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the **Actuary** **INDIA**

INDIAN ACTUARIAL PROFESSION
Serving the Cause of Public Interest

THE MAGAZINE OF THE INSTITUTE OF ACTUARIES OF INDIA

VOL. VII • ISSUE 11

NOVEMBER 2015 ISSUE

Pages 28 • ₹ 20

Employees Provident Fund



For Private Circulation Only

ANNOUNCEMENT

CHIEF GUEST OF EVENT:



Mr. T S Vijayan
- Chairman, IRDAI

18th GCA

1st & 2nd Feb, 2016

Hotel Renaissance

Mumbai

Institute of Actuaries of India is pleased to announce the 18th Global Conference of Actuaries to be held over 1st & 2nd February, 2016 in Hotel Renaissance, Mumbai.

The Inaugural Keynote Address on 1st February, 2016 would be given by Mr. T S Vijayan, Chairman, IRDAI. There will be various Concurrent Sessions on Life Insurance, General Insurance, Health Insurance, Pensions & Retirement Benefits, ERM and other topics over the two days conference, along with four Plenary Sessions. There will be two sessions specially meant for our student members. On 1st February evening we will host 2016 Actuarial Gala Function Award

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The Registrations started from 1st November, 2015.
(Early Bird Registration ends on 15th December 2015)

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The best part of beauty is that which no picture can express.
- Francis Bacon.

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Printed and Published monthly by Gururaj Nayak, Head - Operations, Institute of Actuaries of India at ACME PACKS AND PRINTS(INDIA) PRIVATE LIMITED, A Wing, Gala No. 55, Ground Floor, Virwani Industrial Estate, Vishweshwar Nagar Road, Goregaon (E), Mumbai-63, for Institute of Actuaries of India : 302, Indian Globe Chambers, 142, Fort Street, Off D N Road, Near CST (VT) Station, Mumbai 400 001. • Tel +91 22 6784 3325 / 6784 3333 Fax +91 22 6784 3330 • Email : library@actuariesindia.org • Webside : www.actuariesindia.org



It is really surprising how we end up complicating things when simple solutions may still be applicable and effective. We decided to introduce an entrance exam a few years back which we conduct only twice a year. To make it an online exam, we created a database of questions and a random question paper is generated from this database for each student. However, in reality, one does not need such a complicated solution since exam is conducted only twice a year and all students have to appear for this exam on the same day. One can create a single question paper which is given to all the students. However, this one can be randomized so that order of the questions and choices of the questions are different for different students. Certainly, this requires minor modification to the software or alternatively a fixed set of such question papers can be created. There is certainly no need for a database of questions in such a scenario. It just requires somebody to ask right questions which may be hard at times.

The Institute recently took quite a few steps for helping students to pass the exams. Now, you would be able to get access to the answer scripts which you can compare with the model solutions to understand the gaps in your answers. Additionally, you would have the choice to opt for counselling where an actuary can help you understand the gaps in your preparations. Besides, if you believe that something has gone wrong with your

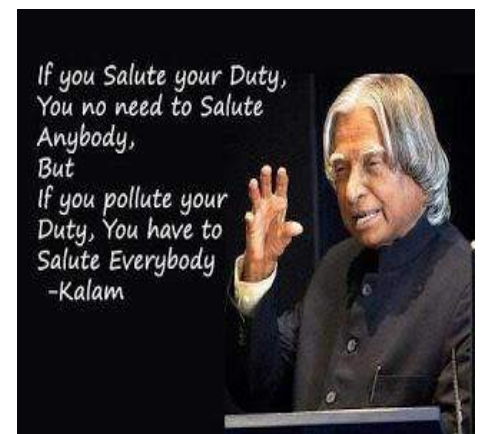
results than you may opt for verification of the marking process. The Institute would not revisit the marks awarded to a question under this verification process but Institute would verify that all questions have been awarded marks by both the examiners and that your result reflects the marks obtained by you. Under any scenario if the ultimate result changes due to any errors identified by the Institute than the revised results would be declared along with a full refund of the amount paid for verification. I hope that these measures help students to pass exams faster and instill confidence in the system.

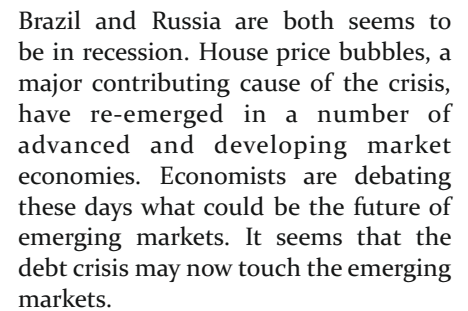
We experimented with first full course on CT 4 where the pass rates were below 10%. There were around 25 students who opted for this course. Though, we are yet to see the results of the same, we are clear that we need to strengthen the education side for helping students to pass the exams faster. Therefore, we would expand this to all the papers where the pass rates are below 10% for May 2016 exam diet and progressively would expand it to cover all subjects where pass rates are below 20%. We believe that with excellent education support and hard work from the students pass rates in India can be pushed to 50% or more for most of the subjects. I hope that we see that day soon and we reach the goal of generating a hundred actuaries in a year.

The students used to face a lot of anxiety around the result declaration after the exams are over as the result declaration dates were not announced in advance. We are targeting to achieve a major milestone of publishing the results on a pre-announced date. Besides, you would not have to rush to the website to see your results as you would receive it on SMS if your mobile number is updated in our database. We would start using SMS as a means of communication and it would be good to update your mobile number on the database if it is not updated.

There were quite a few questions raised around the CPD scheme as envisaged in APS 9 and the draft CoP regulations. Though, the CPD scheme is quite fool-proof it requires additional clarifications which would be provided in due course of time. However, please do not stop accumulating CPD hours as APS-9 is applicable and the Institute may pick a random sample for compliance check. It will be an embarrassing situation if one is found on the wrong side. We have started evaluating various platforms where you would get more web-based education for accumulating CPD hours.

This profession is “Yours” and profession is as good as “You” are. So, let's make this profession a great profession by helping each other to improve ourselves. We are eager to hear from you to continue on this journey of achieving excellence.





All these global development are disturbing and worries us how will this affect the insurance industry and therefore we as actuaries. The insurance industry growth will be dependent on the economic growth of the country. Some unofficial estimates suggest that India's GDP growth is expected to overtake that of China by the end of FY16. Indian is a net exporter of services while China is a net exporter of manufacturing. The future depends upon how India transforms itself into a manufacturing hub which indirectly depends on the pace at which India is able to bring reforms and fund large infrastructure projects to support the manufacturing.

We as actuarial community need to keep eye on these economic changes and evaluate any possible impact on Life Insurance Business and policyholders benefits.

With this message I would like to sign off.

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The world economy at the moment seems to be all over the place. Some advanced economies notably the US and the UK are rebounding quite strongly, others are tumbling yet further into the swamp, and almost everywhere, estimates of potential future growth are being revised down.

The US Federal Reserve's plans to raise interest rates from near zero, which many experts now expect to happen next month, could deepen the despair of countries already struggling with falling currencies and mounting borrowing costs. The US dollar remains strong, which poses a risk to economies with a large amount of dollar denominated debt. The International Monetary Fund has warned of a flurry of bankruptcies in emerging economies as interest rates rise.

Japan has slipped back into recession for the fifth time in seven years amid uncertainty about the state of the global economy, putting policymakers under growing pressure to deploy new stimulus measures to support a delicate recovery. The world's third-largest economy shrank an annualised 0.8% in July-September, more than a market forecast for a 0.2% contraction.

Beijing has cut interest rates six times in less than a year and let the yuan slide against the dollar, underlining the sense of alarm about slowing growth.

Recent Goldman Sachs's decision to close down its loss-making Bric fund was a symbolic reminder that the days are gone when the economic rise of Brazil, Russia, India and China (the four countries from which the fund drew its name) seemed guaranteed. Indeed,

LETTER TO THE EDITOR

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



I had the pleasure of participating in the Actuarial Seminar of East Asia (ASEA) 2015 in Tokyo which was held in September 2015.

On receiving an acceptance for my application to attend the ASEA, 2015 several ideas gushed in: a shot at understanding a developed insurance market like Japan, Japanese culture and its resilient people, their manners and tradition, eclectic cuisine, language barrier and many more. It was a chance to visit a country with many Indian footprints, of which one is created by Netaji Subhas Chandra Bose with his memorial in the compound of a temple named Renkoji in Tokyo. As this opportunity beckoned, I chose to act upon it.

ASEA 2015 - commentary

ASEA is organised by the Institute of Actuaries of Japan (IAJ) since 1972, in order to extend its cooperation to the development of life insurance industry in Asian regions.

For those unaware about this conference just like I was before I chanced upon it, ASEA is organised by the Institute of Actuaries of Japan (IAJ) since 1972, in order to extend its cooperation to the development of life insurance industry in Asian regions.

It is spread over a period of four days at IAJ's office in Tokyo. ASEA is quite different from its Indian counterpart, The Global Conference of Actuaries, as the entry to this seminar is permitted after a screening process. The IAJ waives off the registration fee and provides accommodation during the course of the conference to all participants. However, the IAJ expects the participant's employer to endorse responsibility for travel and conduct. A certification of completion is felicitated to each participant with the number of credits earned during the conference.

