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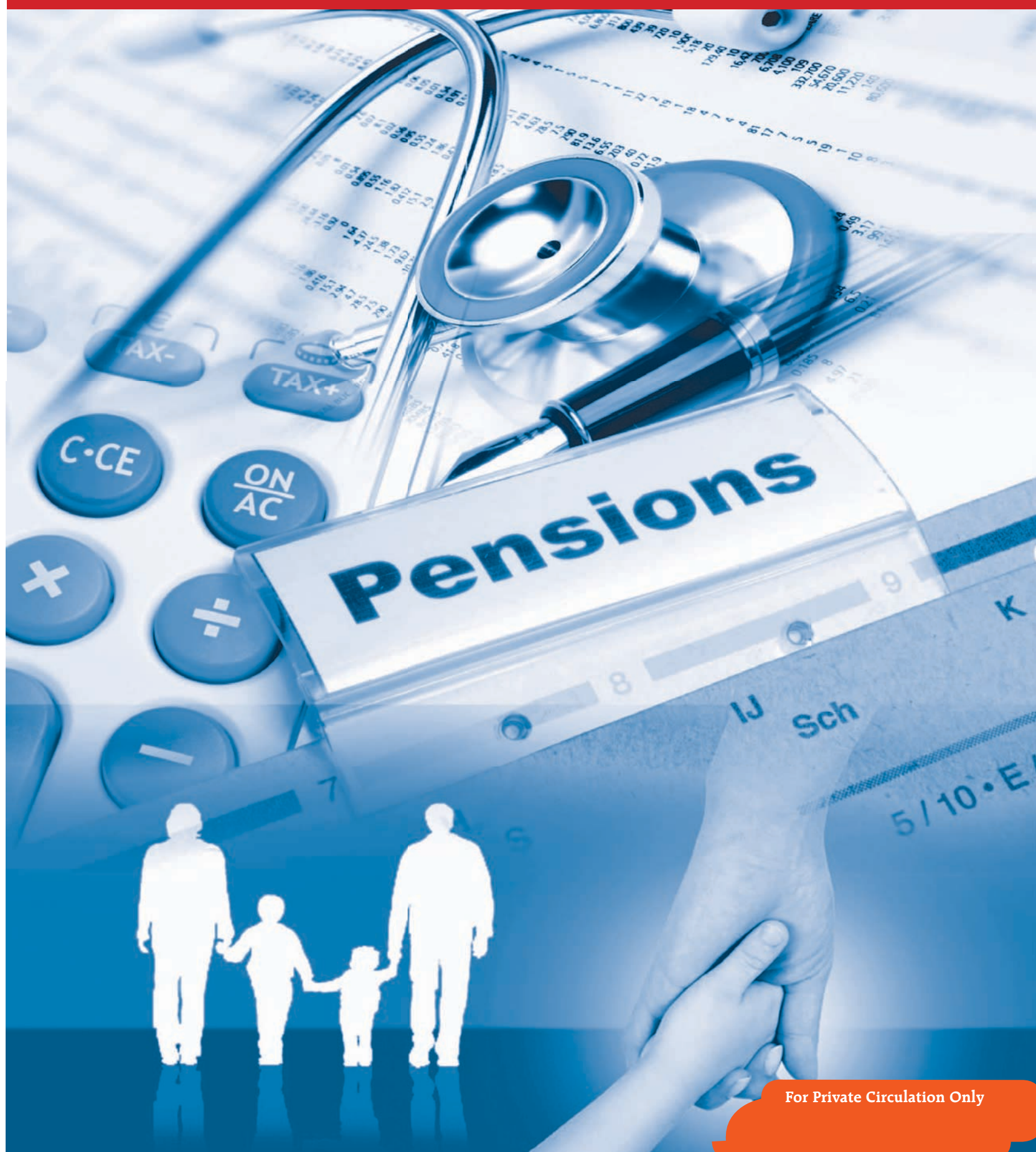
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Serving the Cause of Public Interest

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**11th Seminar on Current
Issues in Life Assurance
(CILA)**

24th November, 2015

Hotel Sea Princess, Mumbai

**4th Enterprise Risk
Management (ERM)**

3^d December, 2015

Hotel Sea Princess, Mumbai

**UP COMING
EVENTS**

**6th Capacity
Building Seminar in
General Insurance (GI)**

4th December, 2015

The Club, Mumbai

**24th India
Fellowship Seminar (IFS)**

10th & 11th December 2015

The Club, Mumbai

ANNOUNCEMENT

24th India Fellowship Seminar

REPORTING

9:00 am on 10th December, 2015

CPD CREDIT

12 hours, as per APS 9 (Version 2.00)

PARTICIPATION FEE

₹ 10,000/- +14% Service Tax
(Indian Rupees Ten Thousand Only) for Fellows.

₹ 15000/- +14% Service Tax
(Indian Rupees Fifteen Thousand Only)
for Students/Affiliates attending for admission as Fellows.

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The programme is open to;

- 1) All IAI Members for CPD requirement under APS 9;
- 2) Student Members who have passed all the examinations or are close to qualifying as FIAI for fulfilling requirement for admission as FIAI.
- 3) Affiliate Members as a requirement for admission as FIAI.

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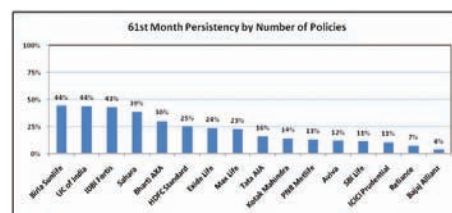
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FROM THE PRESIDENT'S DESK

MR. RAJESH DALMIA

Dear Members

The last month I was participating in India Partner Director meeting where all partners and directors in EY India met together. There was a session on analytics and visualization techniques which was presented by Gramener (gramener.com). It was an eye opener on how a complex topic can be presented in a simple manner to the audience and also providing power to the user to play with the data to gain more insights. For example, they picked up the data from social media to analyze the interaction of developers located in Bangalore and those located in Singapore and mapped the proximity of them based on the interaction in social media. It was clearly visible that the networks within Singapore and within Bangalore are quite strong with very few linkages between the two. It was visually clear that who have large number of followers and who are connected to the other country network. Now such a representation can help a

company to target potential future employees. One can go through the website to see various examples of the application of such techniques.

Well, why am I talking about this? We, actuaries need to communicate with non-actuaries regarding our results. Historically, it has been observed that we are poor communicators. We can use ideas from such tools in our work so that we can have effective communication. Besides, we can also apply such tools in our own work to enhance our own understanding of the data and analysis of results. I was truly fascinated by some of the examples presented in the conference and when I went through the website I found many more applications. We need to embrace technology so that we provide added value to the clients. For example, chartered accountants have now started utilizing analytics in their work to focus on identifying critical transactions among crores of transactions. We need to embrace the new technologies to provide value to the clients and our employers. I am not

advertising any company here and just sharing my own experience.

It is interesting that though we believe that technology would reduce the costs it usually does not happen in practice. The expectations of users go up pushing for further improvements in services along with technological advances pushing these expectations. Agree that the quality of services usually goes up and this is not an apple to apple comparison. At the Institute, we have been quite slow in adopting the technology. There are changes that we plan to do so that members can get better services. Institute is in the process of creating a blue print of technological changes that needs to be carried out over the next few years for improvement in services. Any suggestions or ideas in this regard are welcome. Please send your email to president@actuariesindia.org with subject "IT Blue-Print". Please note that this is not just IT in traditional sense but includes all technological advances like social, digital, mobile etc.



FROM THE EDITOR'S DESK

MR. D. C. KHANSILI

Where to Next?

In this ever changing world, change is only the constant. The change initiates as a result of continual thinking.

Insurance market saw the use of Hollerith machines occupying the full room, which has been replaced with servers and laptops placed on tables at a corner of a room. Use of log tables is a matter of past. Facit pin wheel sum machines have been replaced by modern calculators which may store the data and can do calculations at very high speed.

The traditional terminologies used in insurance market is getting rephrased. Reduction in yield and policy account value are new much talked terms in last two years in India. 'Death Benefit' is terminology used in Insurance parlance without giving second thought. Sales personnel in India resist using the words 'death benefit' at time of canvassing the new policy. Hope a day shall come when better terminology is used for 'Death Benefit' E.g. Minimum financial assistance in case of unfortunate death. IRDA is complete with IRDAI.

2013 saw a number of regulations on products, reinsurance, issuance of capital, standard proposal form, Standardization in Health Insurance, licensing of banks and insurance brokers, web-aggregators, etc. Insurance Law Amendment Act 2015 has necessitated issuance of further regulations with focus on reserving and solvency. An eight members committee is looking into revamping actuarial related regulations. They are reported to review ALSM, ARA and reinsurance regulations. In addition they would review actuarial reporting and formats and circular on AAAR, use of GPV in case of VIP, OYRGTA and riders, etc. Current RSM factors based on reserve and sum at risk though indirectly captures investment related risk and mortality risk yet same factors for all companies – one size fits all-

are being debated. Current risk based approach as suggested in pillar 1 peak 2, pillar 2 principles may be guide to the committee. It is good to note that committee is of view to implement the changes in phases. India is different and minimum capital required to start a company is very high as compared to other countries. India has tested its reigns during 2008 economic down turn. It is expected that committee recommendations proves its mettle in time to come. Any thin capital requirement leading to insolvency would prove disastrous. Too much prudence is also not appreciated and hence there should be a balancing act between prudence and optimism and keeping in view the long term nature of life insurance, health insurance and annuity business.

Products innovation in India would depend in future how and to what extent the use of derivatives is allowed and how flexible the regulations are. The derivative market in India started in 2000. This market has registered explosive growth. Total turnover as per NSE web-site was 2365 Cr. in FY 2000-01, which has risen to 2,64,44,804 Cr in FY 2013-14. The exposure to the market and guarantees like return of initial capital may be well managed by Insurers as zero coupon bond and a call option OR using shares and put option. The innovation would be much needed in annuity market. The young population of today would be needing annuities in about 25-30 years' time. The Government of India has introduced NPS for Indian population but this is not mandatory system and hence, less people are enrolling for this scheme. The variable annuities, income draw down would be requirement of market. The investors would like to view all their financial assets including insurance policies on one platform. The financial products would be wrapped on web based application so that individuals and their advisers may view them along with liabilities.

