit} = \text{Past Service} \times \text{Monthly Basic Salary}$$

For employees with service greater than 10 years,

$$\text{Accrued Benefit} = \frac{45}{30} \times \text{Past Service} \times \text{Monthly Basic Salary}$$

Saudi Arabia

Article 84 of the Labour Law states that upon the end of the work relation, the employer shall pay the worker an end-of-service award of a half-month wage for each of the first five years and a one-month wage for each of the following years. The end-of-service award shall be calculated on the basis of the last wage and the worker shall be entitled to an end-of-service award for the portions of the year in proportion to the time spent on the job.

For employees with service less than or equal to 5 years,

$$\text{Accrued Benefit} = \frac{15}{30} \times \text{Past Service} \times \text{Last Drawn Wage}$$

For employees with service more than 5 years,

$$\text{Accrued Benefit} = \left(\frac{15}{30} \times 5 \times \text{Last Drawn Wage} \right) + \left(\frac{30}{30} \times [\text{Past Service} - 5] \times \text{Last Drawn Wage} \right)$$

Whereas, as per Article 85, if the work relation ends due to the worker's resignation, he shall, in this case, be entitled to

- ♦ one third of the end-of-service award after a service of not less than two consecutive years and not more than five years,
- ♦ two thirds of the end-of-service award if his service is in excess of five successive years but less than ten years and
- ♦ full end-of-service award if his service amounts to ten or more years.

Pakistan

As per Sindh Industrial Relations Act, 2013 (Sindh Act No. XVI of 2013) gratuity equivalent to one month's wages is paid to a worker for every completed year of service or for any period in excess of six month in the same establishment. Originally, the rate of gratuity was 15-days of wages for each completed year of service and later on it in 1973 it was revised as 20-days wages. Wages for gratuity calculation are the "gross wages" including all permanent and regular allowances. Gratuity is payable on completion of 12 months of service after first day of employment.

$$\text{Accrued Benefit} = \frac{30}{26} \times \text{Past Service} \times \text{Gross Wages}$$

We have considered the data mentioned below to calculate the accrued benefit of the gratuity schemes of various countries discussed in this paper.

Table 1: Data Summary

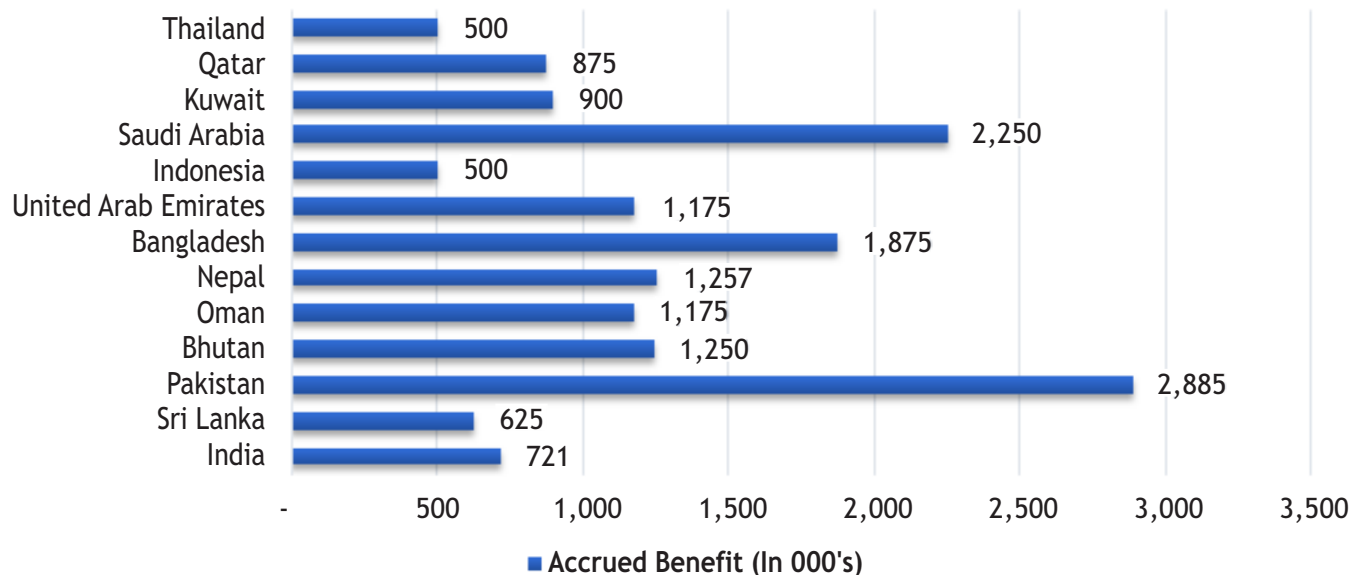
Date of Valuation	31-03-2018
Date of Birth	18-08-1963
Date of Joining	15-02-1993
Age	55
Past Service	25
Age at Joining	30
**Basic Salary	50,000
**Gross Salary	100,000