The ASEA Committee had meticulously planned the entire conference. On the first day, the orientation and opening ceremony was held concluding in a welcome dinner. ASEA brought

together 36 participants from different countries viz. China, Thailand, Indonesia, Korea, Mongolia, Philippines, Taiwan, Vietnam, Singapore and India! The welcome dinner turned out to be an essential activity as it helped in familiarising ourselves with each other's work, country and also accent. The second day was similar to the concurrent session in Life Insurance held at the GCA, in which actuaries working in the Japanese market conducted sessions on various topics ranging from social security programmes, life insurance products in Japan, Japanese insurance market and standards of practice. The third day continued with sessions on group life insurance, mortality tables and life insurance accounting.

The last session of that day was particularly fascinating, we were split into groups and each group was assigned a visit to a life insurance company. I along with my four group members visited MetLife Insurance K.K. Company. We interacted with the appointed actuary and members from product development, US GAAP valuation and ALM teams, who gave pertinent views on how the company works and insights into the life insurance market. Their actuarial team consists of 34 Fellows and 23 Associates. The company also houses an independent actuary who directly reports to the regulator, which is on lines of a peer review.

The last session of that day was particularly fascinating, we were split into groups and each group was assigned a visit to a life insurance company.

A type of security unique to Japan which came up at various discussions were debt securities earmarked to policy reserve (DSR), also known as bond matching reserves. Insurers sell these securities when the duration changes. The DSR is a bond which reflects volatile market prices resulting from changes in interest rate. Japan has a strong bond market, since bonds with long durations are available for matching the long term asset demand of insurers and pension funds.

The experience of this session was group specific; we enjoyed a fabulous meal with the MetLife team at a traditional Tempura Restaurant after the meeting. The last day comprised of sessions on group pension, standard valuation laws and solvency margin. The last session of the conference was a group discussion and presentation. Every group started at the same vantage point to devise a business strategy and suggested insurance products in light of recent economic conditions pertaining to the all the group member's countries. A representative of the group had the opportunity to present and the rest of the group was responsible for a short Q & A afterward. The seminar was wrapped up by a short closing ceremony by the ASEA committee members with handing over our course completion certificates. The ASEA seminar was a worthwhile experience as you get a chance to peek not only into the actuarial world but also the culture and heritage of a country with technology-driven infrastructure and state-of-the-art public transport systems.



Participants at the ASEA 2015



*Kinkaku-ji Temple
(Golden Pavilion), Kyoto*

Number soup with observations of the Japanese market

Japan is the 10th most populated country in the world, with still the 3rd largest share in world GDP with almost 86% households insured. As per UN's population statistics (2012 revision), 23% of Japan's total population is above the age of 65 years. It is struggling with an ageing population with an average age at 46 years, a shift in the idea about marriage, decreasing fertility rate with families opting to have fewer or no children. The life expectancy at birth is 79.2 years in males and 86 years in females, hence a demand for life insurance products is declining with a corresponding increase in health and medical insurance products.

Japan has a universal health insurance coverage system i.e. protects all citizens under this public medical insurance. People in Japan are also protected with social protection programmes. Three layers of pension schemes exist in Japan – first, the National Pension Scheme which covers the entire population with an approximate benefit of 65,000 yen p.m., second, the Employee Pension Insurance that covers workers in the

private sector with an approximate benefit of 100,000 yen p.m., and the third layer for companies to adopt voluntarily for full time workers with defined contribution and defined benefit pension schemes. Another major cause of concern is low interest rates. A ten year government bond has a yield of 0.33% p.a. hence savings products denominated in USD and AUD are popular in the country.

The two major influencing factors in the Japanese life insurance market are deregulation of bancassurance in 2007. This lifted stringent restrictions on selling types of product and privatisation of postal service – the major distributing channel in Japan. Tied sales agents who hold the largest share of the distribution channel are mostly remunerated at a fixed rate pay.

Why should one attend the ASEA?

It is an opportunity to interact with experts working in a developed insurance market, particularly the challenges of longevity, ageing population and exceptionally low interest rates. The Japanese novelist Ryu Murakami famously said, **Every one of a hundred thousand cities around the world has its own special sunset and it was worth going there, if only to see the sun go down.** At the conference, I encountered professionals working in the same industry but with



Mount Fuji, Tokyo

different constraints, cultures and challenges.

It is an opportunity to interact with experts working in a developed insurance market, particularly the challenges of longevity, ageing population and exceptionally low interest rates.

I believe interacting with people from different countries and traditions, understanding their way of life is the first step toward broader awareness. The experience helps in developing a holistic understanding of our work. One could observe how actuarial exams are different in each of these countries viz. Japan has its own 7 papers examination system and it takes 5-7 years of experience to attain fellowship. I could also understand how employers structure their actuarial teams and how different is the regulatory environment.



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Ms. Shruti Shetty, a student member of the Institute of Actuaries of India, is a Senior Associate with Ankolekar & Co., Actuaries Consultants.

PEOPLE'S MOVE



Ms. Shruti Saxena

FIA, AIAI recently joined Deloitte Consulting India Pvt. Ltd. as Senior Consultant in Property & Casualty practice. Formerly she was an Actuary with XL Catlin. Ms. Shruti has overall 8 years' of General Insurance/Property & Casualty industry experience. Prior to joining XL Catlin, she worked with Deloitte and RSA in the area of capital modelling, Investment modelling and reserving. She is based in the Gurgaon office.

The Insurance Laws (Amendment) Act, 2015 arrived to much fanfare in March - a signal of intent from the government that they can push through reforms and guide the economy to strong growth. Anticipation had been building for months and parliament sessions watched closely by those connected with the sector to see if the flagship reform - an increase in the limit on foreign direct investment to 49% - would finally come through after so many false dawns.

Now that the bill has been passed and the dust has settled, the onus is off the government and back on the industry to turn the legislation into reality. For those looking to sell their stakes, and those looking to buy, the focus is on agreeing a deal and the terms. This is where the hard work really starts for insurers, investors, bankers and of course, actuaries!

In this article, we will consider the practical challenges to purchasing or selling a stake in an Indian life insurer, and what this means for the actuaries who are working on these transactions. We will consider the features of Indian companies that set them apart from insurers in some other markets, and the technical challenges related to the calculation of embedded values (EV) of these companies.

When looking to determine a 'fair' price for a deal, investors will often look to, amongst other things, previous transactions to benchmark their expectations. For example, the 'price-to-embedded-value' ratio or the implied value of new business (VNB) multiple (i.e. the multiple of VNB, that when added to the EV equals the transaction price for the company) are often quoted by the press as metrics of interest.

Analysts try to evaluate trends from a variety of valuation benchmarks to develop their views on the valuation of the company. However, given the relatively small number of transactions (see table below) thus far, and the lack of detailed information on these transactions, comparisons can be very difficult - or worse, misleading, as they may generate expectations of value that no longer hold good. For example:

- Companies operate under very different business models - the valuation of an insurance company focused on bancassurance distribution will not be directly comparable to that of a company using a tied individual agency distribution model. Even within a given model, the nature of the distributor expenses, productivity levels etc. can lead to very different values of

the businesses.

- Companies in the past were of small size and hence valuations were heavily linked to the new business margins and volumes. Over the years, many of these companies have grown significantly and their growth rates and new business margins have come down too. Hence any change in the expected future premium growth, product mix (which has occurred repeatedly over the last 15 years) or new business margins as compared to historical benchmarks would mean that the information that can be gleaned from previous transactions may not be useful.
- Given that the profitability of products fluctuates under different economic assumptions, so too will the value of the company as a whole. For example, could a company have expected to command a similar value before and after the 2008 global financial crisis?

While these challenges exist in all markets, there is very little relevant information in the public domain against which to compare the valuations of insurance companies in India. Without published components such as analysis of movement (or AOM), value of new business, sensitivities, as well as the detailed methodology and assumptions

Lessons from the transactions so far

Date	Transaction	Other details
Aug-05	AMP (26%) and Sanmar (74%) exited from AMP Sanmar Life	Company becomes 'Reliance Life' with 100% holding by Reliance Capital
Mar-11	Nippon Life (26%) acquires a stake in Reliance Life	
Apr-12	New York Life (26%) exited from Max New York Life	Mitsui Sumitomo (26%) acquires a stake in 'Max Life'
Jan-13	ING (26%) exited from ING Vysya Life	Company (now known as 'Exide Life') - 100% domestic
Jan-13	PNB (30%) acquires a stake in MetLife India	Company now known as 'PNB MetLife'
Jul-13	DLF (74%) exited from DLF Pramerica Life	DHFL (74%) acquires a stake in the company, now known as 'DHFL Pramerica Life'
Dec-14	Azim Premji Trust buys a small (1%) stake in HDFC Life	

Source: Press reports

adopted, it is incredibly difficult to benchmark the value of new business that companies are writing, and how much of that value may be eroded by expense overruns.

Need for consistent disclosures of embedded valuation

An important building block of price determination in any stake change or mergers and acquisitions (M&A) transaction will be the EV calculation. For companies looking to either raise capital or encash the intrinsic value via an Initial Public Offering (IPO), the Insurance Regulatory and Development Authority of India (IRDA) has empowered the Institute of Actuaries of India (IAI) to lay down minimum (and significant) EV disclosures, which can be found in Actuarial Practice Standard 10 (APS10).