Service to clients would be another area which shall experience sea of changes. The policyholders would like to have their policy issuance and policy monies with click of button. The challenges of maintaining shadow account of today will be no longer. The flexibility is expected to

the extent that surrender value under policy is displayed on daily basis. If money is required, surrender value is transferred to own account or to the account as desired by the policyholder from Insurer account with click of button.

Learning and updating knowledge has become important in today's world. Human being adapts new things though with bit of initial resistance. So many terms being used in information and technology sector and so in insurance. RCR, LTICR, RCM, WPICC, BCRR, MCR, ECR, CRR, ICAS, ICA, ICG, GENPRU, QIS, EIOPA, ORSA, FLAOR, RTS, QRT, SFCR etc. are modern acronyms. As time aheads these acronyms would be second nature to highly adaptable actuarial professionals.

The profit reporting of insurance companies has seen many changes. The actual profit of an insurance company is not known until last policy has gone out of books of insurer. Hence on expected basis a true and fair view is a dynamic concept. In profit reporting the objectives of faithful representation, neutrality, completeness and to some extent prudence are tried to be achieved. The achieved profit method, EEV and MCEV principles based reporting has evolved. In desire to achieve the goal in profit reporting as close to predict the actual profit on exit of last policy there are challenges along with others- like which constitute the components of policy estate; unclaimed policy amounts by the policyholders or nominees and interest there on, interest on advance premium received from date of receipt to due date, interest on delayed survival and annuities payments, retained surplus of earlier generations in par business, shareholder money which cannot be identified easily or transferred in course of business, e.g. float by shareholders when unit linked business is started and NAV is to be declared, etc. The long term nature of life insurance business and value of liabilities fluctuating on daily basis, uncertainty in assessing cost of residual non-hedgeable risk, cost of guarantee etc. may require a fresh look on valuation method.

May be a method in reporting profits in between EV and MCEV; answer to **What's to Next?**

Organized By :

Advisory Group on Social, Cultural and Youth Affairs (SC&YA), IAI

Venue : Karl Residency, Mumbai

Date : 22nd August 2015

Through IAI-Connect, SC&YA try to provide opportunity for young students to have an interaction with senior and experienced people on the various aspects of Actuarial Science, examinations and any other query that they will have.

To meet the objectives of iConnect, 4th IAI Connect covered the following topics:

- Overview of Life and General Industry
- The various fields in which Actuary works
- Examination – How to tackle them
- Fields that Actuaries work in USA

The seminar was attended by more than 50 students from around the country and had a mix of both students and working professionals, though the latter formed a small proportion. Speakers comprised of senior members of the profession like Mr. Sunil Sharma, Mr. Subhendu Kumar Bal as well as members of other society like Mr. Lee Waddle (Society of Actuaries) besides others. The speakers shared their experience and perspective on various topics ranging from examinations to industry overview to the various fields that actuaries are contributing to.



Mr. Rajesh Dalmia

The seminar was opened by **Mr. Rajesh Dalmia** (President, IAI). He welcomed the students and encouraged them to use the platform to interact with the senior members. He also stressed on the need for students to explore new areas like data analytics, banking sector, etc. so as to

enhance the scope of actuarial profession. He assured the students that IAI is working on ways to enhance the application of actuarial science in other fields thereby increasing opportunities for them. He concluded by wishing the students best of luck for the upcoming examinations.

Brief of the Speakers:

Mr. Sunil Sharma (Appointed Actuary and Chief Risk Officer– Kotak Life), Mr. Subhendu Kumar Bal (Appointed Actuary – SBI Life), Ms. Kirti Kothari (Appointed Actuary - Reliance General Insurance Company Limited), Mr. Chetan Toshniwal (Deputy Head of Research and Pricing - Munic Re), Mr. Avdhesh Gupta (Head Pricing - AEGON Religare Life), Mr. Prabhakar Veer (Sr. Director Actuarial & Cat Risk Modeling - Sutherland Global Services), Lee Waddle (Head of Financial Risk - AEGON Religare Life).

On behalf of SC&YA all the sessions were hosted by Mr. Tanay Chandra (member SC&YA).

Key highlights of the various sessions are:

Overview of Life and General Industry:

The purpose of the session was to provide the audience a brief overview of the Life and General Insurance industry. Sunil Sharma covered the overview on Life Insurance and Kirti Kothari on General Insurance.



Mr. Sunil Sharma

On Life Insurance, **Mr. Sunil Sharma** started with a brief on the Indian demographics, Savings pattern over the last couple of years, and how Indian insurance sector has progressed since opening of the sector to private life insurance companies. He then presented on the insurance penetration in India at 3.3% (2014) presents a significant scope for insurance growth in India. He added the since 2002, Indian insurance sector as seen a year on year growth of ~14% (premium

terms) from INR 501 Bn to INR 3,141 Bn. Similarly asset under management has grown by ~18% year on year from INR 2,304 Bn to 20,069 Bn. He concluded that Indian insurance growth story is still strong and is expected to grow in future, as by conservative estimate premium are expected to be ~INR6400 Bn by 2025. He then talked about the various challenges being faced by the Life Insurance companies. The main challenges faced are:

- Productivity of Distribution channels
- Expense management
- Regulatory
- Solvency
- Taxation
- Mis-selling (leading to low persistency)
- Asset Liability Management
- Guarantees in products (especially Non-Participating products)

He talked about in detail on the above challenges but stressed on the need for companies to improve the productivity

He talked about in detail on the above challenges but stressed on the need for companies to improve the productivity of Distribution channels, reduce Expense overrun, and take appropriate controls to reduce Mis-selling in order to grow in a healthy way. He added that low persistency (a result mis-selling) and expense overrun are a threat to a long term stability of any company. He concluded that despite the challenges being faced by the industry, there is a lot of scope for growth for the industry and that actuaries do and will have a significant role to play in shaping the future of life insurance industry.

Ms. Kirti Kothari then presented on the overview on General Insurance (GI). She gave an overview of the industry which has 28 general insurance companies, and has grown at the rate of 37.5% year on year since 2001. She discussed on the various lines of business like, Fire, Motor Own Damage and Third party, Health, Marine (Cargo and Hull) besides others. She added that Motor (40%), Health (28%) and Fire (14%) comprise of 80% of the total GI business. She then talked about the key influences on the GI business. Some of the key influences are:

- File and Use guidelines
- De-tarrification of 2008
- Motor Third party pool

- Declined Risk Pool
- Burn Cost approach to Rating

She concluded that GI business has grown at a fast pace and similar growth is expected in the future.

The session gave students a good overview of the past, present and the future that beckons both Life and General Insurance Industry.

The various fields in which Actuary works

The second session was to talk about the various fields that actuaries are working in. The panel for the session consisted of Mr. Chetan Toshniwal (Reinsurance), Mr. Avdhesh Gupta (Pricing and Valuation), Mr. Lee Waddle (Financial Risk Management), Mr. Prabhakar Veer (Outsourcing and Pensions), and Ms. Kirti Kothari (General Insurance).



Mr. Chetan Toshniwal Mr. Lee Waddle, Mr. Prabhakar Veer, Ms. Kirti Kothari

Mr. Chetan Toshniwal shared that in reinsurance, besides the traditional role in pricing and valuations, actuaries play an active role in product and business development. He added that actuaries consult their clients (Life and General insurance companies) on the kind of products or a new line of business that they can enter given their expertise and respective markets. He also added actuaries also participate in capital management by exploring the financial reinsurance deals with their clients

Mr. Avdhesh Gupta talked in detail on Pricing and Valuation, the traditional bastion for actuaries in Life insurance. He though added that besides these, actuaries play a significant role in business planning and strategy, shareholder's reporting, and product development. **Mr. Lee Waddle** then spoke about an actuary's role in Risk management. He said the key focus for actuaries are Asset

Liability management (ALM), managing guarantees, managing interest rate risk (devising hedging strategies), stress and scenario testing and implementation of Enterprise Risk management framework for effective identification, assessment and control of various risk facing an organization. He added that an effective risk management function helps build a stable and financially strong company.

Mr. Prabhakar gave details on the outsourcing market. He added actuaries in India are working in fields like Life and General insurance, Capital Modeling, Pensions, Health, Property and Casualty, Catastrophic modeling, Marketing and Acquisition Analytics (includes Retention and Claims analytics) and Actuarial Data and System Management. He added that actuaries are doing end to end work for their foreign clients who are spread across

the world. This also ensures that actuaries get exposure to various countries and different complexity of work. In GI arena, **Ms. Kirti Kothari** added that actuaries are mainly working in pricing, valuation and catastrophe modeling.

The session provided the students the breadth of opportunities that actuaries in India can explore besides the traditional role of pricing and valuation.

Examination – How to tackle them

After the tea break (post the above session), Mr. Subhendu Kumar Bal and Mr. Avdhesh Gupta took the session on examination system and on how to prepare for actuarial examinations.

Mr. Subhendu K. Bal started the session and gave a brief on the examination system and common mistakes that students make. He said the main aim of the examination system is to be fair to the candidates. He said that to ensure that, more than one examiner sets the paper and the final



Mr. Subhendu K. Bal

paper is reviewed for content and length by the review examiner and then by an external examiner. Examiners ensure that the paper is within the syllabus and that a well prepared candidate is able to answer the question within the stipulated time. On paper checking, he said that at least two examiners check the paper and all the borderline cases are re-checked by a third independent examiner. He summarized that IAI endeavors to make examination system as robust as possible, given the challenges faced by it. He then shared the common mistakes that candidate make while attempting a paper. Using examples from CT3 and CT5 scripts, he showed the difference between the answers of a good student and a student who has not done well. He summarized that if a candidate has



Mr. Avdhesh Gupta

prepared well then he/she shall surely pass.