**The salary eligible for the benefit is defined differently as per the Standard/Act prevailing in their respective countries. However, for simplicity, the salary bifurcation structure in our example includes only two components, namely basic and gross. E.g.: The Gratuity Act in India, specifies that the salary to be used should be Basic plus Dearness Allowance. However, we have used only the Basic salary only and ignored the Dearness Allowance component in our calculation assuming it is not part of the salary bifurcation structure.

Table 2: Accrued Benefit of Various Countries

Sr. No.	Country	Formula to Calculate Accrued Benefit	Accrued Benefit (in 000's)
1	India	$= \min \left\{ \left(\frac{15}{26} \times 25 \times 50,000 \right), 2000000 \right\}$	721 Indian Rupee
2	Sri Lanka	$= \frac{15}{30} \times 25 \times 50,000$	625 Sri Lankan Rupee
3	Pakistan	$= \frac{30}{26} \times 25 \times 100,000$	2,885 Pakistani Rupee
4	Bhutan	$= \min \{ (25 \times 50,000), 1500000 \}$	1,250 Ngultrum
5	Oman	<u>For first 3 years:</u> $= \frac{15}{30} \times 3 \times 50,000$ <u>For following years:</u> $= \frac{30}{30} \times 22 \times 50,000$	1,175 Omani Rial
6	Nepal	<u>For service till 03-09-2017:</u> $= \frac{30}{30} \times 24.56 \times 50,000$ <u>For service after 03-09-2017:</u> $= 8.33\% \times 0.58 \times 12 \times 50,000$	1,257 Nepalese Rupee
7	Bangladesh	$= \frac{45}{30} \times 25 \times 50,000$	1,875 Bangladeshi Taka
8	United Arab Emirates	<u>For first 5 years:</u> $= \frac{21}{30} \times 5 \times 50,000$ <u>For following years:</u> $= \min \{ (20 \times 50,000), 1200000 \}$	1,175 United Arab Emirates Dirham
9	Indonesia	$= 10 \times 50,000$	500 Indonesian Rupiah
10	Saudi Arabia	<u>For first 5 years:</u> $= \frac{15}{30} \times 5 \times 100,000$ <u>For following years:</u> $= \frac{30}{30} \times 20 \times 100,000$	2,250 Saudi Riyal
11	Kuwait	<u>For first 5 years:</u> $= \frac{15}{30} \times 5 \times 50,000$ <u>For following years:</u> $= \min \{ (20 \times 50,000), 900000 \}$	900 Kuwaiti Dinar
12	Qatar	$= \frac{21}{30} \times 25 \times 50,000$	875 Qatari Riyal
13	Thailand	$= 10 \times 50,000$	500 Thai Baht

Graph 1 : Accrued Benefit (In 000's)



Graph 1 represents accrued liability that has been calculated in Table 2. It is observed that Pakistan has the most beneficial gratuity scheme. It can be concluded that offering competitive benefits and perks is a winning combination, fostering improved work habits and reducing employee turnover. Such incentives has led to an increase in the labour force participation rate in Pakistan from 50.39% in 1997 to 54.44% in 2017.