At present, there are limited disclosures around EV and the VNB margins in India. Companies adopt a variety of methodologies (Traditional Embedded Value (TEV); European Embedded Value (EEV); and Indian Embedded Value (IEV) / Market Consistent Embedded Value (MCEV)) to arrive at the results. Even within a given methodology, companies are unlikely to have adopted the same treatment of various items (e.g. cost of guarantees, risk discount rates, cost of non-hedgeable risks etc.). This makes comparability difficult.

For a company that develops EV capability for the first time (or chooses to change/enhance its existing methodology), a significant investment may be necessary in developing systems, models, and processes. The IEV methodology, in particular, requires the use of stochastic techniques for the computation of the time value of options and guarantees that are inherent in many products sold in India, and insurers need to spend time and resources to develop the required models. In order to be useful, these exercises need to be replicable, and produced in a reasonable time-frame so that the information is still relevant when the final disclosures are made – even more reason for the models and methodologies to be robust.

This need for efficient delivery does not stop at the calculation of the EV itself. Mapping out the entire disclosure process, performing selection and model runs for various sensitivities, collating and processing information for an AOM and then allocating various surpluses in a consistent and sufficiently detailed manner almost certainly requires some form of 'industrialisation' or holistic designing and automation of the processes. The process for an M&A or IPO can be long, involving multiple advisors, iterations and liaising with regulatory bodies. A delay in any of the milestones can mean that the embedded valuation and disclosures need repeating at future dates. Given the large size of the transactions that are likely to take place, each party to the transaction will often undertake due-diligence on the actuarial calculations performed, meaning that documentation, audit trails or the models themselves may need to be available to shareholders / investors and their advisors. A one-time exercise that is only well understood internally may not stand up to the scrutiny of an external team of actuaries or the 'Reporting Actuary' as envisaged under the IRDAI regulations.

With the advent of APS 10 and the Indian Embedded Value, we have seen a move by companies toward market consistent approaches and fuller disclosures of VNB, sensitivities and analyses of movement. This will certainly be the case for any company that chooses to tap the markets via an IPO, where APS10 adherence is mandatory. For a company that has previously used a TEV metric, the efforts involved in moving to EV developed using market consistent techniques or developing the full APS 10 compliant disclosures is far from trivial, both in model building but also in 'educating' the management and investors alike in what it all means. The scope for actuaries to explain how a market consistent valuation evolves and how that information should feed back into the business planning cycle is enormous.

Challenges in bases setting

As with any valuation, being able to determine an appropriate set of

assumptions is crucial. Given the significant changes in the regulatory and business environment in India and the strategies of insurance companies over the past 15 years, it would not be an exaggeration to say that no three year period has been similar to the previous such period. While as a profession, we may be well experienced in determining a prudent basis (for the purpose of statutory valuation of liabilities), determining a set of best-estimate assumptions of future experience (for the purpose of embedded valuation) is more challenging.

Valuations must also consider the potential impact of changes in the regulatory, legal and taxation environment, if they are likely to come into being. For example:

- The evolution of 'open-architecture' in bancassurance, or caps on expenses of management could impact the sales models of all insurers, and the projected new business a company can expect to write or the product mix it may aim to achieve.
- Any change in the taxation of life insurance profits could have significant impact on VIF and VNB and hence the appraisal value of the company.
- Regulations on product features such as those issued in 2010 and 2013 can completely re-write business plans – impacting implied VNB multiples and overall valuations.

In many cases, these external factors can have far more impact than the more 'traditional' risks of mortality, persistency and investment return assumptions. While such external risks can be hard to evaluate, and may be difficult to account for in the final valuation, shareholders will certainly be looking to understand the behaviour of their investments under various scenarios.

Joint venture issues

Since the Indian insurance market is dominated by joint-ventures (JV), any agreements made by the owners will influence the terms on which a restructuring of the shareholding may take place. For example, investors could

have a pre-agreed formula to determine the price at which shareholding structure may change. In other cases, the domestic partner may have offered the 'right of first refusal' to the foreign promoter.

Even where the terms of re-structure appear to be simple, the transaction will need to meet at least the following criteria:

- The deal is justifiable based on a fair market valuation requirement (see below) as judged by the Foreign Investment Promotion Board (FIPB). This may complicate the negotiations in JVs that have pre-agreed transaction amounts. Press coverage suggests that some companies have been able to meet this requirement already.
- The new laws require companies to have 'Indian management control' with latest news reports implying that the IRDA will not approve shareholder agreements that fail this test.

Requiring that transactions be at 'fair market value' seems justifiable, but how to determine this can take many forms, including:

- Both JV partners jointly agree on an independent advisor, who then performs the valuation; or
- Each JV partner carries out its own valuation, or hires an independent advisor to do so, and then negotiates with the other partner;
- Each JV partner carries out its own valuation and a third party mediates, in case the valuations go beyond a certain pre-agreed limit.

This can be complicated enough where there are only two major shareholders, but can become even more of a challenge when there are multiple investors involved. Agreeing upon the key valuation parameters early on in the process (if not already done so in the JV agreement) can help bring the valuations into a more narrow range. These parameters may include, for example, the valuation methodology, the risk discount rates, the level of future new business volumes, or the number of future years of new business etc. The company's internal Board approved business plans can be a good starting point in this context, and may already be available to existing shareholders.

Conclusions

While we will certainly see a number of transactions over the coming years as foreign investors (both institutional and insurance companies) increase their stakes in the Indian insurance industry, there are many bridges to cross before this can be achieved. Hopefully as a result of more investment and interest in the sector, the number of disclosures will increase, enhancing the quality of data on the performance of the industry and providing further information to support the valuations that are disclosed or agreed.

Although a number of different professionals will, and should, weigh in during this important period, it is also an exciting time to be an actuary. With our insight into products, solvency and risk impacting the industry, actuaries

will play a key role in guiding stakeholders through a complex process and provide insight to a range of other professionals. It is the actuary who is uniquely positioned to bridge the gap between the value of a company and the various internal and external expectations our colleagues have about sales, operations, investments and customers.

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IMPACT ON INDIAN LIFE INSURANCE PLAYERS IN THE PRESENCE OF GLOBAL RISKS

FEATURES

Abstract

This article discusses the risks that may impact the Indian Life insurance players if the global risk materializes and how those risks should be analyzed through stress test and develop action plan for its management.

Introduction:

This article analyses the impact on the Indian Life Insurance players resulting from Global risks exposure. The top five global risks (**Economic, Environmental, Geopolitical, Societal and Technological**) exposure are highlighted by World Economic Forum ("WEF") every year since 2007. The purpose of this article is to highlight how these risks may affect Indian Life Insurance players if the global risks materialize. Therefore, as a part of prudential risk management, insurance players may also consider the impact of these risks on their portfolio during the business planning cycle apart from considering local standard risks (insurance, financial, operational etc).

Top five Global risks exposures:

The table below list down risks classified by likelihood and impact defined by WEF under the four risks categories during 2015.

It may be noted that under the current world order, Geo-Political risk has emerged as top contributor to risk both in terms of likelihood and impact. The other risks listed above have been in news over recent past from some or other part of the world, such as flood, extreme weather, pandemic, building weapon of mass destruction etc which has been cause of worry.

Subsequent sections discusses the risks identified under each of the above four categories of risks.

Geo-political Risk:

For the year 2015, Geo-political risks have figured at three places in terms of likelihood and at two places in terms of impact. This suggests it weight. The emergence of this risk is due to current changing political landscape across the world citing examples of conflicts in Iraq, Syria and the political tension existing in various parts of the world.

How much such risks may affect the Indian financial market, if these risks materialize?

The WEF's Global risk report has identified Inter-state conflict, state collapse, failure of national government, terrorist attack and weapon of mass destruction as key risks in decreasing order of concern over next 18 months.

From India's point of view, the interstate conflict is not just directly related to its neighbors but also have cascading effect if conflict occurs in other parts of the world. Similarly, weapon of mass destruction could have far reaching socio-demographic-economic impact over the longer term. Terrorist attack may also change political dynamics of the world. If these extreme events occur may have following economic/political impacts in the Indian market:

- Decrease in exports impacting GDP
- Crash of equity market
- Increase in inflation
- Impact on interest rate
- Polarization of world political landscape impacting entire economy and development of the country

The direct and indirect impact on life insurance industry from above events could be:

- Reduction in New Business Premium
- Higher/Mass surrenders
- Lower capital generation affecting expansion
- Interest rate risk leading to mismatch between assets and liability
- Very high claims if weapon of mass destruction is used
- Liquidity drying up
- Defaults in corporate Bonds due to unable to manage sustainable growth
- Reinsurance default due to impact in the global market / parent country

These impacts on the insurance industry may be classified into following risks categories: Liquidity Risk, Credit Risk, Market Risk, Lapse risk and mortality risk.