Mr. Avdhesh Gupta then presented on how to prepare for an actuarial exam with Subhendu K Bal. He presented on the how to pace an actuarial exam, creating and importance of sticking to the time tables, preparing milestones, importance of making notes and acronyms and the need to take a mock exam at least 20 days before the actual exam and to study in detail the reason for one's failure. Understanding failures is important to identify the areas which need improvements. He suggested students to read and re-read the question (especially the essay type) so as to structure their answer within the domain of the question. He added that this will help significantly in managing the time and will ensure that one will be able to attempt the complete 100 marks,

a must for CA, ST and SA level paper. He also shared his experience and added that there is no substitute of Practice! Practice! Practice!. Subhendu K Bal then took the students through a short film to stress the key aspects as presented by Avdhesh.

The session was immensely helpful for the students to understand the common mistakes that they might be making and also on how to prepare well for an actuarial exam.

Fields that Actuaries work in USA

The last session of the day was on the fields that actuaries work in USA and was presented by **Mr. Lee Waddle**. He shared that for 2015 actuary is the top ranked profession in USA. He also gave a brief on the various actuarial societies with the main being, Society of Actuaries and Casualty Actuarial Society. He shared that actuaries are mostly employed with insurance companies but a small proportion is also employed with government bodies, investment houses and banks, software developers and Universities. In the non-traditional fields actuaries are mostly involved with risk

management, ALM and in sectors like military, pet insurance, energy (oil and gas), data analytics, litigation consulting, business start-ups besides others. He concluded that skills an actuary gains can be used in variety of roles and encouraged students to explore the non-traditional avenues of actuarial science.

Conclusion:

The aim of IAI Connect is to provide a platform to the students to interact with senior members of the profession and in the process enhance their understanding of the profession. The 4th IAI connect was able to meet the expectation and objectives as students found all the sessions to be helpful. Q&A at the end of every session helped them to clear their doubts and get a perspective that they might not have thought about. **Overall, all the session added value, with session on "Overview of Life Insurance and General Industry" and "Examination – How to tackle them" being the top two pick of the seminar.** Feedback by the students was encouraging though there are some suggestions for improvement. One of the common

requests was to conduct IAI Connect more frequently and at different places which SC&YA is working on.

SC&YA also thank all the speakers for taking out their valuable time for the seminar and helping make it a success.

ABOUT THE AUTHOR



Mr. Tanay Chandra

Currently working with Kotak Insurance in their Enterprise Risk Management (ERM) Department. He has mostly worked on the Financial Risk domain with a focus of designing and implementation of ALM strategies, Governance, Risk Appetite, Experience Analysis and Business Planning.

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Participant's Feedback

I am fresh student (passed ACET in June 2015), so some of the contents of the seminar were unknown to me, but still I got what I had expected i.e. about the IAI exams.

The speakers were very precise & clear. Examination process explained very well. If possible, subject toppers are invited for deep understandings of particular subjects.

The introductory speech by President sir was good. All the session were very interactive and up to the mark. Got a good feel of what the actuaries do.

The presentations were really good. But some contents discussed in the presentation were difficult to understand for the new members. So I wish that the contents discussed in the presentation should be little easier for everyone to understand.

The content was excellent but didn't completely meet the expectations of new student members.

The content was excellent but didn't completely meet the expectations of new student members.

The presentations made were very informative for aspirants like us but some of the contents discussed were difficult to understand & comprehend, do try to make the presentation more easier to understand by starting from the basic level.

Prabhakar has very good knowledge has answered very nicely along with Sunil Sharma & Avdhesh Gupta.

Would like to know when will IAI come out with their own study material & some more support from IAI for student members to know the concepts properly & pass the exam.

Good, diverse mix of speakers from all fields. Role of actuaries in non-traditional fields should be emphasized.

9TH SEMINAR ON CURRENT ISSUES IN HEALTH CARE INSURANCE

Organized by : Advisory group on Health Care Insurance, LAI
 Venue : The Plazzio Hotel, Gurgaon
 Date : 25th August 2015



Session 1: Cardiovascular risk in India – implications for health insurance

Speaker: Mr. Detloff Rump, Chief Underwriter, Asia Swiss Reinsurance Company

Brief about the Session:

1. Life expectancy massive increase across all countries. Still the major causes of death comes from Cancer and CVD has increased across these same years. This has been major cause in India.
2. Some of the major factors leading to mortality: Dietary risks, High BP, High Glucose and Smoking observed over different countries. These studies have shown that air pollution is one of the leading factors and it affects the people living in metros who happen to be the main target segment for our insurance sales
3. In India, deaths from the NCD's projected to increase to 67% by 2030 as compared to 54% in 2005.
4. High blood pressure followed by high blood glucose are the two chief NCD risk factors in India
5. Much of this is due to the poor dietary habits such as:

- a. Supply of coarse cereals has declined drastically while consumption of milled rice has significantly increased
 - b. Shift from the fresh market to processed potato products lead to high glycaemic index and glycaemic load exposure
 - c. Sugar consumption has significantly increased through consumption of sweets, baked goods, candies, ice cream and soft drinks
 - d. Supply of vegetable oils has nearly doubled while those of animal fats have increased threefold
6. Mortality from CVD-causes is greater among higher socioeconomic groups
 7. Risk of obesity is far higher among city dwellers than rural residents

Session Highlights

1. All of the above changes results in higher risks for city dwellers than for the rural residents.
2. With insureds coming from our customers, it impacts the insurance companies profitability
3. US health care costs analysis indicates that one out of every six dollar spend is from CVD's.
4. It is essential to make the investment required to deliver better CVD primary prevention
5. It is far more cost effective to reduce CVD incidence than to treat emerged disease
6. This increase in costs can be a result of unnecessary advanced diagnostics, which the basic tests would have resulted in the same diagnosis.
7. In India, the focus is more on the interventions than on the prevention and it is not an old age disease anymore and has caught up across all ages.

8. Lives and productive years are lost due to CVD and the steady increase in GDP can be affected by CVD by 1%

Summary of Session

The above problems resulting from the rise in the CVD's can be addressed by the following mechanism: Educate the people about the risks, Convince young people to acknowledge the risk, Market the best products, find better ways of insuring people at risk, keep price at affordable level, control claims and Invest in prevention

Session 2: How Reinsurer can help in dealing with current issues of HI Industry

Name of Chairperson: Ms. Raunak Jha; Appointed Actuary, Cigna TTK

Speaker: Mr. Raghav Kattmuri, Chief Representative, Scor India



Mr. Raghav Kattmuri & Ms. Raunak Jha

Brief about the Session

1. This session discussed about the health insurance market overview in India. There is around 13.2% CAGR from 2011 to 2015. Retail health proportion in the portfolio increased from 36% in 2001 to 44% in 2015.
2. Health regulations issued in 2013 applicable to Life, General and health companies operating in this arena.
3. The regulations does not permit original terms reinsurance for Life companies.

4. PA market also grow by 15.2% CAGR from 2011 to 2015 and the retail portfolio share increased from 40% to 55%.
5. The growth outlook for health industry is 19% CAGR and PA is 15% CAGR.
6. Existing reinsurance market in the country is very limited for corporate health market due to high loss ratios and insurers are reluctant to cede retail health portfolios due to better loss ratios.

Session Highlights

1. Reinsurance companies can play a facilitator role in each of following areas:
 - a. Products and distribution: product development, predictive modeling and analysis, financing reinsurance structures and experience analysis
 - b. Reinsurance and solvency: optimal capital management, offering innovative structures, sharing of best practices

Summary of Session

In summary, the reinsurance company services in terms of experience analysis, product innovation, best practices, predictive analytics, optimal capital management, data driven marketing is invaluable for the successful health insurance industry evolution.

Session Name: The Signal & the Noise

Speaker: Mr. Praveen Gupta, CEO and Managing Director Raheja QBE General Insurance Company Ltd

Brief about the session:

The session started with various views on how the health insurance industry shapes up from different trends. A particular view



Mr. Praveen Gupta

from: The future of health insurance, E & Y listed out the following trends: the Chronic disease crisis, the move to outcome and

values, M-Health technologies, the big data revolution, customer centricity in insurance and Pressures on Underwriting. The presenter expressed that the certain trends like “Big data” might be giving more of a noise than a signal, which is all the more important. At times, we are carried away by noise and lose our self. With the many impending trends, the current concept of insurance has an expiry data. However, when this happens is not known and change driving this is not linear progression in the trends.

Session Highlights

1. The significance of the presenter view would help us to look at the various alternative opportunities to encompass the health insurance landscape such as: Pharma liability, clinical trials liability and medical malpractice covers and specialized travel insurance health insurance etc.
2. The session also discussed on various big trends affecting the health care costs such as: Current TORT structure, medical malpractice lawsuits and unnecessary use of antibiotics in Britain
3. It then looked at what the insurance would look like if technological advancements would make it to happen for all of us to live until 300 years. Many questions would come to our mind such as: Should doctors be obligated to extend life, How long should a working life be, is that dependent on the ability to pay for expensive treatments etc.

Summary of Session

In essence, the roadmap to the future lies in the following open-minded approach:

1. Recognizing the risk inherent in standing still
2. Use the right metrics : “What gets measured gets done”
3. Experiment using pilots: Allow companies to experiment on a smaller scale and get to proof of concept
4. Build a learning map.

Session Name: Industry issues in general and way forward

Speaker: Mr. Anuj Gulati Managing Director & CEO Religare Health Insurance Co. Ltd

Brief about the Session

This session looked at the health insurance industry evolution from 1000 Cr to 20,000 Cr and envisions that it can grow much bigger in to the near future. The landscape



Mr. Anuj Gulati

in the recent years is still adding around 3 to 4 insurers per year in the recent years.

Current situation is that there are lot of disruptions and cross subsidies across the product lines for health to be sustainable. In the group sectors, the loss ratios are very high and insuring medium to large groups is not financially possible. New process innovation and new equilibrium is the need of the day.

Session Highlights

A few ways to make it work is to facilitate innovative ways such as easiest company to get quote from the companies, niche player, technology innovation and deep pockets. Alternatively, it is also possible to build efficiency into the entire processes from the request for proposal stage to the policy-servicing phase. This means building a seamless process across quote engine, UW engine, policy issuance and claims servicing. Making an easier process also provides customers establish connection with the products and engagement tools with the corporate employees.

