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the Actuary INDIA

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INDIAN ACTUARIAL PROFESSION
Serving the Cause of Public Interest

Celebrating 75 years of Indian Actuarial Profession

THE ORIENTAL INSURANCE COMPANY LIMITED

(A Govt. of India Undertaking)
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CIN : U66010DL1947GOI007158 **Website : http://www.orientalinsurance.org.in**

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"A noble man's thoughts will never go in vain. -Mahatma Gandhi."
"I hold every person a debtor to his profession, from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to help and ornament thereunto - Francis Bacon"

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From President's Desk

Mr. Sunil Sharma

The COVID 19 infections reported so far crossed 12 million, the actual count could be much more than reported figures, given the pattern and style of spread. While release of drug is the topic of paramount importance of all countries, exact timing is yet to be known. The latest claim put forward by more than 200 scientists from all over the world on possibility of spreading the virus by air is accepted by WHO which is leading to serious limitations of containing the virus in any extreme lockdown conditions. The graph is continuing to go higher, the world has to learn to live with it until a Vaccination is found and made available.

Meanwhile IAI has taken number of student friendly measures and implemented with immediate effect. Examinations are re-scheduled to September; it's the time to closely monitor the situation and to explore various options to conduct examinations in a most safe and secured way. One of the long pending requirement from student members to supply the course material in the soft format has been taken care and been implemented. Exemptions of exams qualified from IFoA also been granted with retrospective effect from 1st Jan 2019. Given the situation, submission of online application for granting exemptions also allowed. Online class support by way of recorded videos have already been rolled out well in advance and many students are making use of it now. Few webinars will be scheduled some time in the month of August to support students who require guidance in R. The comprehensive R course material is in the final stage of its preparation, which will be made available after appropriate peer review and approvals.

We have invited expression of interest from academicians and practitioners from across the world to support preparing Indian specific Actuarial course material in line with the IAI Education Curriculum.

Seminars continues to be in the webinar platform. Starting from the month of March 2020, we have successfully organised webinars in Life, General, Health, Pension, Data Science, IFRS, Risk Management and Banking. The 33rd India Fellowship seminar has been successfully conducted on the virtual platform in four days. In order to enhance the connect with students, IAI conducted a Presidential Town hall with students on Sunday, 28th June.

We have lined up few more webinars:

Name	Owner	Date
Impact of IFRS 17 on Product design and Pricing	AG on IFRS17	16-07-2020
Ayushman Bharat-Actuarial Perspectives	AGHI	24-07-2020

The office continue to operate with WFH model with some presence in office, given the escalating situation of COVID 19 in Maharashtra, particularly in Mumbai. The lock down has been extended till 31st July, however is possible that it may be further extended for at least for a month. The services to the members are not affected by the lockdown and IAI staff is putting their best efforts to ensure uninterrupted services to members.

IAI Pandemic Research group is working on updating the Projections based on the emerging experience and likely to come out with more updated report in July.

Last but not the least, IAI has announced the council elections 2020. I sincerely urge you to exercise your right to vote to ensure maximum participation.

With this note, I would like to now sign off and come back to you with updates on the progress made by the profession on various initiatives.

Stay Safe, Stay Healthy

Sincerely yours

Sunil Sharma
President IAI

From Chief Editor's Desk

Ms. Bhavna Verma

Welcome to another edition of the Actuary India in the heightened VUCA (Volatile Uncertain Complex Ambiguous) world. Well, looking at it more positively, "Things are not difficult, they are just different." And it appears to me that it is the most adaptable that will survive this extended period of transition, rather than the strongest.

I have had some interesting learnings in this new lifestyle which I thought worth sharing.

- Aim for optimal **work life integration**, not work life balance. Balance or separation of the two may be overrated now.
- Invest the hours saved from long commutes to **maintain a healthy mind and body**.
- Love it or hate it, **technology will run your life forever**.
- **Virtual learning** is the future; use it judiciously to fill existing or potential skill gaps.
- Think differently; and **lead and serve by example**. What got you here won't get you there!