Nevertheless, to see things in perspective, Table 3, shows the accrued benefit for various countries converted to INR. The exchange rate considered is as on 31-03-2018.

Table 3 : Accrued Benefit of Various Countries in Indian Rupee (INR)

Sr. No.	Country	Accrued Benefit in respective currencies(in 000's)	Exchange Rate	Accrued Benefit in INR (in 000's)
1	India	721	1 INR = 1 INR	721
2	Sri Lanka	625	1 INR = 2.3915 LKR	261
3	Pakistan	2,885	1 INR = 1.778 PKR	1,622
4	Bhutan	1,250	1 INR = 1.0002 BTN	1,250
5	Oman	1,175	1 INR = 0.0059 OMR	199,153
6	Nepal	1,257	1 INR = 1.6003 NPR	785
7	Bangladesh	1,875	1 INR = 1.275 BDT	1,471
8	United Arab Emirates	1,175	1 INR = 0.0564 AED	20,833
9	Indonesia	500	1 INR = 211.3915 IDR	2
10	Saudi Arabia	2,250	1 INR = 0.0576 SAR	39,063
11	Kuwait	900	1 INR = 0.0046 KWD	195,652
12	Qatar	875	1 INR = 0.056 QAR	15,625
13	Thailand	500	1 INR = 0.479 THB	1,044

Ref: www.exchangerates.org.uk

As the currency of Oman and Kuwait is stronger than other countries, the accrued benefit in these countries is higher as compared to other countries.

However, this does not imply that Oman and Kuwait provide favourable benefits when compared to the rest of the countries as the standard of living, demographic and geographical conditions, inflation rate, exchange rate, labour force, political scenarios and other factors should also be considered to reflect on how beneficial the scheme is for the employees.

Conclusion

It has to be noted that employee benefits and compensation are the key factors that attract and retain talent. According to recent studies employee compensation and benefits are the top priority for employees followed by job security and job satisfaction. These benefits have seen immense changes in the past. Traditionally, they had mainly been regarded as a retention tool or as a moral obligation for employers. However in the current competitive scenario, employers believe in offering varied employee benefits, as they would in turn improve employee engagement and help to reduce employee turnover.

Globally gratuity, severance pay or termination policies are often governed by either company policy or local/national labour law or a combination of both. Apart from this, few countries have laws where the employee has no right to claim the lump sum benefit if the dismissal is due to employee's behaviour or if the dismissal is justified by the employer. A predominant practise of the employment protection legislation in most countries is that dismissals need to be justified. The reason for dismissal must be stated in the actual notice or the employer has to submit the reason upon the employee's request and the reason should be unprejudiced and impartial. If the employer cannot provide a valid reason for dismissal then these benefits can be ordered by the Courts and the employer will be

liable to pay the benefit to the employee. There are few countries like Philippines and Kenya with reforms wherein the employees is entitled for lump sum benefits in case the employee becomes redundant.

In India, labour and employment laws are being reformed steadily to keep speed with current business needs. The Indian government is making efforts to simplify ease of doing business and remove the technical complexities established in the labour laws. There have been continuous amendments in The Payment of Gratuity Act over the years. Starting with a ceiling of twenty months' salary to now a monetary ceiling of INR 20 lakhs, the amendments have been beneficial to employees and are keeping pace with the growing economy. The rationale for payment of gratuity is in appreciation of services rendered and also as a retirement benefit. According to recent news reports, government is likely to reduce employee's five-year service period for gratuity eligibility to three years.