Current model of providing 100 rupees to 60 rupees to claims, 20 rupees for commission expenses and 20 rupees for overhead expenses is unsustainable. Will the guaranteed renewability clause allow for 60 rupees claims into the future? Customer feels cheated if they come to know that only 60 out of 100 rupees premium paid to them as claims. We expect the loss ratios to be around 75% to 85%

Summary of Session

The conclusion is to bring efficiency into the system from quote generation stage

to claims servicing stage. This way, a new equilibrium can be found far from 60/20/20 rule. The view is someone with such a disruption strategy would enter the market and everybody would follow the suit.

Session Name: Role and need of Innovation in Health Insurance

Name of Chairperson: Ms. Raunak Jha,
Appointed Actuary, Cigna TTK

Speaker: Mr. Sanjay Datta

Chief Underwriter and Head Claims,
ICICI Lombard Health Insurance Co.

Brief about the Session

1. The record of a sequence of events

Session Highlights

1. Interpretation of the significance of these events or facts
2. Evaluation of the facts or results of research presented

Summary of Session

1. Discussion of the outcomes of a decision or course of action
2. Conclusions.

Session Name: Actuarial challenges and issues related to Health Insurance

Name of Chairperson: Ms. Vidya Hariharam, Vidal Health

Speakers: Mr. David Muiry BUPA,
Mr. Sanjay Datta, Chief Underwriter and Head Claims, ICICI Lombard Health Insurance Co.

Brief about the Session

The panel discussed on the possibilities for scale, trust, relevance and value addition proposition. How should regulator play into that?

- a. Regulator should be play the enabler role. It should provide the flexibility and encourage innovation.
- b. Regulator has been working hard in this area in the areas that it has control



Ms. Vidya Hariharam, Mr. David Muiry,
Mr. Sanjay Datta

on. They have standardized the forms, filing processes, guidelines etc.

- c. They are encouraging the hospitals to have standard ICD 10 coding procedures and standard treatment guidelines.

Session Highlights

Three major changes are encouraged to address the supply side constraints: allowing innovations, regulations should not be prescriptive and take a longer view approach. In case of new products, guaranteed renewability clause to apply after 3 or 5 years terms. HSA products can

be used for tax privileges and fund on-going premiums.

Entry age pricing is designed to encourage policy-buying behavior in the early ages. The panel feels that this might be a difficult proposition to work. Another challenge is that if the premium goes up, then the good risks leave the portfolio.

Guaranteed renewability means one-sided optionality provided to the customer to be with the insurance company or leave at his choice. This has an impact on the reserves and this considered into the future reserves.

Regarding the expense assumptions, the panel feels that the cap should be on the total expense and not caps subjected to individual expense line items.

ABOUT THE AUTHOR



Mr. Arjun Kumar Kanduri

is Vice President - Product Actuary Swiss Re. Before joining Swiss Re, he worked as a chief Actuary for Bharti AXA General insurance company and was involved in product development, GLM pricing and Regulatory reporting.

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FUNNY ACTUARY



A lawyer, an accountant, and an actuary are arguing over whether it is better to have a married spouse or an unmarried lover. The lawyer says a lover because it's legally easier to disentangle yourself from a lover. The accountant says a spouse because you can get a tax deduction with a spouse. The actuary says it's better to have both because you can lie to each of them, telling each of them that you're with the other, and then go to the office to do some work.

(Submitted by DavePowell)

3RD CAPACITY BUILDING SEMINAR ON HEALTH CARE INSURANCE

Organized By :

Advisory Group on Health Care Insurance, IAI

Venue : The Pallazio Hotel, Gurgaon

Date : 26th August, 2015

As per the theme of the Seminar, the sessions throughout the day focused on enhancing the general and technical knowledge pertaining to health insurance, issues prevalent in the Health Insurance Sector of India and what steps could be taken to address the same.

The seminar was attended by experienced and aspiring actuaries from Health Insurance industry, regulatory body,



Mr. Biresh Giri

consulting firms and others. **Mr. Biresh Giri**, Chairperson HCI Advisory Group welcomed the audience and set the ball rolling with his welcome speech. In his opening speech, he touched upon all the topics to be covered in the entire day's sessions

Session 1: Fraud in Insurance - Applications of Predictive Modelling



Mr. Debashish Banerjee

Speaker: Mr. Debashish Banerjee Director, Deloitte Consulting India Pvt. Ltd.

The first session of the seminar was presented by **Mr. Debashish** where he discussed the type of frauds that currently prevail in the Insurance sector leading to a leakage of INR 600 – 1000 crore (on an average) in a year, and how simple predictive modelling techniques could be used to identify and control fraudulent cases.

As per the research presented by him, the maximum number of fraudulent cases are observed to be claims related, which accounts for 27.3% of the total number of frauds. As these can be classified as customer related frauds, various data driven methods can be used to identify and control frauds.

He also stated that the best method to deal with frauds need not be complicated. Simple data driven predictive modelling tools, such as Regression modelling and statistical modelling, can be very handy.

Different methods were explicated with the help of a case study presented on frauds which took place in the US under the unemployment insurance sector. He stated that even though the percentage of identified fraud was a mere 3% of the total cases, the actual number could be much higher than that. Such cases could be identified by using various oversampling methods.

This session was concluded by enlightening the audience that, the results obtained by using any kind of good customer segmentation method are highly correlated and will lead to similar results.

Session 2: The Affordable Care Act Key Provisions – The Affordable Considerations for Indian Health Insurance Market

Speakers: Mr. C. Srinivasa Kumar - Deputy Director, IRDAI

Ms. Swati Bajaj- Assistant Director, IRDAI

Mr. C Srinivasa Kumar started the presentation by bringing forward the efforts taken by the US government to make health care services and insurance



Mr. C Srinivasa Kumar

easily accessible and affordable to all the citizens. For example, Medicaid was instituted in 1965 to provide health care facilities to the population below poverty line and was funded by the state and federal government.

He then highlighted the most recent reforms in the US health care system, The Patient protection and Affordable Care act 2010. The act is designed to reduce the uninsured rate by expanding public and private insurance coverage, to control health care costs and provide quality and affordable health care facilities to all individuals.

The following features of the Affordable Care Act (ACA) were underlined by him:

- To provide basic health insurance to all and penalize individuals who are not covered under any health insurance plan
- Restrict insurers in terms of the premium that can be charged
- Provide tax benefit
- To provide high quality health care facilities to all. Carrying out regular quality checks of medical services provided by all hospitals and penalise hospitals which do not meet the mark

Ms. Swati Bajaj carried forward the presentation by discussing the prevailing health insurance and health care scenario in India and how certain features of the ACA can be incorporated in the Indian market. She highlighted that even though insurance in India is in its infant stage covering only 3.9% of its total population, there are constant efforts being made by the regulators along with insurance companies



Ms. Swati Bajaj

to make insurance as widespread as possible. Even though programs such as Rashtriya Swasthya Bima Yojana (RSBY), Aam Aadmi Bima Yojana (AABY) etc. are in place which cater to individuals below poverty line, more initiatives are being taken to provide standardized health care services.

Session 3: Pre – existing Disease Cover: Learning from other markets

Speaker: Mr. Arjun Kumar Kanduri– Vice President – Product Actuary, Swiss Re



Mr. Arjun Kumar Kanduri

Mr. Arjun discussed how the pre-existing condition (PEC) lead to different outcomes due to different Universal health care designs in different countries and how PEC is currently being treated in the Indian Health Insurance market and its implications on pricing and product designing.

He started the presentation by bringing forward insurance markets such as Australia, Belgium etc. where health insurance is compulsory with no medical underwriting. In these markets, risks associated with anti-selection are taken care of by introducing initial waiting periods with extended waiting periods under specific conditions and exclusion of pre-existing condition for a limited time period.

He further discussed the existing health insurance frameworks prevailing across the globe. These can be divided into two broad categories, viz., countries such as Singapore, Australia, South Africa etc., which consider medical insurance as a

basic human right and countries such as Hong Kong, India and UK where insurance is voluntary and is sold on the basis of risk selection.

He continued the presentation by discussing the current health insurance scenario in India, where he underlined the issues related to low penetration and that government support is provided only to individuals below poverty line and is not fairly distributed among all sections of the society. He also suggested the possible benefit designs involving both government sponsored schemes and private insurance providers that could increase health insurance cover in India.

He enlisted factors such as distribution quality, underwriting /claims quality, age mix, cost sharing /deductibles waiting periods and PEC exclusions which affect selection in a portfolio. He further explained that different portfolios respond differently to selection factors. Hence it is very difficult to isolate factors to measure the increase in claim cost due to anti-selection factors only.

He concluded his presentation by stating that, in a market where health insurance is voluntary, it is nearly impossible to derive a reasonable loading for the addition risk which arises from providing coverage for pre-existing condition without any waiting period and that it is only possible to price in an environment where medical insurance is compulsory

Session 4: Pricing – Related Matters in Health Insurance

Speaker: David Muir, Chief Commercial Actuary, Bupa



Mr. David Muir

Mr. David commenced the presentation by highlighting a few simple facts about how pricing for a health insurance product is carried out. Throughout his presentation, he emphasised on sustainable pricing, i.e. having a futuristic approach towards the same, and how it could be implemented.

He started by explaining that during the initial days of a company, the actual claim ratio is expected to be lower than the target claim ratio. However, as the portfolio matures, loss ratios are expected to catch up. Thus, the portfolio is expected to worsen over the years due to factors such as selective lapsing, aging effect, absence of waiting periods etc.

He emphasised on the point that if premium rates are not revised regularly, a greater deviation in the actual claim ratios from the expected loss ratio curve is probable. To smoothen the target loss ratio curve and to regain the trajectory, a large adjustment in premium rates will be required which will lead to problems in terms of loss of new and renewal business.

He continued that if premium rates are not revised regularly, it becomes significantly difficult to match the target loss ratio. To smoothen the target loss ratio curve and to regain the trajectory, a jump in the premium rates of this magnitude will not be easy to justify and will lead to problems in terms of loss of new and renewal business.