Risks		
Risk Category	Likelihood	Impact
Geo-political	Interstate conflict with regional consequences	Weapons of mass destruction
	Failure of national governance	Interstate conflict with regional consequences
	State collapse or crisis	
Environmental	Extreme weather events	Failure of climate-change adaptation
Economic	High structural unemployment or underemployment	
Societal		Water crises
		Rapid and massive spread of infectious diseases

No Technological risks have been identified during 2015

Risk Management

The risk can be assessed by applying severe stress test on following risks parameter to assess capital resources required to meet liabilities:

- Lapses
- Interest rate
- Inflation
- Liquidity
- Mortality

The level of stress should be more severe than defined in the QIS-5 at 99.5% confidence level over one year period because such events sits in the tail of the distribution covering 0.5% of critical region and losses are unknown.

A good risk management technique is to prepare management action plan based on identifying resources to meet liabilities. Other proactive actions could be pricing less interest rate sensitive product; a good mix of portfolio with annuity and term product to manage mortality risk and longevity risk; limiting the mortality risk by fixing the maximum exposure in pure protection business, limiting the reinsurance to reduce the reinsurance credit risk etc.

Impact on new business risk could be assessed by stressing new business volume to assuming nil new business over next three to five years and see impact on Key Performance indicators.

Liquidity risk may be tested by identifying the cost of liquidity (direct and indirect). The direct cost would be the cost of borrowing and indirect cost would be loss resulting by creating mismatch between assets and liabilities by selling the long dated bonds kept for ALM purpose.

Therefore, Geo-political risk may trigger big impact on the life insurance industry in India if such events occur. Planning for such risks should be a part of the risk management.

Environmental Risk:

Environmental risk is expected to arise from extreme weather condition, failure to adapt to the climate change, natural catastrophe, biodiversity loss & ecosystem collapse and manmade environmental catastrophe. These

events have been in news in recent past. Such events can impact ability to grow food, access to water which could lead to sudden and uncontrolled population migration.

What does this mean for the Indian context, as the country is still dependent on the monsoon rain, any extreme weather condition likely to impact on the ability to grow food leading into dependence on buffer food stock resulting into immediate increase in inflation and affecting interest rate.

Any catastrophe event likely to increase both death and sickness claims. Therefore, environmental risk is likely to increase following key risks for the insurance companies

- Inflation and interest rate
- Mortality and Morbidity

The risk assessment for this risk can be performed through stressing economic and demographic risk factors together to assess worst possible scenario. To manage risk action plan may be drafted to take preventive measures should event unfold.

Economic:

Under this category, WEF has identified unemployment and underemployment, Fiscal crisis, asset bubble, failure of financial mechanism or institution, energy price shock, deflation, failure of critical infrastructure and unmanageable inflation as key risk events.

India being an expanding economy, some of the risks mentioned above may not be applicable such as deflation. However, there could be direct or indirect impact on the India economic position due to global economic events such as energy price shock that may result into increase in fuel prices leading to inflation. If asset bubble (unsustainably over priced assets) arises Reserve Bank of India may have to prick the bubble through macro-prudential regulation or through monetary policy, but this may have initial impact on the Indian economy. Unemployment and underemployment has not shown large volatility in the Indian market, so its impact would be material only if large

variation is seen. Direct failure within country of financial mechanism or institution may pose risk to the economy impacting equity market and interest rate or may even have second order effect if the failure happens in the one of developed market.

These global/local economic events may have an impact on the Indian financial market including insurance industry affecting slide in equity market, interest rate movement (both up and down) and increase in inflation. The current thinking on the interest rate in India is that this will in future decrease; this thought have been strengthened by the fact that RBI has decreased interest rate by 75 bps over last six months. However insurance companies should be vary of the situation that some of the global events may push interest rate upward in future so they must have action plan ready for this situation. Inflation could be the biggest surprise in terms of unanticipated increase.

Societal:

One of the key risks identified under this category is rapid spread of infectious disease leading to pandemic both at country level and at international level. Last year witnessed emergence of Ebola virus; in the past spread of H1N1 virus have been seen. With the world now inter-connected, the spread of such virus cannot be ruled out leading to large number of morbidity and mortality claims. Such events can also lead to large number of claims from one geographic area where Group policy is in place. This may resulting into very large number of claims seriously impacting financial health of the organization given that there have been increased regulatory reinsurance retention limit. Such claim may even breach the catastrophe reinsurance limits of insurers sneaking into solvency breach.

For such event large stress test on mortality or morbidity is required that could be 200% to 300% of base mortality/morbidity assumption. Solvency-II take 15% increase in the mortality for being confident at 99.5% within a year, however, such extreme event will land into the 0.5% area of distribution and loss would be unknown, so it would be better to test for extreme

back in long term, so invest in risk management.

References:

World Economic Forum Report on
Global Risk 2015, 10th Edition

The key to the correct assessment of global risks on the local insurance players would depend upon appropriate translation of global level of risks into local level risk on regular basis along with application of right level of stresses on the key risks. A penny spent of risk management today may give a pound



About the Author



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Mr. Sonjai Kumar is working as a Vice-President – Business Risk in Aviva Life Insurance Company India Limited



EMPLOYMENT OPPORTUNITY



AEGON Religare Life Insurance is seeking actuarial candidates for the following roles:

1.Senior Executive/Assistant Manager - Actuarial Modeling

Support the Modeling & Experience Analysis team in Moses model development and carrying out experience analysis on the company's portfolio with respect to mortality, morbidity and persistency. Through development of models, candidate will get exposure to both Traditional and Market Consistent framework of valuation.

2.Senior Executive/Assistant Manager - Actuarial Pricing

Price products which are as per the need of the sales channel, defined target market which addresses specific customer needs, provides adequate returns to various stakeholders, and are consistent with company's Business Plan

Key Requirements for both positions:

1. Engineer/Graduate/Post Graduate in Mathematics/Statistics/Economics/Actuarial Science
2. At least five CT series exams
3. Actuarial experience between 2-4 years
4. Relevant experience of Modeling and Pricing is preferred

Please send us your detailed Curriculum Vitae at rohini.shetty@aegonreligare.com

A detailed JD will also be made available on request. Short-listed candidates will be called for personal/VC interview in November 2015.

For more information about AEGON Religare, please visit: www.aegonreligare.com

Who are Actuaries?

Actuaries estimate future risks. They are the pillars of the insurance and financial security industries. Premiums are calculated by actuaries using various models and techniques. This premium is used to cover the expenses and expected costs. A part of this premium also account for reserves which are of utmost importance for survival of the company in the long run.

What is Actuarial Justice?

Actuarial Justice refers to a theoretical concept in the criminal justice system that uses methods similar to actuarial mathematics. In this system, actuaries try to evaluate risk and intensity of hazard involved in a particular action of an offender. Actuarial Justice also deals with crime prevention strategies and policing. Treatment programs are designed as well for rehabilitation of criminals.



Actuarial Justice considers individuals as risk objects where they are differentiated into categories depending on their risk profile or the risk they pose.

For e.g. high risk objects (e.g. murderer) or low risk objects (e.g. robber), risk objects sensitive to certain group of the society (e.g. life threats to Indian students in Australia), risk object's status dependent on economical status (e.g. generally people with higher income indulge in drugs which are expensive), etc. This is one of the uniqueness of this theory which signifies its dependence on the concept of risk.

Unlike many other theories of crime, causality of crime does not form the core of this theory. To recognize the causes of an action is complicated. This theory therefore seeks to understand the emerging forms of social behavior that may lead to crime and concentrates on evaluating risk.

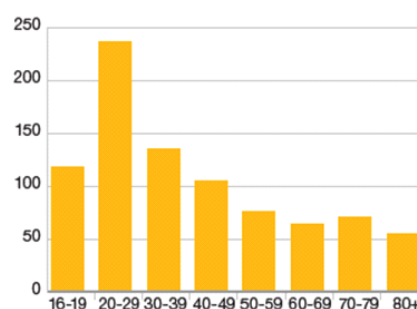


This theory believes that crime is an unavoidable social fact and it has been perceived as a by-product of modernization of societies. Basically, crime has lost its ethical element. Hence, eliminating crime completely is impossible as it is an alleged consequence of living in society. Accidents on a highway are becoming an everyday thing. Similarly crime is understood to be something that has a significant probability of occurrence. By assessing the risk that various situations and offenders pose, the theory tries to prevent it and minimize its effects.

For e.g. according to the statistics, a person in the age group of 20-29 possess a higher risk of getting involved in crimes (car accident) under the influence of alcohol. Therefore specific laws must be devised to prevent the intake of alcohol by this age group. Also most of these crimes occur late in night. Thus late night selling of alcohol and functioning of pubs and bars must be banned after mid-night.

Maharashtra	Age limits	In Maharashtra for drinking a person should carry a liquor license obtained from Govt. Civil Hospital. The drinking age is 30 years in Wardha district
	No age limit (For wine)	
	21 (For beer)	
	25 (other)	

Car driver deaths by age in the UK 2008



Source: Rospa/Department of Transport Reported Road Casualties Great Britain 2008

Current Scenario

Bringing a change in an individual's behavior was the goal of traditional theories of crime. The aim was to transform criminals into responsible citizens and to provide them a normal social life. But this has resulted in wastage of resources and inefficient use of funds.

How Actuarial Justice Works?

With Actuarial Justice, offenders are classified on the basis of their risk profiles and accordingly made to go through appropriate personality altering therapies.