Such developments in labour laws across the world strongly suggest that regulations are improving globally and lump sum benefits on termination hold integral part in the labour laws framed. As actuaries we should be well versed with the legal framework of the various countries which will help us understand the schemes of the country and value those employee benefits accordingly.

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“ The authors work as part of the Employee Benefits team of M/s. K. A. Pandit Consultants & Actuaries. ”

The Actuary India wishes many more years of healthy life to the fellow members (above 60) whose Birthday fall in February 2019

**Mr A P Peethambaran
Mr A Venkatasubramanian
Mr Chandan K Khasnobis
Mr Hanumantha K Rao
Mr M Venkatesan
Mr Rajagopalan U**





Agriculture Insurance Company of India Limited

Agriculture Insurance Company of India Ltd. Invites application from resident Indian Citizen for the post of Appointed Actuary on full time basis.

Name of the Post	Appointed Actuary
No. of Post	One Post (1)
Age (as on 01.02.2019)	The candidate should preferably be up to 62 yrs of age.
Qualification	- The candidate should be Fellow member in accordance with the Actuaries Act, 2006. - Passed specialization subject in general Insurance (Specialist application level subject as prescribed by the Institute of Actuaries of India) - And He/she should satisfy all the requirements specified in IRDAI (Appointed Actuary) Regulations 2017.
Experience Desirable	Desirable Experience : - The candidate should have minimum 7 yrs relevant experience in General Insurance out of which at least 2 yrs shall be post fellowship experience. - The candidate should have at least 1 yr post fellowship experience in annual statutory valuation of a general insurer.
Emoluments and Benefits	Negotiable. Please Indicate your expectations.
Duties and Obligations	As per IRDAI (Appointed Actuary) Regulations, 2017.
Place of Posting	New Delhi
Service Conditions	- Should be a resident of India. - After appointment he/she is not expected to act as an Appointed Actuary of any other insurance company nor work in any other capacity in any general insurance company. - And as specified in IRDAI (Appointed Actuary) Regulations 2017.
Selection Procedure	The selection procedure shall be by personal interview.
How to Apply	Complete application on foolscap paper typed in CAPITAL LETTERS, along with a recent photograph and copies of requisite certificate/documents should reach the following address on or before 28.02.2019. The envelope should be super-scribed in the top corner "AICL-Appointed Actuary". To, Deputy General Manager (HR) Agriculture Insurance Company of India Ltd. Plate B&C, 5 th floor Block -1 East Kidwai Nagar, New Delhi-110023

For details please visit Company's website www.aicofindia.com

CALL FOR ARTICLES

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

The font size of the article ought to be 9.5. Also request you to mark one or two sentences that represents gist of the article. We will place it as 'break-out' box as it will improve readability. Also it will be great help if you can suggest some pictures that can be used with the article, just to make it attractive. Articles should be original and not previously published. All the articles published in the magazine are guided by EDITORIAL POLICY of the Institute. The guidelines and cut-off date for submitting the articles are available at

http://actuariesindia.org.in/subMenu.aspx?id=106&val=submit_article

IFRS 17: Considerations for health insurers

Introduction

International Financial Reporting Standard (IFRS) 17 Insurance Contracts was issued by the International Accounting Standards Board (IASB) on 18 May 2017 and had an initial effective date of annual periods beginning on or after 1 January 2021. However, IASB in its November 2018 meeting voted to propose a one-year deferral of the effective date for the new insurance contracts standard to 2022. It has also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time. It is intended to provide updated information about the obligations, risks and performance of insurance contracts, to increase transparency in financial information reported by insurance companies to help boost market confidence and to introduce consistent accounting for all insurance contracts based on a current measurement model. It also requires a company to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits the company expects to recognise in the future.

However, a closer look at IFRS 17 highlights some complexities that come with increased transparency and consistency in reporting. This article focuses on some of the complexities and considerations for short-term health insurers.