The presentation was concluded with a few valuable suggestions for maintaining consistency in pricing, such as:

- Premium rates should be revised at least once a year. To ensure equal impact on all policyholders, rates should be revised on a fixed date every year
- To set customers' expectations from day one about the nature of cover from first renewal date

Session 5: Issues to consider in health insurance pricing and reserving – Setting assumptions and diagnostic tests

Speaker: Mr. Joydeep Saha, Appointed Actuary, Religare Health Insurance Company Limited

In this session, **Mr. Joydeep** discussed the important factors that should be



Mr. Joydeep Saha

considered while pricing a health insurance indemnity product. He explained the significance of various factors like filing or re-filing of the product, selling process, underwriting process, waiting period, target segment etc on the expected claim experience. He also explained the pricing approach for floater options and mass scheme.

He also touched upon one key aspect of IBNR reserving. He sensitized the audience on the importance of change in claim settlement rate on future development factors especially when Paid Chain Ladder method is used. He suggested few diagnostic tests, such as, Analysis of settled claims v/s reported claims, Analysis of Paid amount Vs

Incurred amount and Paid ratio (as a percentage of earned premium) in first development period which can be carried out to investigate this aspect.

He concluded the presentation by emphasising on the fact that, apart from actuarial calculations and valuations, to gain a 360 degree view, it is of utmost importance to discuss the overall plan and strategy with all the important stakeholders such as the management, advertising and selling teams, claims team, underwriting team and MIS function to understand their perspective and how it can be aligned with Actuarial assumptions.

ABOUT THE AUTHOR



Ms. Ridhi Dave

has been working with Religare Health Insurance Company, Delhi for the past 1.5 years. She is a part of the regulatory reporting and reserving team. She is a student member of IAI.

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VOLUNTEERING

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

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We invite articles

We invite articles from the readers with subject area being issues related to actuarial field, developments in the field and other 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 Actuary India – Editorial Policy

Version 2.00/23rd Jan 2011

A: 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

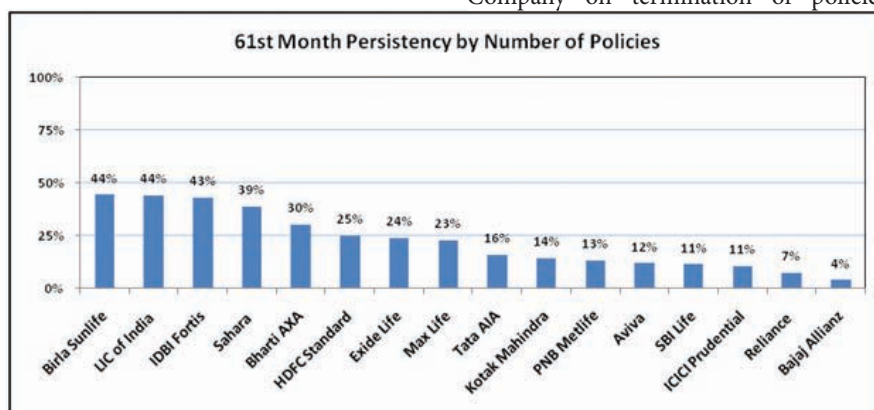
ARE SURRENDER PROFITS A BAD SOURCE OF PROFITS?

I first started thinking about this topic when I was reading an Industry report on Life Insurance Industry in India, which highlighted the risk that some life insurance companies in India face today – of surrender profits being a major component of their overall reported profits. Whilst the report aptly highlighted the risk such a situation poses to the stability of reported profits in future, the following further thoughts / questions crossed my mind:

- What are the current level of surrender profits the industry is making?
- What are the larger issues, beyond just the sustainability of profits, connected with having a large proportion of surrender profits, particularly with respect to the current scenario?
- What is it that needs to be done to solve some of these issues?
- And in light of all of above, are surrender profits a 'bad' source of profit?

Setting the Context

Before I share my thoughts on the above, I think it is important to set the context, which I believe can be most fittingly done by considering the current scenario of life insurance industry with respect to persistency. The graph below shows the reported 61st month persistency for FY 2013-14, in terms of number of policies, for 16 companies.



Source: Handbook on Indian Insurance Statistics 2013-14

As is evident from the chart, none of the companies shown above have 61st month

persistency of greater than 50%. The persistency for various players largely varies from circa 10% to circa 44% with the average persistency (simple average) of players being circa 30%. In simple words, the industry, which sells long term insurance products with usual terms of 10 years or more, loses around 70% of its valued policyholders within the first five years. For certain players, this number is as high as 90%.

This basically means that most of the customers the industry acquires, indeed, leave the industry early through surrenders or lapses or paid ups, resulting in an incidence of 'surrender profit' for the insurance companies. Given such a high 'incidence' of surrender profits, questions concerning the 'severity' of the same for policyholder and implications of the same for the companies as well as the industry as a whole are bound to arise.

It is some of these questions that I look to share my perspective upon in this article. Please note that these are my personal thoughts and do not reflect the views of my current or past employer.

Financial Severity of Terminating Policyholders for the Company

Let us start by considering the 'severity' of surrender profits being made by the insurance companies from policyholders who do indeed leave through the route of lapse or surrender. By severity, I mean the level of financial gain or loss for the Company on termination of policies.

This gain or loss for the Company is also

indicative of the ultimate value being paid to exiting policyholder and fairness of same. Let us consider this for various kinds of products being sold in the market:

- **Unit Linked Products:** This product line is now heavily regulated and the cap on surrender charge has been defined by the Regulator. The cap on surrender charge, which was implemented through the IRDA (Treatment of Discontinued Linked Insurance Policies) Regulations, 2010, is quite onerous and generally not enough for the Insurers to even cover a legitimate level of expenses incurred on issuance of policies. Thus, surrenders on these products (being sold since 2010) would generally lead to a loss for most Insurers (particularly in case of early exits).

The in-force book of insurance companies, though, also consists of policies issued before 2010, when there was no cap on surrender charges. The unit linked policies issued then largely had fairly heavy surrender charges. Thus, the 'severity' of surrender charges for the policyholders who bought unit linked policies before 2010 and decided to leave early, was quite high. In-fact, a fair chunk of the reported profits made by the Companies over the period from 2010 to 2015 would have been made from these surrender charges only.

That said, more than 5 years have elapsed for this book of business and a lot of these policyholders would have already exited. Also, given the fact that the surrender charges typically reduced significantly after completion of 5 years (even for policies written before 2010), the surrender profits now accruing to insurance companies from unit linked policies issued before 2010 would be rather small.

- Overall, it is safe to assume that going forward, surrender profits from Unit Linked business would be a rather small proportion of reported profits of Insurers and they would typically be

making losses on early surrenders of these policies.

- **Non Linked Products:** It is rather difficult to establish the level of surrender severity of these policies for the industry as a whole given that the surrender values payable vary from company to company. Thus the analysis here is based on the general year of break-even seen for non linked policies.

The IRDA (Non Linked Insurance Products) Regulations, 2013 have defined the Guaranteed Surrender Value (GSV) under these products, which converges to be about 90% of all premiums paid in the last two years of the Policy. In other words, the GSV does not even ensure return of premiums paid until the last two policy years.

The companies, however, declare a Special Surrender Value (SSV) for these policies, which is typically higher than the GSV. Looking at the benefit illustrations for some of the non-linked products, one sees that even with SSV, the policy / policyholder break-even for majority of products does not happen in the first five years. In-fact, it is usually around the 7th or 8th policy year that the SSV becomes equal to the cumulative premiums paid under the policy. This means a Policyholder surrendering in the initial years does not even get a return of his total premiums paid.

Thus, it may be fair to assume that most companies would be making considerable profits on surrender of these policies, even after considering expenses incurred in the year of sale (which may be a different accounting period than the accounting period in which the exit happens and thus surrender profits arise). That said, it must be noted that the surrender values for non linked products have clearly improved after implementation of the new Regulations in 2013, which require special surrender value to represent the asset share in case of participating products and reflect the experience of the insurers (and be determined as per proxy asset share)

for non participating products.

Overall, going forward, the unit linked policies would generally make losses or very small surrender profits whilst the non linked policies would be making considerable profits. Please note that there is no data available in the public domain on the level of surrender profits being made by Companies for different product lines. Hence, the assessment of financial severity given here is based on leading indicators and general industry knowledge.

What are the larger issues connected with having a large proportion of surrender profits?

Having looked at the level of persistency and analyzed the likely financial implications of surrenders, we must now identify the larger issues that these surrender profits create for the industry. The issues have been analyzed from customer's angle i.e. what they mean in terms of customer satisfaction, and from financial angle i.e. what they mean financially for the Insurers.

- **The Customers Angle:**

- Every industry must be cognizant of the relevance it creates for the customers and the society at large. In the five year period from FY 2009-10 to FY 2013-14, around 23 Crore individual new policies were issued by all life companies together. If the current persistency trends continue, then in the next five year period, at least 12 to 15 crore of these policies would exit. And if persistency is any measure of the degree of customer satisfaction, then this is the level of dissatisfaction being created by the industry by five year of sales. The question of relevance is then for everyone to answer.

Personally I think that irrespective of whether exits are profitable or not (which may be the case for linked products), the fact that about 70% of the policyholders are exiting within the first five years, indicates that the product did not turn out to be suitable for the purpose it was bought. Whilst this could well be a result

of various factors such as mis-selling, poor customer service, availability of better financial product in the market, changing customer needs etc., it does reflect the level of dissatisfaction and low trust between the Policyholder and the Insurance Companies.

What is important here is the realization that if these trends continue, it will not be the customer who will ultimately lose. It will, more likely than not, be the insurance companies (and hence the industry) that will lose. Both in terms of money and reputation!

- From the point of view of surrender value being paid to exiting Policyholders, the customers are certainly best placed in unit linked products where the surrender charges are too low.

In case of non-linked products, the fact that majority of policies do not break-even until the 7th or 8th year does not present insurance as an attractive savings proposition, especially when compared to other financial products available in the market. This coupled with the fact that a large number of Policyholders are exiting in the first five years means that most of these customers are probably not getting a reasonable value for the investment made under these products.

This just reiterates the risk highlighted in the first point for the insurance companies and the industry at large.

- **The Financial Angle:** Even from financial perspective, there are various challenges that arise when the proportion of exits is large and / or surrender profits become the major source of profits. Some of these include:
 - **Long term sustainability:** Life insurance business is essentially a business of 'book-building', particularly given the high amount of expenses involved in winning

new customers. It is a long term business in which the financial performance of the company depends not only on the number of new customers acquired but also depends critically on the proportion of policyholders retained within the system.