On the Products front, most general insurance companies have started offering the regulator-mandated standard indemnity health policy, Corona Kavach, for Covid-19, and few have launched the standard benefit-based policy, Corona Rakshak. Last I read, Corona Kavach has been approved as a standard cover for group schemes that can be offered by general and standalone health insurers, with an additional discount for groups consisting entirely of doctors, nurses or healthcare workers as a mark of recognition of their contribution in fighting the society's battle against Covid-19. E-commerce players are reportedly buying appropriate covers for their staff and families. On the life insurance side, term insurance is increasingly becoming the preferred product buy among customers, and few companies are drawing up products focused on Covid-19. Interesting times for actuaries and businesses indeed to price for truly unforeseen risks yet serve public interest in

these times of need.

Meanwhile, the Institute has continued actively with its learning webinars; coverage of the recently conducted webinars on "Microinsurance Landscape Study", "General Insurance", "Covid19 – Health insurance business implications and way forward" and "Risk Management: Covid-19 response to business risks and championing them" are included in this issue.

The first Presidential Townhall was held in June 2020, also covered in this edition. I find it interesting that 60% of the students participating in the event polled what we call emerging areas of actuarial work as areas they find most exciting; this includes "Banking, Finance, Capital Markets, Data Science, Risk Management, other wider areas." This is in line with the direction that the profession seems to be headed in, globally and in India which should be achieved successfully with the combined efforts of the profession and members.

Do write in to us with your thoughts, suggestions, feedback and contributions at library@actuariesindia.org.

Thank You

Webinar on Covid19 – Health insurance business implications and way forward

Date: 29 May 2020; Friday **Time:** 16:00 - 17:30 IST

Chair: Mr. Sunil Sharma, President, IAI

Moderator: Mr. Vishwanath Mahendra, Chair, Health Insurance Advisory Group, IAI

Speakers: Ms. Raunak Jha, Members, Health Insurance Advisory Group, IAI

Ms. Anuradha Shriram, Members, Health Insurance Advisory Group, IAI

Mr. Randip Singh Jagpal, Chief General Manager, IRDAI

Introduction

In the wake of COVID-19 pandemic, awareness of health insurance among Indians is showing steep rise while the impact of the outbreak has already started casting a shadow on the Insurance sector. As the social distancing is becoming new normal, the Institute of Actuaries of India is proactively conducting webinars on various relevant topics. A webinar titled "Covid19 - Health insurance business implications and way forward" was conducted by the Health Insurance Advisory Group on May 26, 2020. The objective of this webinar was to cover the impact of COVID-19 on Indian Health Insurance ecosystem.

Mr. Vishwanath Mahendra started the session by providing his key observations on COVID-19 impacts on health insurance industry, which was followed by the presidential address by Mr Sunil Sharma.

Ms Raunak and Mr Randip Singh discussed the current situation of the pandemic on general insurance business and emerging insurance landscape post COVID-19. Ms Anuradha discussed the impact of this pandemic on global and Indian economy along with the implication on various stakeholders in health insurance business. She concluded the webinar with the way forward for the industry to continue being resilient against such situations.

Snapshot of Current Situation

Overall general insurance business has degrown by approximately 11% in the month of April. However, fire and health lines of business have observed approximately 40% and 6% growth respectively. Only health business has shown the real business growth as the growth in Fire business has been achieved mainly due to the correction in rates brought into the system by the Reinsurers.

Within health business, group business has seen significant increase in business due to the various regulatory directives, interventions by industry bodies and the demands of worker's unions for safer workplace.

But due to travel restrictions imposed by various countries, the Overseas Medical book has registered negative growth rate of more than 80%.

Hence, a clear trend of increased need based demand can be seen in Health Insurance business.

Emerging Insurance Landscape post Covid-19

From insurer's perspective, there is increased demand for the business, which is being addressed by new innovative COVID-19 specific products. more adaptation of digital route for selling and underwriting. However, biggest concern is the increased average severity against the usual industry benchmark.

From consumer's perspective, increased awareness of the health care need and health insurance coverages can be seen, which is resulting into increased demand for the health insurance products. However, cyber risk and the complexity of health insurance terms and conditions are the concerns to target business digitally.

Health care providers are operating in a reduced capacity. As a result, non-emergency treatments are being deferred. Hence, there is an expectation of accumulation risk of such treatments at a later point in time, thereby directly affecting the claims outgo of insurance providers.