For e.g. if an offender is considered as a low risk object then he/she would be exposed to rehabilitation that is very much different and not as intensified as the one for high risk objects. This not only helps in cost-cutting but also makes the system efficient. Thus this theory helps in building criminal rehabilitation process to be cost effective and conservative.

Managing individuals into risk categories plays a vital role in this system. Criminal profiling is one such way

*source – wikipedia

to manage individuals. It uses probabilistic analysis in order to identify suspects and target them for surveillance. One of the first well-known uses of criminal profiling was the hijacker profiles developed in the 1960s in order to disrupt the hijacking of American commercial planes.

Winston Churchill once said, "If the past sits in judgment on the present, the future will be lost."



Likewise, Actuarial Justice has a futuristic outlook. Rather than addressing the past causes of crimes it is involved in estimating and preventing the occurrence of prospective behaviors. The focus of Actuarial Justice lies in

controlling and regulating future behaviors.

Criminals who were classified as high risk objects but now do not give the impression of performing heinous crimes must not be treated or sentenced on his past crimes but their current state must be considered for rehabilitation.

My Outlook on Actuarial Criminology

According to me the net effect of the Actuarial Justice in criminal law should be to train law enforcement increasingly on the narrow question of prior criminal history and severity of crime. The desire to predict criminality should hold more importance and its consequences should help us in criminal law enforcement.

I would end this by saying Actuarial Justice might seem very appropriate but its implementation in practical life is not easy. It needs to be defined with more precision and clarity and documented in order for it to be

implemented throughout the globe. However, it is expected that sooner or later Actuarial Justice would supersede the rehabilitative and retributive models.

About the Author



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Mr. Atul Dubey

Mr. Atul Dubey is a student member of IAI and has graduated as BSc. in Actuarial Sciences from DS Actuarial Education Services.



Many Happy Returns of the day

MR A. GHOSAL

MR M. G. DIWAN

MR K. J. PRADHAN

**THE ACUARY INDIA WISHES MANY MORE YEARS OF
HEALTHY LIFE TO THE FELLOW MEMBERS WHOSE
BIRTHDAY FALL IN NOVEMBER 2015**



Mr. K S Gopalakrishnan

MD & CEO

AEGON Religare Life Insurance Company



Personal

Q What qualifications and experience do you think is appropriate for a CEO of a Life Insurance Company to be successful?

I would not assign too much importance to qualifications and experience, though some experience in retail financial services / insurance helps.

Q What are the key qualities one should possess to be a successful CEO. What are the challenges that you faced on the route to becoming a CEO?

The ability to co-create a compelling vision and inspiring people are two important qualities one should possess. These are even more important in a challenging life insurance market today. I can't think of any challenges on my route to becoming a CEO because this happened as a smooth progression over the years.

Q What are your hobbies and how do you manage your work life balance?

I believe that it is absolutely important to have at least one activity other than work. For me these are a few - reading books, physical fitness and travelling. "Work Life Balance" is more a notion because technology helps you to carry on with work any time any where. For me, it is therefore finding some time every day for my personal life and hobbies. These refresh my mind and helps do my work in a more focused way.

Profession

Q What is your typical day at work?

The challenging part in my role is that there is no "typical day"! Travel, internal meetings and external meetings can crop up unexpectedly. And, I enjoy this.

Q What can you tell us about the future employment outlook in insurance sector for actuaries?

It is indeed bright! There are a number of ways actuaries can contribute in the insurance sector. Also, opportunities in traditional areas are also growing as the current block of business become older and bigger for many of the insurers. These create opportunities within insurance companies and also in those associated with insurance companies.

Q What do you consider to be the key areas where actuaries add value to the business?

In addition to the core actuarial work, I see many areas where actuaries can add value. These include business planning, financial reporting and analysis, data analytics, and operations. I say this because the actuarial course imparts certain key analytical skill sets, approaching any challenges from first principles in a logical way and also provides a broader insight into insurance business. The actuaries must use these to their advantage and broaden their career prospects.

Q What impact do actuaries have on consumers and society? What should they do to connect with the society?

From a life insurance context, I can say with all conviction that we are in a noble profession of providing solutions and ensuring financial safety of people when an unfortunate event occurs in their lives. Sometimes we as actuaries tend to get risk averse or theoretical and miss the big picture. We have to be bold in finding solutions to the society's insurance needs and also play a creative role in increasing awareness in the society as thought leaders. As a profession too, we have to get better at communicating with the society and in today's world dominated by the digital medium, there are many easy ways of staying connected with the society.

Life Insurance Industry in India

Q What trends do you see for this industry in the next 3 to 5 years?

India is a vastly heterogeneous market. Therefore, the approach towards delivery - products, sales models and servicing models - have to be customised for each segment in a way that it makes sense to that customer segment. I expect the underlying need for life insurance to remain strong in India but delivery models will undergo significant shifts. I expect this because, I believe that customer behaviour in most of the segments is changing rapidly with focus on flexibility, transparency, liquidity and value proposition. I also expect demand for pure protection products to go up as an increasing part of the customer segment could start separating insurance and investment/ savings needs.

Q Are there things that the IRDA or the Government should have or should not have done to assist the industry?

The regulator has a responsibility towards protecting customer interests. I find that IRDA has been doing exactly this and has in fact moved fast in many areas towards protecting customers. In the future, I hope to see the product design structure being liberalised to recognize customer expectations of flexibility and liquidity. For this to happen, life insurers need to take more responsibility towards being fair to customers. Another area where I expect to see progress is in reviewing the capital adequacy norms and moving towards a risk based capital regime.

Q What are the top three issues facing the Insurance sector in India.

1. Regaining consumer confidence in our products and promises.
2. Increasing the Value of Inforce Business though customer retention
3. Improving VNB margins

Q What do you believe are the inefficiencies in the insurance industry? How do you think such inefficiencies can be overcome?

Operational and distribution costs have to be brought down. Customers are becoming more value conscious and bringing costs down is important for long term sustainability of the industry. New models have to be thought through so as to improve efficiencies as well as move away from fixed costs to variable costs.

Q What do you think are the strengths of Indian Insurance Industry?

The overall awareness about life insurance as a category is quite high in India. This is a big strength of the Indian Insurance Industry. The other strength is a robust regulatory framework through various regulations and supervision.

Q How do you keep abreast with latest happenings in insurance sector in India and across globe particularly Life Insurance and overall economy?

There are various seminars and other networking events that provide a good platform for staying updated with developments in India. I also have the benefit of being part of Aegon that gives me the global perspective. Last, but not the least, is the material from the actuarial bodies of India, the UK, the USA and Canada.

The future depends on what you do today. - Mahatma Gandhi

EMPLOYMENT OPPORTUNITY

Universal Sompo General Insurance Company Limited
the first insurance company with public private partnership invites application for the following positions:



Universal Sompo
General Insurance Co. Ltd.
Suraksha, Hamesha Aapke Saath

1. Appointed Actuary

Qualification: IAI or Actuaries UK- Fellowship

Age: 35 to 42 Years

Job Description:

Sign certification of actuarial reports as per IRDAI regulations Finalize valuation of liabilities, calculation of reserves IBNER/IBNER, UPR Finalizing other reports such as Asset Liability management Report, Financial Condition Report and Economic Capital Report and signing these reports Fulfil other requirements regulatory reports as and when required by Authority Conducting experience analysis such as Claim Analysis, Expense Analysis and Investment analysis Participate in various management meetings as member of different committees Pricing of new product and revision of existing products Finalizing technical reports and ensuring that F&U guidelines are adopted as per extant regulations Suggest top management on various issues such as price adequacy, solvency ratio etc.

Apart from above we require the following candidates to support appointed actuary

1. Manager Actuarial: Part qualified, at least 3-5 years direct general insurance company experience, age below 38 years
2. Actuarial trainee - Have passed at least 5 subjects, preferably has one year general insurance company experience, age below 35 years.

Compensation: Best in the Industry

Interested candidates are requested to kindly mail across the CV to Pankaj.singh@universalsompo.com at the earliest

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The Advisory Group on General Insurance (AGGI) has been set up with objective of providing a forum for actuaries working in the General Insurance (GI) industry in India to address issues that directly affect their day-to-day functioning, as well as provide advice to the General Insurance Council on issues it deems appropriate. Additionally, the group also aim to provide relevant learning and training opportunities to young aspiring actuaries specialising in general insurance domain.

The changes in the Insurance Act allowing foreign reinsurers to establish their branch in India and the recent exposure draft reinsurance regulations from IRDAI provides new opportunities for both life and non-life actuaries. At the same time it is felt that non-life actuaries would need to broaden their skillsets beyond the traditional areas of reserving and product pricing. This is something that AGGI wants to address and improve over the next few years.

In July 2015, AGGI organized Current Issues in General Insurance (CIGI) seminar in Mumbai which was very well received and highly appreciated by all the participants. The seminar covered issues ranging from Reinsurance and Burning Cost regulations to Behavioural Finance. Mr. Rajesh Dalmia, President IAI delivered the welcome and introductory speech and the key note address was delivered by Ms. Pournima Gupte, Member Actuary - IRDAI. Mr. Bhargav Dasgupta, MD & CEO - ICICI Lombard, stressed on the importance of reserving in context of Indian Insurance industry and Mr. Arun Agarwal, General

Representative - Lloyds' of London gave insight into reinsurance regulations in different jurisdictions.