The low level of persistency, thus, raises question on the Insurance companies' ability to continue in this business in the long run. Whilst surrenders may result in profit in the short term, in the long term the in-force book would be too small to continue providing the same level of profit year on year questioning the sustainability of business.

- **Too much reliance on new business:** With the in-force book depleting at a fast pace, the reliance of the sector on new business is disproportionately high. In-fact poor surrender terms for non-linked products and consequent customer dissatisfaction will make it difficult to continually acquire new business also. This again links to the question of sustainability highlighted above.

The key message is that having large proportion of surrender profits is creating long lasting ramifications for the industry. If not addressed, this problem may become detrimental (if it already has not!) and undermine the future growth potential of the industry.

What needs to be done?

Over the last few years, the short term goal of achieving new business targets has clouded the path of most insurance companies. These short term tactics have created long term problems for the industry and thus, steps need to be taken to rectify the current situation. Whilst measures have been taken both by the regulator as well as the industry players to improve the situation, particularly towards ensuring that the customer is treated fairly, a lot more needs to be done. It may sound a bit banal, but I believe what truly needs to be done by the industry is to move from “TREATING CUSTOMER FAIRLY” to “DELIGHTING CUSTOMER TRULY”.

By Delighting Customer Truly, I mean something that is more than just treating customers fairly. It means valuing the customers and giving them the first priority, ahead of distributors, in any business decision. It is creating an experience for customers where they derive value for their investment; they also feel esteemed and justly treated. It requires making a difference in the complete journey of the customer, right from prospecting to policy termination (due to any reason).

Purely from the point of view of surrenders and the current scenario though, I think we need two kinds of measures to achieve such customer delight – short term / immediate measures and ‘permanent fix’ or long term measures.

- **Permanent fix:** In the long term, the problem of poor persistency and a poor value on exit can be addressed only through the following:
 - **Transformation of operating / cost model:** Transformation of operating model and cost structures of the companies is becoming increasingly important. This is in-fact one key reason of poor surrender values in the past and in some cases even poor maturity value. Such structural reform may require changes in the business models, adopting leaner structures and being more adaptive to technology. This may be a slow change given it will impact the entire working of the Company but it will certainly be a differentiating factor between companies who compete to offer best customer service and returns.
 - **Improved sales processes:** There is clearly a need to overhaul the sale processes. By sale processes I mean not just the medium through which policies are sold but whole gamut of activities right from identifying the need of the customer, providing the correct product to meet that need, the medium of sale and the ongoing customer communication and service. The sale processes need to be flexible enough so as to offer a personalized service to customers

and the products need to be more focused and transparent so that the customer understands fully what he / she is buying.

- **Tracking quality of profits:** Lastly, I believe that the industry needs to develop a measure for tracking the quality of profits they make. By quality of profits, I mean the profits that they make by creating happy and satisfied customers. With insurance companies making profits through various sources (such as mortality, investment, surrenders etc), having a quality index of profitability will help the companies to identify if the business, although profitable, is being built on the right lines

- **Short term / immediate measures required:** The permanent fix measures highlighted above may take time to evolve. Whilst the above take some shape, the industry clearly needs some short term measures as well to contain the issue of low persistency and high surrender profits.

Firstly, one such measure can be ensuring that customer's get a fair value when they exit the contract. For this, each Company must have a well defined policy of paying a certain percentage of asset share to surrendering policyholders. The percentage would typically vary by duration of surrender and gradually merges towards the maturity value but would define the minimum amount that the Companies will pay on surrenders.

Secondly, the approach of viewing surrender penalties as a way of discouraging exits needs to be completely eliminated. The persistency levels of the industry in the last 15 years are a testament of the fact that this measure clearly does not work. Infact, such an approach is likely to cause more harm to the industry than any good.

Lastly, in the short term, it is probably worthwhile to stop viewing surrenders as a source of profit. This can be a strategic step as well to



incentivize the companies to build profits from sources other than surrender. In other words, this may translate into defining the target level of profits required from sources other than surrenders. It will automatically induce measures that will in the short term, help contain this problem of low persistency.

Overall, these are just some of the measures that one can adopt. The essence is in realizing that something needs to be done to correct the current situation and work towards an industry which delivers real value to policyholders and creates sustainable financials for the shareholders.

Summing it up - are surrender profits a 'bad' source of profit?

Having analyzed the broader issues surrounding large proportion of surrender profits, my view is that surrender profit as a source of profit is in itself not bad as

long as the incidence of exits is not very high (as is unfortunately the case for Indian life insurance industry) and as long as surrender penalties are based on a legitimate level of expenses and provide 'some' (and not a lot of) profit to the Insurer on the exit.

What the current scenario does bring to forefront is the realization that high proportion of surrender profits are clearly not desirable, both from the perspective of customer satisfaction and from the perspective of financial implications for the company. The low level of persistency speaks volumes of the level of dissatisfaction created in the past and is an indication of instability of profits made by the companies. It is without a doubt that the incidence rate of exits needs to come down and so does the financial penalties on non-linked portfolio. On the linked side, there is merit for insurance companies to work with the Regulator to have surrender

charges which allow insurers to recoup their fair level of expenses.

Above all, I believe the industry has to move towards a "Customer First" policy and ensure that the experience of its policyholders is truly satisfying.

ABOUT THE AUTHOR



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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.



Mr. Sandeep Bakhshi MD & CEO, ICICI Prudential Life Insurance

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

Irrespective of the qualification or background, any individual who plans to spend a lifetime in life insurance, must get an exposure to customer needs. One could be a chartered account, an actuary, an MBA, a company secretary, or an investment professional, understanding the customer is essential. One needs to get an idea of the competitive landscape and the challenges involved as it has a direct impact on the delivery of products and services. This approach, applies to all businesses, not just life insurance.

? 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?

An individual can reach the topmost position on account of his/her capabilities, opportunities, circumstances and other factors. An impactful leader is one that adds value and contributes in various ways. A leader needs to have a 360 degree approach – where he/she gives equal attention to each function of the organisation and thus neither be too close to any one function nor distant from another. Fairness and humility are essential traits. The market-place is a great learning ground and teaches one that nothing is permanent – there are changes in product lifecycle, technology driven disruptions and volatility. For one to sustain their position, one needs to be humble to accept new things, upgrade one's knowledge and keep learning as changes keep taking place. Enhancing the brand, its offerings and providing products that an under-educated or even uneducated customer understands – these are things that a CEO needs to focus on. The societal objective of taking care of the underprivileged and ensuring that the company's products secure them, should also be fulfilled.

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

Two things that interest me are travel and music. I am a lover of wildlife and my travels feature visits to wildlife sanctuaries. I make it a point to travel at least 2-3 times in a year. Music is something I enjoy, especially old melodies. I am a huge fan of golden melodies composed by some of the composers of yesteryears such as Sachin Dev Burman, OP Nayyar and Madan Mohan. Worklife balance is not always about planning and managing things in a micro-manner. It can be achieved best when we leave things to happen their way and just go with the flow.

? What is your typical day at work?

I believe in going with the flow. There is no specific pattern, I simply take up what comes my way.

? How according to you, can actuaries add value to the business and connect better with consumers? What will the future of actuaries be, in this sector?

Actuaries play a pivotal role in the life insurance business. Their analytical skills in assessing risks and future projections is beyond comparison and in a way they can be termed as Thought Leaders. For the function to serve the larger purpose of risk-calibrated revenue, it needs to be fully integrated with the business output requirements. As the industry evolves, the Actuarial team of any life insurance company needs to be in sync with on-ground realities. Reaching out to customers and providing them with relevant products can serve as a force multiplier.

? How do you see actuaries taking Business roles in Life insurance companies? What values can they add to the business in the area of Finance, Sales, Marketing and Risk management?

At a very fundamental level, business functions need to own

risks and support functions need to own business outcomes. This essentially means that all people in an organisation need to be fungible in terms of skill sets. This would be a key factor in building an aligned and successful organisation. In this context, no matter what roles actuaries are in, they need to make sure that their ears are to the ground and they can use their insights to develop and grow the business. Business roles can then be fulfilled by any person as long as they keep these principles in mind.

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

There have been a lot of changes in terms of products and services. The passing of the insurance bill and the vast potential in the form of an under-insured population pose both an opportunity as well as a challenge for the industry. Technology will aid in maximizing the opportunity by enabling to reach out to a wider base of the country's population. Simple and easy to understand products that help protect individuals and their families will gain traction going forward.

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

We have a proactive regulator that constantly aims to provide customers with better products and services. Customer centricity is the key and this has been the reason why there have been various changes in product structures, distribution, technological developments – such as electronic policy accounts, dematerialization of life insurance, and acceptance of e-KYC which facilitates providing customers with a seamless onboarding experience while enabling organisations to improve efficiencies.

The PMJJBY scheme is a great step towards providing life insurance to the population that has little or no information about life insurance. The efforts by the government and the regulator, both, have provided a thrust to the industry towards sustainable growth.

? What market share do you see the private sector players having in ten years' time?

A lot of positive developments which bode well for the Indian life insurance industry have unfolded in the recent past. The future of the Indian life insurance sector does definitely look optimistic. As young adults enter the workforce coupled with increased financial awareness levels the future for the Indian life insurance sector looks promising. We believe that LIC will continue to play an important role in the development of India's life insurance sector.

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

There is a need for simplicity, life insurance products and the product delivery should be as easy as opening a fixed deposit. Life insurance should be the first choice for any individual looking to buy a product with a duration of 5 years and above. There is a need

for protection, for a significant portion of the population. Every individual needs financial protection for themselves and their family, as long as they are earning and this can be done by means of purchasing life insurance. For example, a thirty year old man will require protection for the next 28 years i.e. till retirement, this period of 28 years can be covered by life insurance, his needs may change, for example the life cover required today could be 80 lakhs, for which a person pays a small amount. With an increase in income, the need for life cover increases and the individual can simply top up the existing life cover. Life insurance companies must start to play a larger role in the morbidity space; morbidity must form a far greater share of life insurance.

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

Insurance companies need to understand that the days of cost plus pricing are over and it is critical for companies to focus on cost structures. Utilizing technology to deliver products and superior services to customers will not only enable organisations to become more efficient but will empower customer, employees as well as the distribution network.