The Regulatory body, IRDAI, is playing active role and taking various initiatives proactively:

- Grace period for the premium payment has been increased

- Encouragement to insurers to launch COVID-19 and infectious disease specific products
- Standardization of terms and conditions in health insurance by launch of Arogya Sanjeevani Policy
- Extension of deadlines to submit annual returns
- Guidelines on telemedicine, where telemedicine will be covered under pre and post hospitalization expenses
- Encouragement for digitization by issuing license and registration to insurance repositories and claim service providers
- Parallelly, GI Council is in the process of negotiating treatment rates with private hospitals for the purpose of standardization of treatment packages.
- Government in some of the worst affected states are coming forward to take charge of the treatment being provided by the private hospitals along with the proposals to cap the treatment rates

Key unknowns and way forward!

Actual infection rate is currently being determined by the data submitted by the hospitals and hence actual number of cases are expected to be unknown.

Additional uncertainty is around the continuity of the lockdown in different states and resulting impact on population and economy. There is no vaccine currently available for the cure of this disease and it might take years before any breakthrough is achieved. Also, there has been a clear shift in the disease pattern in last few months, for example increase demand of mental illness related treatments.

However, Work from Home setup and increased digitization is helping business to sustain in this environment. Also, increased awareness of healthcare and hygiene practices are helping community facing these challenges positively.

India experience and implication for various stakeholders

Number of cases are growing day by day despite the imposed lockdown. However, the observed contagion rate is much lower compared to the other countries. Low testing and tracing capacity of our country is of course the major contributor towards the same.

No clear pattern can be identified across states with respect to the infection rate. Currently, 75-80% of the infected people are expected to be asymptomatic. Some of the available researches show that elderly, people with preexisting conditions, men compared to women are more vulnerable towards the infection. It is also revealed by the statistics that less than 30% of positive cases require hospitalization and the recovery rate in India is better than many countries.

Major implication of this pandemic on health insurance business are:

- Business Continuity Planning through increased digitisation, changes in consumer preferences, regulatory & shareholder reporting, employee engagement, distribution and underwriting are showing inclination towards the online and digital channels compared to the traditional methods.
- Asset management – The meltdown in global equity markets including India in the wake of the coronavirus outbreak has posed significant impact on the Fair Value change in Equity, especially since the beginning of March 2020.This is likely to impact solvency position of the Insurers.

Key learnings and the way forward

This pandemic has impacted all spheres of the economy. Despite the various challenges, Health Insurance business is expected to grow due to the increased awareness in the market. Continuous support is being provided by the Government and the Regulatory Authority to support customer needs and insurers' viewpoints.

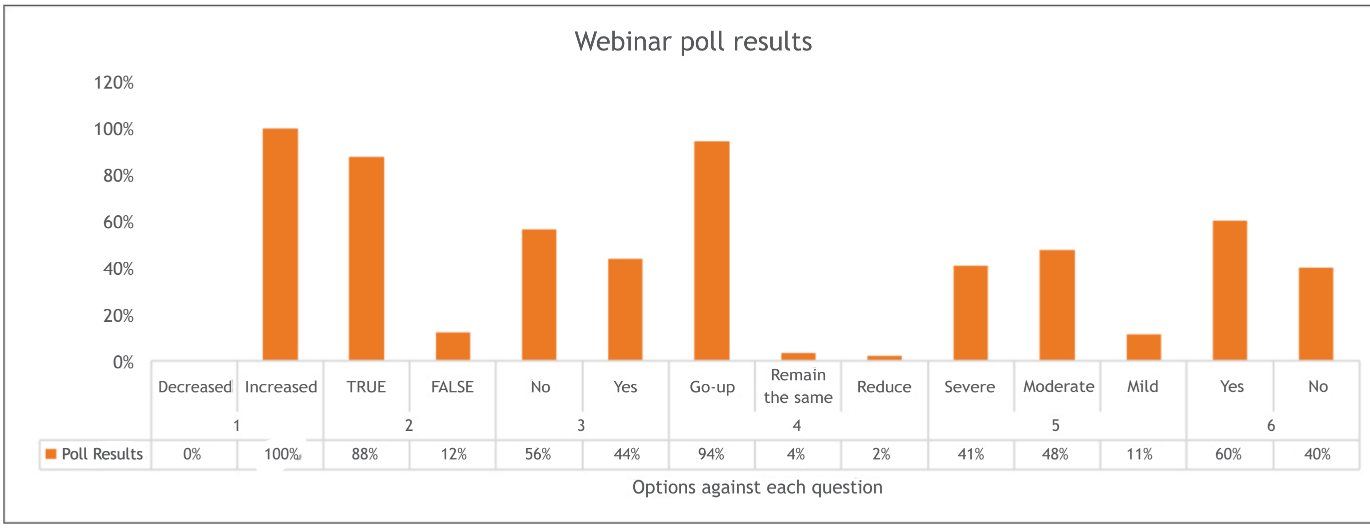
However, to take advantage of the increased demand and to sustain the same in the long term few areas need to be considered further:

- More research is required into COVID-19 infection, fatality, mortality and recovery rate
- Digital readiness
- More engagement with customers and distributors
- Address shift in customer preference towards online purchase, social distancing, holistic health insurance cover including wellness and engagement
- Smart work and development of new capabilities to deal with the emerging eco system

The Webinar was concluded with Vote of Thanks from the Vishwanath Mahendra on behalf of the Advisory Group of Health Care Insurance, IAI.

In order to make the webinar more interactive, the organisers also arranged for few online poll questions.

1. Has Covid-19 increased or decreased awareness of Health Insurance?
2. Covid 19 made Health Insurance a pull product!
3. Have Indian Insurers changed their product offerings adequately in the emerging scenario?
4. Demand for Health Insurance will
5. Covid19's impact on Health Insurance Companies will be
6. Cost of treatment has increased significantly after Covid 19. Should this increase health insurance premium?



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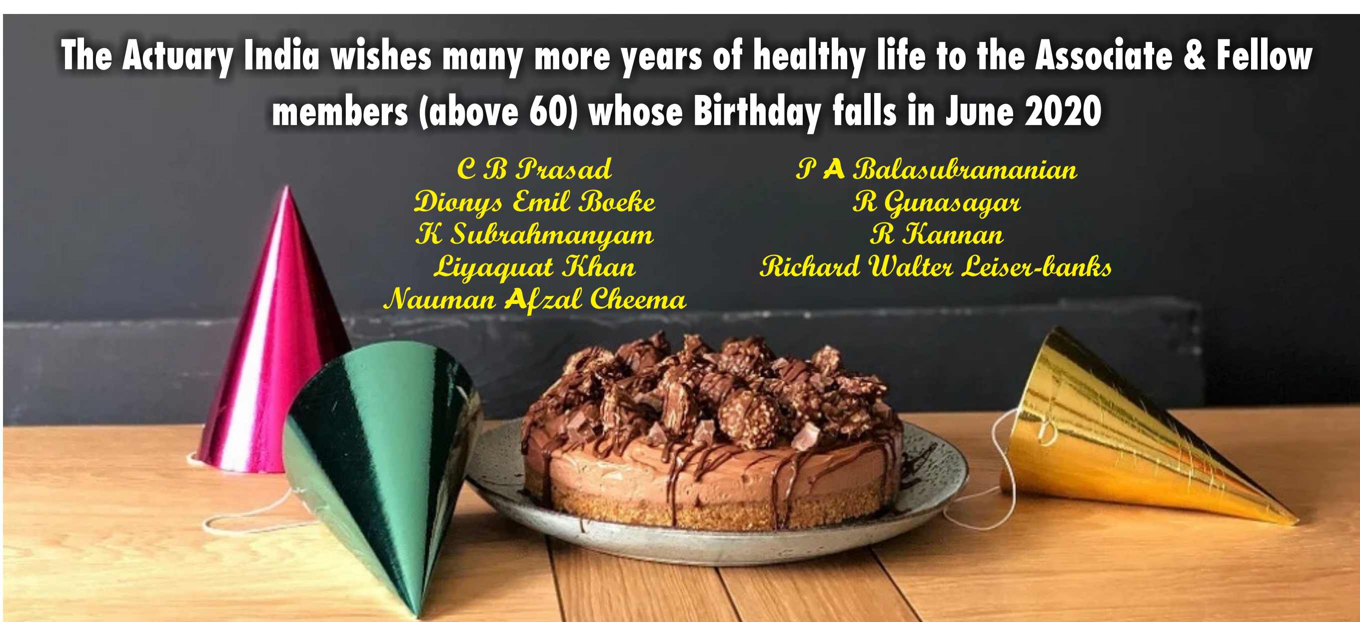

Webinar on Microinsurance Landscape Study

Date: 5 June 2020; Friday **Time:** 16:00 - 17:30 IST

Chair/Moderator : Bharat Venkataramani, Chair, Advisory Group on Sustainable Development & Microinsurance