Considerations

Like most general insurers, short-term health insurers may consider the Premium Allocation Approach (PAA) over the Building Block Approach (BBA) as most of the health contracts have a coverage period of 12 months or less. However, there are a few things to consider before deciding on the model for measuring liabilities. Some of these considerations include:

- ♦ **Ability to fully reflect the risks when repricing the contracts:** Paragraph 34(b) for IFRS 17 insurance contracts relates to the assessment of contract boundaries for pricing of a portfolio of insurance contracts. The new standard allows the contract boundaries for contracts with coverage periods of 12 months to be limited to one year, provided the insurer has the ability to reassess the risks of the portfolio and can reprice to fully reflect the risk of that portfolio. However, there are some practical concerns that may restrict the insurer's ability to

reprice fully to reflect the risk underlying the portfolio. They include:

- **Selective lapsing:** Selective lapsing is a phenomenon where the relatively healthier risks have a greater tendency to lapse their policies than the poorer risks, leaving the insurer with a larger group of poorer risks. If large premium increases are required to fully reflect the risks on repricing the portfolio, this is likely to result in selective lapses causing the actual claims experience to be worse than expected. The risk will, however, depend on the specifics of each market such as mandatory versus voluntary cover, commercial constraints, size of the market and the growth potential.
- **Treating customers fairly:** Treating customers fairly principles in some markets require insurers to treat new and existing business consistently. This restricts companies from charging different premiums to new business and existing business with similar demographic risk profiles but vastly different claims experience due to differences in policy durations. This is because the claims costs increase with increasing duration in force (time since initial underwriting) and this trend persists over longer durations.
- ♦ **Guaranteed renewability clause:** As per the new standard, the contract boundary should reflect the entity's substantive rights and obligations that exist during the reporting period in which the insurer has the substantive obligation to provide the services under the insurance contract. In some countries, the clause of guaranteed renewability may result in substantive obligations for the insurer and therefore introduce additional complexity when defining the contract boundaries for health insurance contracts. Policyholders are usually underwritten at the proposal stage for risk assessment to ensure that the premium charged reflects the risk profile of the customer. Substandard risks within a portfolio have the right to renew policies and continue coverage. This right together with no availability of cover with other insurers is likely to have implications on the contract boundary assessment for such segments of risks. However, the impact is limited in cases where insurers have the ability to not renew certain portfolios or segments of the risks, or can fully reprice or change benefit terms and conditions at annual renewal, as in some countries.

- ♦ **Long-term view of risks:** Health insurance policies in many countries are considered short-term contracts and the pricing structure may only account for risks up to the reassessment date. It might, however, be worth taking a long-term view of the risks when setting the pricing structure as there are likely to be implicit cross-subsidies over coverage periods and between cohorts of different durations.

- ♦ **Level of aggregation:**

- IFRS 17 requires companies to identify a portfolio of insurance contracts. A portfolio comprises of a group of contracts subject to similar risks and managed together. Applying the definition of a portfolio in practice may require some judgement. It is likely that contracts under different product lines will represent different portfolios, but a product line may have multiple portfolios if needed to create homogeneous risk groupings. The insurers also need to consider the consistency of portfolio definitions that apply across all frameworks, including Solvency II, for meaningful comparisons.
- The new standard requires the contracts in each portfolio to be divided into groups, considering differences in the expected profitability of contracts. The grouping requirements, however, include an exemption for economic differences that arise because of regulatory restrictions. In all other cases, insurers are required to separately report:
 - ▲ A group of contracts that are onerous at initial recognition. The losses from these contracts need to be realised immediately. The onerousness will, however, depend on:
 - The definition of contract boundary
 - The estimated cash flows recognised within it
 - Any change in circumstances that may cause the cash flows that were once outside the contract boundary to fall inside the boundary
 - Allocation of internal expenses
 - Allocation of provider volume discounts between retail and group contracts

Examples include any onerous multiyear group contracts issued by the company, contracts with large initial commissions and group contracts written with substantial up-front discounts.