Persistency has been a challenge for life insurance companies. Especially in the context of products where the customers stand to lose. Companies will need to focus on persistency and improving value delivery even to discontinuing policyholders. There is a need to reach out to customers and create awareness on the long-term nature of the products. The new structure of products are cost effective and designed to provide superior returns to customers over the long-term. By staying committed and through regular payments, customers can make the most out of their life insurance policies.

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

One of the biggest strengths of the industry is that life insurance as a category itself is one of the most accepted and desirable categories amongst the financial services industry. It is a financial category which enjoys credibility and trust, and this needs to be backed by simple products, simple processes and good customer service to ensure that this remains where it is and gets strengthened further over the years.

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

Staying connected to customers, as much as possible, aids in keeping one closer to ground realities. It provides a window to see what is actually happening out there. Secondly, following trends, not only within life insurance, but looking at trends in other parts of the BFSI category provides a larger perspective. The third thing is to study trends and developments in other parts of the world, through which it is becoming evident that the protection related premium must become a larger part of the business going forward.

TOP 10 LIFE INSURANCE INSIGHTS TRENDS, NEWS AND VIEWS

The life insurance sector in India has seen modest growth in its weighted new business premium collections in the first quarter of this financial year, a year on year growth of 2.0%. Masked within this is a resurgent 17.8% growth for private life insurers and continuing contraction of the state-owned Life Insurance Corporation of India (LIC) by nearly 8.9% for the quarter, thus pulling down the overall industry average. Buoyed by the strong performance in the first quarter, private players have expressed optimism and are generally targeting double digit new business growth for FY2015-16. In addition, with the passage of Insurance Laws (Amendment) Act 2015, the life insurance landscape seems to be dynamic with most private life insurance joint-ventures announcing potential stake transfers to foreign partners as well as the Insurance Regulatory and Development Authority of India (IRDAI) closely examining extant regulations that might require amendments. We summarise below these and the top ten key trends and developments that shaped the life insurance market for the period June 2015 to August 2015

10 **HDFC Life enters into first-of-a-kind partnership between a life insurer and a money transfer company, Remit2India.**

HDFC Life entered into a partnership with Remit2India, a TimesofMoney digital payment service provider to create awareness about insurance and offer life insurance products to its customers. The partnership is expected to access Remit2India's one million digital customer base and provide them with quality information regarding insurance products and services.

For further coverage of these and other market developments, visit <https://www.towerswatson.com/en/Insights/>

Newsletters/Asia-Pacific/India%20Market%20Life%20Insurance%20Update

9 **Quarterly results round-up: 14 out of 20 private insurers providing public disclosures declare profits**

14 of 20 private players that made their financial results available for the first quarter of FY2015-16 reported profits. **Shriram Life, Max Life, Kotak Life, Canara HSBC OBC Life and Bajaj Allianz Life** each reported nearly 100% or higher year-on-year growth in reported profits. Meanwhile, **Aegon Religare Life, Birla Sun Life, SBI Life and HDFC Life** witnessed a decline in their profits compared to the figures reported for the corresponding period last year. Total profit after tax for private insurers on the whole rose marginally by 1.9% from INR11,262 million in Q1 of FY2014-15 to INR11,475 million in the corresponding period of FY2015-16.

8 **Expense ratios of private insurers down to 16.3% in FY2014-15; participating business sees greater allocations**

Private insurers have witnessed improvement in their expense ratios, expressed as a percentage of total operating expenses relating to the insurance business over the total premiums, from 18.7% for FY2014-15 to 16.3% for FY2015-16, as per public disclosures made available by life insurers. LIC continues to exhibit lowest expense ratio (9.3%) in the industry. Among private insurers, **SBI Life** and **IndiaFirst Life** exhibit the lowest expense ratios of 9.5% each, similar to that of LIC. An analysis of line of business wise expense ratios hints at greater allocation of expenses to participating business by four out of seven private insurers who have made available such disclosure.

7 **Private life insurers continue to gain market share from LIC: record 17.8% year on year growth**

ABOUT THE AUTHOR



Mr. Vivek Jalan
Director-Risk Consulting, India
Towers Watson

during first quarter of FY2015-16

Statistics released by the IRDAI indicate a modest year-on-year growth of 2.0% in weighted new business premium collections for life insurance industry to INR99 billion for the first quarter of FY2015-16. Private insurers have seen new business volumes rising by 17.8%, while the state-owned LIC has witnessed another sluggish phase with 8.9% decline. Private insurers have continued to chip away at the market share of LIC, consolidating from 41.0% to 47.3% in the first quarter, year-on-year.

6 **Insurers focusing on bespoke health products: Aegon Religare Life and HDFC Life launch cancer products**

The period June 2015 to August 2015 witnessed a number of standalone health product launches, exhibiting an increased focus towards this market segment. **Aegon Religare Life** and **HDFC Life** have each launched a cancer product, while **Edelweiss Tokio Life** has introduced a critical illness product that covers 17 critical illnesses.

5 **IRDAI constitutes committee, further regulatory changes expected**

Pursuant of the greater powers granted to it in the recently passed Insurance Laws (Amendment) Act 2015, the IRDAI has formed a committee to look into the existing life insurance regulations, with a focus on actuarial aspects and submit a report with suggested changes in existing norms. Furthermore, a group has been set-up to promote e-commerce through recommendations around technological solutions and regulatory measures to aid

its growth. The regulator has also set up a committee to examine issues relating to opening of foreign branches by the reinsurers, all resulting in the expectation that there could be a number of regulatory changes in the coming months.

4 Social security insurance schemes see positive pickup: 100 million+ enrolments within 3 months of launch

10 out of 24 life insurance companies have accepted to underwrite the social security insurance schemes launched by the government, which have seen positive response with nearly 112 million enrolments as at the end of August 2015. State Bank of India and Punjab National Bank are leading banks with maximum enrolments. Long term success of these schemes hinges on rational claims experience for insurers, which is currently averaging approximately one per day for total enrolments to date.

3 LIC launches its first UL product since the revised product guidelines were issued in 2013

Public sector life insurer, LIC has launched "New Endowment Plus", its first unit-linked product in August 2015 since the

revised product guidelines were issued by the IRDAI. It is a non-participating endowment assurance that provides a choice of four funds to invest in. Notably, LIC has witnessed sizeable decline in its market share during the period of absence of unit-linked products from its product offerings until the end of first quarter of FY2015-16

2 Insurers line up potential stake-transfers to foreign partners following FDI hike from 26% to 49%.

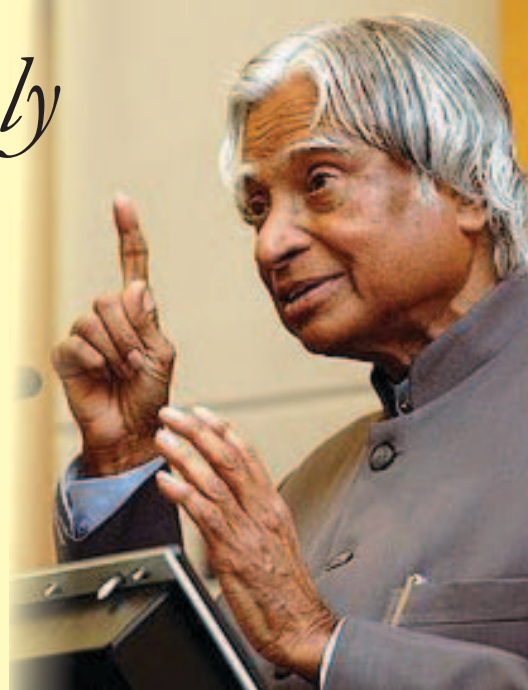
Foreign investment in the insurance sector is slowly gaining momentum: Standard Life has announced that it will acquire 9% of the shares of **HDFC Life** from HDFC, raising its stake from 26% to 35%, at a price of INR95 per share, implying a valuation of INR190 billion for HDFC Life; **Edelweiss Tokio Life** has received approval from the Foreign Investment Promotion Board (FIPB) for increasing Tokio Marine Holdings Inc.'s stake in the company from 26% to 49%; **Aegon** has obtained approval from the Competition Commission of India to increase its stake in Aegon Religare Life to 49% from its current holding of 26%. **SBI Life, IDBI Federal Life, PNB MetLife, Aviva Life,**

Bajaj Allianz Life and **Birla Sun Life** have also expressed interest in the media regarding transfer of stake from the domestic to the foreign shareholders.

1 Bose Committee critical of differential distribution incentives in financial products; recommends sweeping changes to curb mis-selling

The committee, set up by the Ministry of Finance, under the chairmanship of Sumit Bose, has recommended a number of measures for curbing mis-selling and rationalising distribution incentives in financial products. These include suggestion that upfront commissions should be allowed only on pure insurance products/pure risk portions of bundled products and the incentives on investment products/investment portion of bundled products should move to the Assets Under Management based trail model; proposing regulatory framework in line with three key functions (insurance, investment or annuity) and not the form of the products; providing for flexible exit options on all financial products with limited cost of exit and prohibiting profits from exit charges/lapsation profits to be booked by product providers, among other change.

*Life is a Difficult Game.
You Can Win it only
by Retaining Your
Birthright to be a
Person.*



ADVISORY GROUP ON PENSION, OTHER EMPLOYEE BENEFITS & SOCIAL SECURITY (AGPEBSS)

The Advisory group during the year had three outgoing members - Chairperson K. Subrahmanyam, Simon Hebron, K. Ganesan and Mr. Arunachalam. Mr. A. D. Gupta was nominated as the new chairperson and a new member was inducted - Mr. Kushwant Pahwa

As on date (30th September 2015) the members of the Advisory group are:-

1. A D Gupta
2. Chitra Jayasimha
3. Kulin Patel
4. Preeti Chandrasekar
5. Kushwant Pahwa

17th Global Conference for Actuaries - Concurrent Session On Pension, Employee Benefits And Social Security

The concurrent session on Pension, Employee Benefits & Social Security schemes was conducted on the first and second day, i.e. the 2nd and 3rd of February 2015 at the 17th Global Conference of Actuaries. The concurrent sessions and panel discussions covered multitude of topics such as :-

- Regulation, Actuarial Business and Professional issues
- Accounting Standards on Employee Benefits (AS 15)
- Improving Disclosures in Financial Statements - Strengthening Corporate Governance
- Serving the Public Interest: Co-existence of Accounting and Actuarial Profession
- Research Paper on salary Trend in Public Sector Banks
- Global update on Retirement Benefits
- Canadian Mortality Studies

The session provided a platform to exchange general and technical updates involved in the designing, management, accounting and evaluation of all types of employee benefit schemes. All the topics experienced full house & attended by a mixture of senior professionals and

junior students with active audience participation.