The committee has prepared the Draft Guidance Note for establishing the practice of Peer Review process with in the General Insurance domain. The prepared draft would be submitted to the Advisory Group on Professional Affairs and Standards (AGPAS) and would also be circulated to all Fellow members inviting their comments/suggestions.

Further, the working group has been constituted to draft a Guidance Note on reserving for non-life actuarial professionals working in the Indian Insurance industry. The working group is expected to finalise its recommendations early next year.

The IRDAI in July 2015 had constituted separate committees to review existing regulations within General Insurance (including Health) and Reinsurance business. The members of the AGGI were nominated by the regulator to the above committees. The committees' report along with its recommendations has been submitted to the regulator.

Besides this, the AGGI has been engaged in number of activities. The highlight of key activities is given below:

- Providing feedback on draft exposure published by the regulator
- Recommendations on the enhanced requirements for issuing the Certificate of Practice

to actuaries working as or planning to work as Appointed Actuaries for Indian GI companies were finalized.

In the next few months, AGGI plans to undertake the following activities:

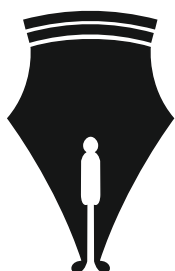
- Conduct Capacity Building Seminar in General Insurance in December 2015
- Work on the Motor Third Party Liability reserves research project

On a longer term basis, the AGGI strives to work closely with the IRDAI, the General Insurance Council, GI actuaries and management of GI companies to enhance the actuarial contribution in the management of GI companies by providing support on robust reserving, pricing & capital modeling techniques, product innovation, compliance, and overall risk management. This will improve the profitability of the GI companies and help increase the penetration levels of the Industry.

About the Author



Mr. Hiten Kothari
Secretary, AGGI



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

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



The Economy

South Africa's economic growth slowed to just over 2%, lower than the 5% needed to create a substantial number of new jobs. South Africa's unemployment rate increased to 25% and youth unemployment is also reaching record highs. The recent weeks have also seen tertiary students protesting against fee increases. Correspondingly, South Africa's currency, the Rand, has continued to come under pressure from international currencies.

Social Security

South Africa has a widespread Social Security network, with the primary aim being to combat poverty and inequality. In addition to spending vast sums on education and health care, the other benefits are as follows:

- Members in employment can benefit from employment retirement savings vehicles such as pension or provident funds;
- An Unemployment Insurance Fund (UIF) that provides funds for a limited period to those workers who are retrenched or dismissed;
- A Road Accident Fund (RAF) that provides benefits to those injured in road accidents; and
- About 16 million South Africans receive some type of assistance from Government, ranging from old age grants to child care grants.

South Africa has a well-developed retirement fund sector. Over the last two decades there has been large scale conversion from defined contribution pension funds to defined contribution provident funds within the private sector. The public sector is dominated by the Government Employees Pension Fund (GEPF) which caters for about 1.25 million active members and about 500,000 pensioners.

The private sector retirement fund market is dominated by defined contribution funds, where the members' fund credits typically track market returns. On average, members contribute about 15% of payroll to retirement funds. It is the norm to allow members to choose their own investment portfolios. Pre-retirement investment strategies typically mirror the needs of members, with those closest to retirement choosing more conservative strategies and, conversely, those furthest away from retirement opting for more aggressive strategies. Historically funds held investment reserves to smooth returns from year to year. Legislation was passed that effectively allows exits to receive a proportion of their investment reserve and this has resulted in most funds abandoning investment reserve accounts and rather holding fund credits directly related to the market value of assets.

Retirement fund reforms envisage a funding system with compulsory membership for those in employment, compulsory preservation of retirement savings on changing jobs, and compulsory annuitisation of proceeds on retirement. Post retirement options are also under consideration. In addition, there is pressure on retirement funds to adopt a more socially responsible investment strategy. In the South African context this would include investing in companies that support Black Economic Empowerment (BEE).

Government is also committed to reducing costs for members and to strengthen the governance of retirement funds. Administration capabilities are generally very advanced, with members generally being able to log onto the administrator's website and view their benefits and membership details.

For defined benefit funds, there has been a lot of interest in how one calculates the spouse's benefits on the exit of the main member in the case of divorce. The two options commonly considered are as follows:

- Adjust the numbers of years of service for the main member who remains in the fund to take into account the benefit paid to the ex-spouse; and
- Provide a loan to the main member to pay the ex-spouse's benefits and add interest on to the loan. The benefit at exit is then reduced by the accumulated loan.

Short Term Insurance

A Convention on Short Term Insurance was held on 14 October 2015. Amongst the topics covered included:

- A discussion about the challenges with South African postal codes when geocoding;
- A demonstration of some of the software tools and automated approaches that can be used when geocoding; and
- The different (free) datasets that an insurer can use to assist with geocoding and the understanding of their risk.

Ethics

The Society continues to stress the important of Ethics. The recent case of VW having falsified emission tests demonstrates that even individuals with the highest qualifications, experience and working in companies with strong brand equity may be prone to corrupt activities under certain circumstances.

The Society has recently taken action against 22 students whose conduct was found to be unacceptable during the Practice Module Examination. The students were not found guilty of the more serious charge of unprofessional conduct, as they came forward after the Society began investigating reports of students having assisted and received assistance during the exam.

Other News

The Annual National Convention of the Actuarial Society of South Africa takes place in Sandton, Johannesburg on 17th and 18th November 2015. As 90% of all actuaries in Africa are based in South Africa, the Society continues to support and nurture the development of actuarial skills on the continent. The Society also noted with great sadness the passing away of Garth Griffin, a past President of the Actuarial Society.

About the Author 



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Mr. Krishen Sukdev is a Fellow of both the Actuarial Society of South Africa and of the Financial Planning Institute and serves as the Convener of the Actuarial Society of South Africa's Social Security Committee.

"Do not judge me by my successes, judge me by how many times I fell down and got back up again."
-Nelson Mandela



PLACE AN ADVERTISEMENT IN ACTUARY INDIA MAGAZINE

Send detailed art work of the advertisement to library@actuariesindia.org.

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* Cutoff date: **usually a month in advance for the following month.**

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* Size of the art work is:

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Full Page Colour - Rs. 30,000/-

Half Page Colour Rs. 20,000/-

The magazine release date (hard copy) is 23rd of every month. The advertisement will be uploaded and emailed by 15th of the month to all the members.

Employee Provident Fund (EPF) is and was a major saving tool for the working class. Government made the improvement in the scheme over the past to protect the interest of working class. In 1995 part of the employer's contribution to EPF has been decided to divert in Employee Pension Scheme (EPS) which offered a pension @ 1/70 of pensionable salary.

Introduction to EPS:

An employee can start receiving the pension under EPS when the below mentioned criteria is met: minimum service of 10 years and attaining the age of 58 or 50 years. However, no pension is payable before the age of 50 years and early pension after 50 years but before the age of 58 years is subject to discounting factor of 4% (w.e.f. 26-09-2008) for every year which is short of 58 years. In case of Death or Permanent Total Disablement, the above restrictions doesn't apply.

As per amendments, the government has also fixed monthly pension benefit at INR 1,000 for the financial year 2014-15. Those who started job before 01-09-2014, it was Based on a maximum employment period of 35 years, and maximum contribution of INR 6,500, the maximum amount of pension as per the Pension formula would be = $6,500 \times 35 / 70 = \text{INR } 3,250$ per month or INR 39,000 p.a. (i.e. 3250×12). Those who started job after 01-09-2014 and earning more than INR 15,000 in Basic plus DA will not be contributing to the Pension scheme.

Just a thought, if one would have invested EPS amount of INR 541 in a recurring deposit at the rate of 8.00% for 35 years one would get INR 1,249,264 as maturity amount. If this amount has been used buying the Pension plan with any insurer, this will give pension much higher than 3,250 payable under EPS, as the scheme is social security scheme, also statistics shows that not many employees will fall under maximum contribution (541) bracket.

Recent modifications which has been made in EPS are:

- ⊙ Increasing Salary Ceiling to INR 15,000 from INR 6,500.
- ⊙ Increasing minimum pension to INR 1,000 p.m. from FY 2014-15.
- ⊙ Insurance Limit raised to maximum INR 600,000 from INR 360,000.
- ⊙ Keeping minimum balance in case of withdrawal till age 50.
- ⊙ Introduction of UAN.

Salary Ceiling:

This pensionable salary has been changed over a period from INR 5,000 p.m. to INR 15,000 p.m. recently. The idea of the change in the ceiling is to bring more and more workers under the scheme which would have otherwise left out due to salary inflation.

Minimum Pension:

There are few recent updates from Employees Provident Fund Organisation (EPFO) to provide a monthly pension of minimum INR 1,000 for the financial year 2014-15, a decision that has immediately benefited about its 28 lakh pensioners. Under new rules, widow of a member will get a minimum monthly pension of INR 1,000. For children it is fixed INR 250 and orphans it is INR 750 per month. To arrive at pension, salary will be average of 60 months last drawn salary instead of earlier rule of last 12 months average salary.