- ▲ A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently. The term “significant possibility” is open to interpretation.
- ▲ A group of the remaining contracts in the

portfolio. Individual/retail contracts are likely to become onerous at higher durations, but exemptions granted for regulatory restrictions, where insurers cannot discriminate in pricing between new and existing business, may exempt the insurers from having to recognise these cohorts separately as onerous.

However, one of the amendments proposed by IASB at its December 2018 meeting is to raise the level of aggregation to portfolio level for presentational purposes.

- Any multiyear contracts issued by the company would need to be reported separately to meet the requirement of separating contracts issued more than one year apart.
- Inability to realise profits from future renewals outside the IFRS 17 contract boundary will result in the recognition of losses at inception, even when the insurer expects to recover all costs from future renewals. This is likely to impact the cohort groupings to show any onerous contracts separately. Examples here would include contracts with large initial commissions deferred over an expected policy duration and contracts written with substantial up-front discounts.

In terms of reporting, IFRS 17 limits the ability to cross-subsidise between contracts and duration to offset profits from some contracts against the expected losses from others. Changes in the level of aggregation may change the pattern of profit recognition over time. The new standard is likely to have significant impact on existing data collection and systems, which would need to be updated to meet the reporting requirements under the new standard.

- ♦ **Reinsurance:** IFRS 17 treats reinsurance contracts held and underlying insurance contracts separately. This would result in differences arising between the value of the reinsurance recoverable and the ceded insurance liability, impacting the contract boundaries considered for the reinsurance contracts. That is not the case under Solvency II, where reinsurance and underlying contracts are generally treated on a consistent basis.
- ♦ **Investment component:** An investment component is the amount an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur. IFRS 17 requires an entity to separate distinct investment components from the host insurance contract. The considerations for health insurers in this case relate to the treatment of no claims bonus (NCB) and retrospective profit

shares on group policies.

- **NCB:** For policies where NCB guarantees the policyholder a refund of the premium, it could be considered as an investment component. However, as NCB is a feature exercised at the renewal stage, it may not be considered as an investment component if the cash flows resulting from NCB are assumed to be outside of the contract boundary.
- **Retrospective profit sharing:** Group policies that allow for retrospective profit sharing may need to be reconsidered to see if the profit share component qualifies as investment component under the new accounting standard. It may need to be allowed for separately from the host insurance contract.

It may further be argued that the NCB and retrospective profit sharing are non-distinct, as termination of the insurance contract would result in the termination of such components.

- ♦ **Deferred acquisition costs (DAC):** Many companies that currently defer and amortise the acquisition costs present DAC as assets, separately from insurance contract liabilities. However, when applying IFRS 17, the amount of these acquisition costs will be included in the measurement of liabilities. If the acquisition costs are currently expensed as incurred, it will decrease the insurance contract liabilities.

- ♦ **Recognition and presentation of financial performance:** The new standard requires the insurers to disaggregate the amounts into insurance revenue, insurance service expense, finance income or expenses separately impacting the representation of the financial performance of the company. In addition, income and expenses from reinsurance contracts need to be presented separately from the income and expenses of the insurance contracts. This requirement is intended to result in timely recognition of profit and losses and hence provide a view on sustainability and future profitability of the insurer.

Final thoughts

While the new standard aims to bring increased transparency in the financial reporting by insurers, the complexities related to some aspects of it need to be carefully considered for short-term health insurers when estimating the financial, operational and business impact within the organisation's governance frameworks. Health business in some countries is treated as long-term business, while in other countries it is treated as short term, annually renewable general insurance business from a regulatory perspective. However, there are some unique features of health business which merit careful consideration under IFRS 17 and it is unlikely there will be one unified interpretation across different countries of issues around guaranteed renewability, medical underwriting and selection periods and allocation of expenses and economic benefit of provider discounts across different types of contracts in an insurers' portfolio.

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