The sessions on Accounting Standards on Employee Benefits & Improving Disclosures in Financial Statements - Strengthening Corporate Governance saw Chartered accountant professionals addressing the audience. These were very well received by the members present and what ensued was a flurry of queries to the presenters.

2nd Workshop on Employee Benefits (Pension) was held on 13th March 2015 in Delhi.

This was an unique event with required active involvement from all the participants. There were five topics around which the whole event was planned. While registering the delegate had to select three most appropriate topics in the order of preference. Accordingly small groups were formed to deliberate and discuss the topics predetermined. Each group presented their topic in the workshop and responded to the queries from the other participants.

The following topics were deliberated in the 2nd workshop on employee benefits and presentations made thereafter:

- Public Sector Valuations: How can we move towards strengthening Pension Benefit Liability?
- Actuarial Practice Standard (APS) 26: What changes are required?
- Ensuring consistency of actuarial valuations
- Leave Valuations
- Provident Fund Valuations

11th Seminar on Current Issues in Retirement Benefits:

The Seminar on the Current Issues in Retirement Benefits was held in Mumbai on the 21st of August 2015. The total number of participants attending the seminar was a staggering 90. The Theme of this seminar was the recently notified Indian Accounting Standard 19 (IND AS 19) and National Pension Scheme (NPS)

The importance of Pension and Employee Benefits and the emphasis an employer is

placing on them has increased rapidly in the last few years in India. Moving closer to the implementation of new accounting norms, the Indian government has notified the rules for Indian Accounting Standards (Ind AS) which will be mandatory for companies from April 1, 2016. In a notification, the Corporate Affairs Ministry said the 'Companies (Ind AS) Rules 2015' would come into force from April 1, 2015. The notification of these IFRS standards fills up significant gaps that exist in the current accounting guidance. This will in turn improve India's place in global rankings on corporate governance and transparency in financial reporting. The National Pension Scheme (NPS) is gaining a lot of popularity with each passing year with the government making available attractive tax breaks. There has been more than 100% increase in the member ship and funds under management under the NPS in the last 3 years..

The Seminar focused on the following topics:

- IND AS 19 - ICAI perspective
- IND AS 19 - Technical Aspects - What is it all about?
- IND AS 19 - Implications for the companies with live examples.
- Retirement Adequacy Overview and impact of NPS-
- Pension Updates - India
- "IND AS 102 -Employee Share-based Payments"

ABOUT THE AUTHOR



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PEOPLE'S MOVE



Mr. Devinder Kumar has joined as Vice President-Actuarial with Aviva Life Insurance Company India Limited. Formerly a VP-Actuarial with Canara HSBC OBC Life Insurance. He has about 24 years industry experience in the area of Pricing, Valuation and Underwriting. Prior to joining Canara HSBC OBC Life Insurance, he worked with Aviva Life in the area of Pricing, Valuation & Statutory Reporting. He will be based in the Gurgaon (Delhi NCR) office.

Mr. Himanshu Bhatia has joined as Senior Manager (Pricing) with Aviva Life Insurance Company India Limited. Prior to joining Aviva, he worked as Manager (Risk Consulting) with KPMG Global Services. He has around 6 years industry experience with consulting & life insurance firms in the areas of Pricing, Risk Management, Modelling and Shareholder Reporting. He will be based in the Gurgaon (Delhi NCR) office.



Ms. Bhavna Verma FIAI has joined Kotak Mahindra Old Mutual Life Insurance as 'Head of Reporting' where she will oversee all regulatory and shareholder reporting. She will be based in Mumbai. Prior to joining Kotak Life Insurance, Bhavna spent over 8 years at Towers Watson and has worked on a range of life insurance consulting assignments in the UK, Indian and other Asia Pacific markets in the areas of valuation, embedded value, product pricing, peer reviews, actuarial audits, business planning, solvency monitoring, market entry among others. Her total experience in the actuarial profession is over 9 years, including a brief initial tenure at Milliman on the health insurance consulting side.

Mr. Jasdeep Singh has joined as Senior Manager – Group Reporting with Aviva Life Insurance Company India Limited. Formerly a Deputy Manager with Prudential Process Management Service in Mumbai. He has overall 8 years of UK industry experience in the area of Financial Reporting & Bonus Setting. He will be based in the Gurgaon (Delhi NCR) office.



Mr. Sambasiva I. Rao joined Shriram Life Insurance Co. as Appointed Actuary with effect from 1st August.

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COUNTRY REPORT

SRI LANKAN SHAREHOLDER VALUE MEASURES

In this article we take a look at the main shareholder value measures used by life insurance shareholders in Sri Lanka. We also consider how these measures may change post Risk-Based Capital (RBC) adoption in 1Q16.

Market Share

One high-profile measure is market share, which is measured in terms of overall GWP (gross written premium). This is further subdivided between:

- First premium (FP) and first year premium (FYP) • Single premium
- Group premium • Renewal premium

FP is the first contractual premium. FYP is the premiums paid in the first policy year.

Market share clearly shows which company has the highest revenue. This may be proportional to value, but this depends crucially on the profitability of the contracts sold and the relative efficiencies of scale.

SLFRS Profits

Sri Lanka Financial Reporting Standards specify the basis of preparation of local profit statements. The industry practice is to report the life fund surplus transfer plus the shareholder fund profits as the SLFRS profits.

Since the current valuation basis is based on net premium liabilities in tandem with market value assets, the following items can distort SLFR profits:

- New business strain • Market movements in interest rates • Changes in the reserving basis • Changes in target capital levels

As a result of the above, it can be difficult to draw conclusions about a company's value based solely SLFRS profits emergence.

Conclusion

It may be apparent from the above key industry measures that actuarial value measures are not commonly used by

shareholders in Sri Lanka. Shareholders are essentially aware of the total revenue and the current year valuation surplus. As actuarial science shows, it can be difficult to estimate the value of an organization from these measures.

Implications of RBC Adoption in 2016

For the majority of life insurers, RBC adoption will capitalize future profits currently held within the net premium reserves, resulting in significant one-off reserving releases. Consequently, SLFRS profits may increase substantially in 2016.

However, given that the overall stability of the RBC basis is fairly uncertain, companies may wish to change their target capital policies accordingly. This may result in significant variances in SLFRS profits across the industry, which may be difficult for shareholders to understand.

Further, following the one-off adoption impact on surplus, future SLFRS profits on the in-force book would be expected to be much lower than under the net premium valuation basis. Inherently, since the RBC reserving basis uses best-estimate assumptions, in the absence of any experience variances the future profits would consist only of the future releases of the risk margins and risk capital requirements.

Similarly, new business generation (assuming profitable contracts are written) would improve the RBC surplus via capitalization of future profits. As a result, companies growing new business volumes aggressively may experience higher SLFRS profits than slower growing peers.

Therefore, although RBC is a risk-adjusted basis of reserving, it is not necessarily an appropriate medium for shareholders to assess the value of an organization.

Alternatives

One possible alternative would be to review SLFRS with a view to making insurance company profits more comparable with other industries. This would essentially involve the derivation of a reserving basis which smooths the expected

profit from an insurance contract over the policy term, in turn leading to a situation where profits are broadly proportional to revenue. Additionally, regulatory capital requirements would preferably not affect profit recognition.

A second alternative would be to introduce Embedded Value (EV) reporting to Sri Lanka. A starting point for this could be the RBC basis- all companies are required to calculate their liabilities based on cash flow models and best-estimate assumptions. From these cash flows, a Value In-Force (VIF) could be computed, taking the present value of the future profits at a Risk Discount Rate (RDR), adjusted for the Cost of Capital (CoC). To this would be added the Adjusted Net Worth (ANW), which would be based on the SLFRS equity with suitable adjustments (for example, removal of tax credits). Taken together, the VIF and ANW would form the EV of a company.

From a shareholder perspective, the value of an organization could then be estimated by computing the Appraisal Value (AV). This is equal to the EV plus the Goodwill, where the Goodwill is defined as the expected present value of future new business over a specified horizon.

Summary

RBC adoption in 1Q16 presents a significant milestone for the Sri Lankan insurance industry. As the wider ramifications of the framework emerge, developments in the area of shareholder value measurement may result.

ABOUT THE AUTHOR



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is the Chief Actuary at AIA Insurance Lanka PLC and is a Fellow of the Institute and Faculty of Actuaries UK.

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PUZZLE

Puzzle No 239:

What mathematical symbol can be put between 5 and 9, to get a number bigger than 5 and smaller than 9?

Puzzle No 240:

1 is 3.

3 is 5.

5 is 4.

4 is 4.

What is 7?

Answers to Puzzles

Puzzle No 235:

The greengrocer has 100 kilograms of cucumbers left at the end of the day.

Puzzle No 236:

Mrs. Jones loses 10.50 euro in the deal

Correct Answers were received from:

Puzzle No 235:

1. Shilpi Jain

2. Neel Chheda

3. Palash Shah

4. P. Sankara Narayanan

5. Bhargavaswaroop

6. Prasham Rambhia

7. Arjun Singh Chouhan

8. Soham Chandra

9. R. Mythili

10. Mercy Amalraj

Puzzle No 236:

1. Shilpi Jain

2. Neel Chheda

3. Rini Patel

4. P. Sankara Narayanan

5. Bhargavaswaroop

6. Prasham Rambhia

7. Arjun Singh Chouhan

8. Soham Chandra

9. R. Mythili

10. Mercy Amalraj



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HEALTHY LIFE TO THE FELLOW MEMBERS
WHOSE BIRTHDAY FALL IN OCTOBER 2015



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 **Swiss Re**

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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