Insurance Limit:

Pending notification from government an insurance cover has been increased to INR 600,000 which is 30 times pensionable salary plus bonus of INR 150,000. This mean that if EPS contributory member dies while in service, family will get INR 600,000 plus other pensionary benefits.

Withdrawal:

The EPF offers the flexibility of withdrawals. You can withdraw for higher education or marriage of children or to purchase or construct a

house. EPF contribution can even be used to finance your life insurance policy premiums. When you leave your job, you can withdraw the entire accumulated EPF with certain wait period. This withdrawals are tax-free, if they are made after five years of continuous membership. If withdrawn within five years, you will have to pay tax on the employer's contributions to the EPF during the earlier years. Tax benefits claimed earlier on your own contributions will also be lost. You will have to pay tax on the interest earned on both parties' contribution as well.

The tax calculation by EPFO and Private Trust defers (10% tax deduction at source (TDS) on EPF withdrawals (within five years) over INR 30,000 from 01-06-2015 from EPFO). But before withdrawal it is a good idea to keep in mind that it will affect your retirement corpus. To discourage pre mature withdrawals from the EPF, there is a proposal to withhold 10% of the fund till the subscriber turns 50 years.

Universal Account Number (UAN):

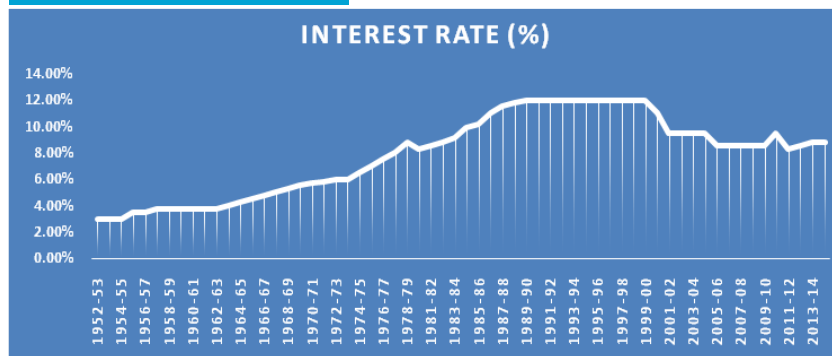
In earlier years, the only way to get the balance in EPF account was to give out the information via our employers only. EPFO now offers a 'Know your EPF balance' facility through its portal, www.epfindia.com. On entering details relating to the PF office where your account is maintained, your PF number, your name and mobile number, details relating to the total contribution made both by employee and employer received via messages on mobile. This service is in operation since last year i.e. 16-10-2014.

What are the benefits of UAN to an employee?

- EPF Transfer and EPF Withdrawal will take lesser time.
- No need to depend on employer to forward the claims for EPF Transfer and EPF Withdrawal. Claims can be submitted online easily.
- Details of all the PF accounts can be viewed at once.
- There will be transparency in PF account/s. EPFO will send a monthly SMS intimation of PF amount.

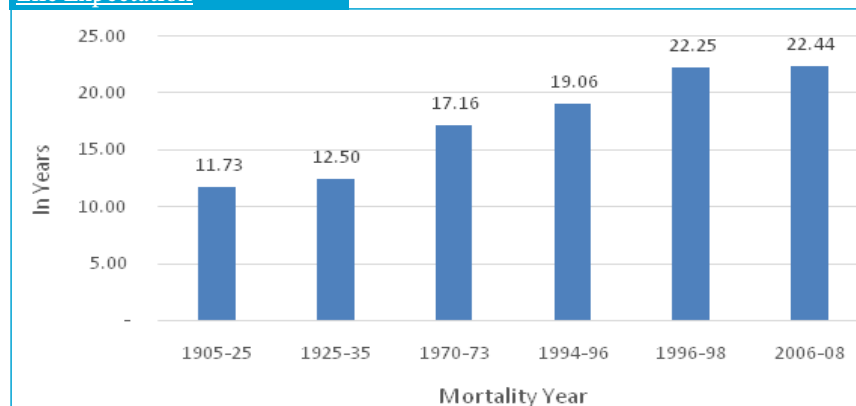
While making these amendments EPFO normally consult Actuaries, who will advise them on cost implications of amendments. Actuary will consider the crucial issues like return on investment, future change in inflation pattern, improvement in mortality, change in withdrawal pattern etc. to give an example EPF Interest rate movement over the years from 1952 & Expectation of Life shown in below graphs.

EPF Interest Rate Movements



Financial Year	Interest Rate (%)	Financial Year	Interest Rate (%)	Financial Year	Interest Rate (%)
1952-53	3.00%	1973-74	6.00%	1995-96	12.00%
1953-54	3.00%	1974-75	6.50%	1996-97	12.00%
1954-55	3.00%	1975-76	7.00%	1997-98	12.00%
1955-56	3.50%	1976-77	7.50%	1998-99	12.00%
1956-57	3.50%	1977-78	8.00%	1999-00	12.00%
1957-58	3.75%	1978-79	8.75%	2000-01	11.00%
1958-59	3.75%	1979-80	8.25%	2001-02	9.50%
1959-60	3.75%	1981-82	8.50%	2002-03	9.50%
1960-61	3.75%	1982-83	8.75%	2003-04	9.50%
1961-62	3.75%	1983-84	9.15%	2004-05	9.50%
1962-63	3.75%	1984-85	9.90%	2005-06	8.50%
1963-64	4.00%	1985-86	10.15%	2006-07	8.50%
1964-65	4.25%	1986-87	11.00%	2007-08	8.50%
1965-66	4.50%	1987-88	11.50%	2008-09	8.50%
1966-67	4.75%	1988-89	11.80%	2009-10	8.50%
1967-68	5.00%	1989-90	12.00%	2010-11	9.50%
1968-69	5.25%	1990-91	12.00%	2011-12	8.25%
1969-70	5.50%	1991-92	12.00%	2012-13	8.50%
1970-71	5.70%	1992-93	12.00%	2013-14	8.75%
1971-72	5.80%	1993-94	12.00%	2014-15	8.75%
1972-73	6.00%	1994-95	12.00%		

Life Expectation



New Pension Scheme (NPS):

This is a voluntary scheme an alternative for retirement savings under defined contribution plan, government is trying to make it popular as it aims to shift the burden from Govt. To individuals, also making the returns more comparable to the contributions. The granting of additional tax deduction of INR 50,000 for investment in the New Pension Scheme (NPS) in the Budget apart from

the INR 1.5 lakh 80(C) deduction also brings thought on above point. Earnings are tax free but withdrawals are taxed. Looking at the recent statistics, it can be seen that NPS is gaining fast popularity and is proving a preferred choice for the working class compared to EPS.

There is one major difference between NPS and EPF / EPS. And that is NPS on retirement is purely based on NAV's as on the retirement date but EPF / EPS can be considered as contributions made plus annualised return offered p.a. for example we know that EPF gives us 8.75% p.a. rate of interest currently. EPF is portable and can be carried from employer to employer as it is managed by EPFO (A government Organization).

In the schemes like NPS, the final benefit is not known. Here, the contributions are grown by a fund managers where they have the option to invest in Equities, Central Government Securities and Corporate Bonds. So, in NPS, although there is risk, the upside can be very rewarding as equity market returns outperforms compared to any other asset class in the long term.

Few Comparison EPF / EPS v/s NPS:

The benefits under EPS are in the form of member pension, widow pension, children pension, dependent parent pension, orphan pension and disability pension. These benefits are paid out from one single pool of fund with EPFO.

Total corpus size stood at INR 2.08 lakh crore with a member base of over 12.25 crore. Whereas under NPS total corpus stood at INR 80,855 crore with a subscriber base of 87.64 lakhs. But this numbers will have different picture over long run as NPS is newly introduced few year back compared to EPF / EPS.

NPS is an individual account where a member's contributions are received and are invested in the securities. The final accumulation of the fund is partly utilised to purchase annuity as monthly pension.

However, NPS can be compared with EPF as both are defined contribution individual member accounting schemes. The funds for both the schemes are invested in the market, and returns are accumulated in the members' account.

The basic differences are;

- in the manner of fund accumulation and;
- in the manner the accumulated funds are paid out.

Pension / Annuity Buy-Out Option:

In case of NPS, minimum of 40% of the total accumulation on retirement has to be utilised to buy an annuity, while the rest can be taken as a lump sum. In case of EPF, on retirement the entire corpus is given to the member (and EPS contribution is used to buy annuities). EPF also allows partial withdrawals while in service for meeting social responsibilities as well as for emergencies whereas NPS does not allow any withdrawals before retirement unless few emergency conditions are met.

Ideally one should continue with EPF contribution till the time employer gives the option of investing in NPS and alongside you can open a NPS account and continue it side by side with your own contributions.

With the imminent applicability of Direct Tax Code (DTC), the NPS may become EEE (Exempt - Exempt - Exempt) i.e. the contributions will have tax benefits, the interest will be exempt and the withdrawal on retirement will also be exempt from tax. This will give a major boost to NPS.

Benefits under EPS spread far beyond what the member has contributed. Under EPS, lifelong pension is available

to the widow and children up to the age of 25 years even if the member has only contributed only for a single month.