Speaker: Atanu Majumdar, Researcher and Consultant

Introduction

A webinar titled "Microinsurance Landscape Study" was hosted by the Advisory Group on Sustainable development & Microinsurance on June 5, 2020. Bharat Venkataramani, the moderator for the webinar, started the session by inviting Sunil Sharma (President, Institute of Actuaries of India) to deliver the opening address . In his address, Sunil Sharma emphasized the topicality of microinsurance. During these times of COVID-19 pandemic, the low income population is greatly affected due to low savings resulting in an inability to smooth consumption and meet health expenditure. He further stated that Insurance Companies have a crucial role to play in addressing the challenges apart from the Microfinance Institutions.

Further, the guest speaker for the event, Atanu Majumdar, discussed the contribution of various Landscape studies conducted by the Micro Insurance Network. Further, he also discussed on how to make insurance products more inclusive for Microinsurance. The Webinar concluded with Landscape Study 2020 and the discussion on what cost effective channels may be looked into for distribution of Microinsurance.

The Micro Insurance Network

The session started with a Poll question seeking input on "Which of the statements is NOT TRUE about Microinsurance?" where it is worthwhile to mention that only 30% participants voted that the Microinsurance is not something characterized by low income, small benefits or small premium size, however, the others (70%) believe the same to be true.

Atanu Majumdar explained, that in reality, "Micro" is actually a characteristic of process based on the Principle of "Subsidiarity" (an insurance scheme that is managed at the micro level of society). Microinsurance can be understood as "Inclusive Insurance" which began during the early 1990 in the form of charity. The biggest commercial microinsurance was introduced in 1997 by AIG-Uganda and offered through a Microfinance institution under the Credit Life category.

It would not be out of plane to mention that the Micro Insurance Network originated through World Bank which further led to CGAP (Consultative Group to Assist the Poor) 1995. Thereafter, it was organized as the Micro Insurance Network in 2002 and further was registered as an independent Non-Profit organization in Luxembourg in 2013.

Need of Microinsurance

Another poll question required the participants to answer which class (middle/ poor/ destitute) needs protection the most. Almost 76% participants responded that have nots and destitutes are the ones who need it the most. Thereafter, Atanu Majumdar stated that "Microinsurance" is a powerful tool to extend Social Security. The protection gap which may be measured as "Total Economic Losses minus Losses covered by Insurance" is also significant both globally as well as in India. It is expected to be somewhere around 70-80% or approximately USD 27Bn. Further another poll question requested feedback on the USD 27 Bn gap where 87% responded the same to be both a" huge threat to livelihood for Indian population" and "untapped potential market for the insurers."

One can easily relate to recent calamity "Amphan Cyclone" or to "Covid19 Pandemic" where many people especially the low income segment have suffered considerable livelihood challenges.

How insurance companies can work on myths about Microinsurance

Atanu Majumdar further discussed various myths related with Microinsurance. Another poll question was raised asking whether supply of microinsurance schemes would automatically improve demand or not to which 71% of participants voted in favor that supply of these schemes will result in improved demand.

Further, he cleared the myth that "no demand is largely due to inadequate financial literacy." Another myth included low benefit in those products and hence there is little use even for low income persons. He explained that poor people don't have the capacity to pay for it and hence companies can look into small but frequent premium payment options in place.

Another poll question was raised where 70% of participants believed that "It is possible to make microinsurance self-sustaining" and it can sustain without any government subsidy. This is imperative to note that one as there is a myth around high operating costs making microinsurance unsustainable. Atanu Majumdar further observed that companies lack innovation and argued that India has approximately 1 Crore SHGs (Self Help Groups) which reach out to over 50 crore population. Technology can also play a vital role in distribution of microinsurance. Further, India is one of the few countries to have introduced separate Microinsurance Regulation in its early phase.

Landscape Study (cross-country learning)

The study started in 2005 and since 2013 it is commissioned every year with main focus on Africa, Asia and LAC (Latin America and Caribbean Islands) countries in alternate years. They have shown worthy observations e.g., Africa's Mobile network operators "Freemium model" where they offered free insurance to loyal customers, use of digital wallets, how they successfully switch from Freemium Model to premium Model. Further, in Asia which is considered as an emerging microinsurance market too has Mobile Microinsurance although it lacks product variety. Further, it is worthwhile to mention that the Landscape Study 2020 will be conducted with its main focus on India this time.