Expenses Comparison:

Another issue is that the management charges of EPS are high. But that's not the truth, EPFO charges 0.86% from un-exempt PF and 0.18% from exempt PF trusts of the wage from the employer for managing the EPF scheme 0.5% for EDLI charges & 0.1% for EDLI admin charges, but there is no charge on the member for managing the EPS scheme and also for disbursing pension to the pensioner.

But in respect of NPS, the management charges are actually borne by the subscribers. NPS has adopted three different methods of charging its subscribers. Points of Presence (POP) charges are collected upfront from the subscribers from the contribution. Central Record keeping Agency (CRA) charges are through reduction in no. of units held for each subscribers. Portfolio Management Charges (PFM) and custodian charges are taken through reduction in Net Asset Value (NAV). All these charges are only for the accumulation phase of the scheme till subscribers retire. At time of pay out annuity service providers' gives return on the accumulation which is much lower than the market earnings.

Government is making amendments to schemes and offering alternative scheme to protect the interest of working class and will continue doing improvements in future. This will also help Actuaries to provide the services like Investment guidance, Contracting Out, Actuarial Valuations, Personal Pension Calculations, Mortality and Withdrawal Investigations etc. Timely improvements in any social security schemes are always beneficial.

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VOLUNTEERING OPPORTUNITIES

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

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



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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.

Version history:

Ver. 1.00/31st Jan. 2004

Ver. 2.00/23rd Jan. 2011

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In Memoriam 1931-2014

Minoo was born in the town of Bulsar, Gujarat, India on 31st March 1931. His family moved to Bombay in his infant years, though he had fond memories of continuing to visit Bulsar and the neighbouring mango farms of his family throughout his childhood. In his university years he was fortunate to be encouraged to pursue an actuarial career by the now legendary Professor G. S. Diwan whom he held in the highest regard. Professor Diwan was his inspiration, his mentor and his lifelong friend. Minoo took to his studies like a duck to the water and throughout his life his spontaneous enjoyment while working was evident to all who witnessed it. In those early days when Life Insurance appeared the sole career avenue, Minoo with the greatest self confidence plunged into a diverse career path. In 1951 after graduating with a B.Com from

Sydenham College of Commerce and Economics in Bombay, he left for London to join the Head Office of the Sun Life Assurance Society. In 1960 he became a Fellow of the Royal Statistical Society and in 1962 a Fellow of the Institute of Actuaries (subsequently also a Fellow of the Australian and Indian Institutes). He returned to India that same year to join India Reinsurance Corporation where he met his wife Mahrukh Mehta. In 1965 he joined ICICI, then one of the largest Development Banks in Asia, to assess World Bank funded projects. He left India for Melbourne in 1969 and became a Consulting Actuary with the prestigious E.S. Knight & Co. at the invitation of Ted Knight on the recommendation of former colleagues in London. He thus became the first Asian actuary in Australia. This was at a time when actuarial consulting was in a pioneering and highly competitive phase and the imaginative boundaries of the application of actuarial expertise were rapidly expanding. In 1975 he joined William M. Mercer as Actuary and Manager of their Employee Benefits Division in Sydney. At this time he discovered within himself a real interest in, and talent for, Risk Management. He also developed new techniques using computer modelling at an early stage when punch cards were still in use. In 1980 he began his own actuarial consulting firm M. R. Batliwalla & Associates which he continued until his retirement. Minoo is the author of Investment Decision, published in 1978 under the auspices of the Institute of Chartered Accountants of India, and the author of several original papers presented at the

International Congress of Actuaries in various countries over the years. One could never take the "Indian" out of Minoo. When the insurance industry was liberalised in the early 2000s Minoo participated with a keen and very active interest, making several trips to India, cooperating with the Regulator and other actuaries and introducing a leading global reinsurer to India. To Minoo, respecting the abilities and qualities of women came to him almost as naturally as breathing. He was really proud when both his daughter Marina and son Sarosh qualified as actuaries, Marina in all probability becoming the first Parsi female actuary. (It then became a family joke that Mahrukh was the only one now in the family retaining the ability to do simple arithmetic!) Minoo's gentle and humble, yet spirited nature endeared him to people from all walks of life and of all ages. He was both cultured and sophisticated and always smiling. He appreciated art and music, and was familiar with many languages. Even with a terminal illness, in his final weeks he diligently studied Spanish to learn it apace with his beloved grandchildren. A respected Director of major international companies, wrote in tribute: "He was a true gentleman as well as being one of the most professional and capable people with whom I dealt". Above all Minoo was a most devoted and loving family man. He is survived by his devoted wife Mahrukh, his children Marina and Sarosh, son-in-law Behram Vaghaiwalla and grandchildren Avamehr (10), Rashna (7) and Rishad (7).

- Mr. Sarosh Batliwalla, FIAI

An investment in knowledge always pays the best interest.

- BENJAMIN FRANKLIN

Funny Actuary



Two people are flying in a hot air balloon and realize they are lost. They see a man on the ground, so they navigate the balloon to where they can speak to him. They yell to him, "Can you help us – we're lost."

The man on the ground replies, "You're in a hot air balloon, about two hundred feet off the ground."

One of the people in the balloon replies to the man on the ground, "You must be an actuary. You gave us information that is accurate, but completely useless." The actuary on the ground yells to the people in the balloon, "You must be in marketing."

They yell back, "yes, how did you know?"

The actuary says, "well, you're in the same situation you were in before you talked to me, but now it's my fault."

EMPLOYMENT OPPORTUNITY

Government of India
Ministry of Communications & IT Department of Posts
Directorate of Postal Life Insurance
Chanakyapuri, New Delhi-110021

INVITATION FOR OFFERS FOR ENGAGEMENT OF FULL TIME ACTUARY

The Chief General Manager, Postal Life Insurance, Department of Posts, Chanakyapuri P.O. building, New Delhi-110021, invites offers from interested fellow members of the Actuarial Society of India for engagement of a full time Actuary for a period of two years initially and extendable by one year on certain conditions. The bid document, along with terms and conditions, has been uploaded on www.eprocure.gov.in. (2015_DOP-52667_1) on 29.10.2015 at 11.32 hrs . The bidders can log on to the website and see the tender document. The interested eligible Actuaries who are desirous of participating in e-procurement shall submit their Technical & financial bids in the standard formats prescribed in the Technical documents, displayed at www.eprocure.gov.in .

Schedule of bid is as under

Date of issue of RFP No.	29-06/2013-LI , dated 29.10.2015 11.32 hrs
Bid submission start date	06.11.2015
Start Date of submission of queries (if any) / sought clarification	06.11.2015
Date of Pre-Bid Conference on queries/ clarifications	12.11.2015 at 11.00 hrs venue : Dte of Postal Life Insurance, Chanakyapuri Post Office Complex, New Delhi-110021
Issue of clarifications	19.11.2015
Last Date and Time of submission of bids	04.12.2015 at 15.00 hrs
Date and Time of opening of online bids	04.12.2015 at 16.00 hrs

Addl. General Manager (PLI)
011-24674794
agmpli2@indiapost.gov.in
amplidte@gmail.com

EMPLOYMENT OPPORTUNITY



THE ORIENTAL INSURANCE COMPANY LIMITED
(A Govt. of India Undertaking),
A-25 / 27, Asaf Ali Road, New Delhi – 110 002

CIN: U66010DL1947GOI007158

Website: <http://www.orientalinsurance.org.in>

Applications are invited from resident Indian Citizens for the post of "Appointed Actuary" on Full time Contract Basis:

(I) Total No. of vacancies: 01

(II) Eligibility conditions (as on 01.11.2015)

A. Qualification:-

The Candidate should be a Fellow Member or an Affiliate Member in accordance with the Actuaries Act, 2006 with specialization (as evidence by qualification and/or working experience) in General Insurance. He/she should satisfy all the requirements specified in Regulation No. 3 of IRDA (Qualification of Actuary) Regulations, 2004 (including amendments) and any other Act/Regulation, to the extent applicable.

B. Age: (As on 01.11.2015)

The candidate should preferably be over 35 years of age but not more than 60 years.

(III) Duties and Obligations:-

As per Regulation 8 of IRDA (Appointed Actuary) Regulations, 2000 (including amendments) and any other regulatory or legal requirement, to the extent applicable.

Any other assignment/activity involving actuarial role.

(IV) Emoluments and Benefits:-

Negotiable. Please indicate your expectations.

(V) Service Conditions:-

Should be a resident of India and should be willing to stay in New Delhi.

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

Should not get engaged in any activity which gives rise to conflict of interest.

(VI) Selection Procedure:-

The selection procedure shall be by personal interview.

(VII) How to apply:-

Applications on foolscap paper neatly typed or handwritten in CAPITAL LETTERS, superscribed at left hand upper corner of the envelope "OICL-Appointed Actuary" should be sent to the following address:-

Dy, General Manager (P), The Oriental Insurance Company Limited,
"Oriental House", Head Office, A-25/27, Asaf Ali Road, New Delhi – 110 002.
Email id... mtalwan@orientalinsurance.co.in

(VIII) Last Date for receipt of applications:- 07.12.2015

General Instructions:-

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

Dy. General Manager (P)



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insight

+

Our
ideas

=

Their
world



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

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