The session ended with interesting discussion on cost effective distribution to which Atanu Majumdar pointed out that Technology, SHG are strong medium and a frequent premium payment option can also help. He also emphasized on capitalizing the mindshare in schools by running programs for insurance literacy so that more students become aware.

Key Take-away

Low income persons are the most vulnerable who need insurance the most. However, ironically, Insurance Companies do not have products on offer and a targeted distribution strategy aimed at this strata of society. One should consider the most recent calamities e.g. Amphan and Covid19 pandemic and the severe impact on this segment.

Written by

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Deepika Sachdeva is an Associate member of Institute currently working as Deputy Manager with Pramerica Life Insurance Limited.

Condolence Message

We are deeply saddened by the news about the demise of Sh. K N Viswanathan, an esteemed member of Institute of Actuaries of India. We are thankful for his contribution to the actuarial profession for the benefits of the actuarial community of India.

In this difficult time, the Institute of Actuaries of India stand with you.

We pray almighty to give strength to the family to bear the loss.

Webinar on General Insurance

Date: 11 June 2020; Thursday **Time:** 17:00 - 18:30 IST

Chair: Mr. Jatin Arora, General Insurance Advisory Group, IAI

Moderator: Mr. Puneet Sudan, Founder Actuary at Paramount Consultants

Speakers: Mr. Sanjay Datta: Chief - Underwriting, Reinsurance & Claims at ICICI Lombard General Insurance Co. Ltd.

Mr. Milind V Kohle, Chief Underwriting and Reinsurance Officer, Bharti AXA General Insurance Co. Ltd.

Introduction

A webinar titled “General Insurance Industry - Lockdown and the Way Forward” was conducted by General Insurance Advisory Group, IAI, on 11th June 2020. Mr. Jatin Arora started the session welcoming the panelists. It was followed by the Presidential Address by Mr. Sunil Sharma which set the tone for the discussion by highlighting the resilience of the industry and also the responsibility of the profession to meet the emerging customer needs.

How did the Industry respond to the Lockdown?

Mr. Puneet started the discussion asking if the Indian insurance industry expected such lockdown happening and if was prepared for that. Mr. Sanjay explained that the Indian general Insurance industry was not well prepared for the pandemic but it adapted well. Insurance industry had handled natural catastrophe events before but this event caught us by surprise.

But the industry responded well with increased scale and usage of technology and also automation of processes. Industry was able to connect with customers, partners and channels who in turn responded well. Industry was able to execute renewals, aided by regulatory relaxations. New business was generated in health insurance. Industry serviced health claims and cyclone claims during the lockdown.

From a risk management perspective, there were many new learnings such as the impact on the lines other than Health due to economic downturn.

Impact on Business Volumes

Mr. Puneet raised the first audience poll question about the GI Product Density in India during FY2018-19. Mr. Milind was then asked to offer his views on the impact on the GI industry volumes in the light of low or negative GDP growth.

Mr. Milind stated that the initial business planning for FY2020-21 anticipated an even better year than FY2019-20. However, in April 2020, the overall gross premium was ₹14207 Crore which was 11% lower compared to April 2019. Significant drop of 51% occurred in Motor, in both OD and TP. Degrowth in Motor was mainly because of drop in vehicle sales since dealerships, used-car outlets and banks providing vehicle loans were not functioning.

On the other hand, Commercial lines witnessed a growth of 21%, especially due to a strong growth of 41% in Fire LoB despite de-growth in Marine and Engineering. Health LoB witnessed a marginal growth of 4%.

Impact on Motor Claims Activity

Mr. Puneet followed up with the question to Mr. Sanjay on the impact on Motor claims activity. He responded that while some US insurers refunded some amount of premiums to customers due to low claims activity, they later observed that the claims severity went up.

With regards to Motor TP claims, severity could increase as the last 2 Lok Adalats were not held and the courts are not working. Increased vehicle speeds on highways could also increase the claims severity.

In Motor OD, the claims activity was very low during the lockdown but it has started to pick up. Garages are facing labor shortage which is rising up costs. The surge in number of claims reported could partly be attributed to old claims. The reduction in claims in the months of April and May could be offset by the increase in claims severity.

Mr. Milind offered some additional insights. Reported claim count in Motor OD during April was roughly 10% of normal claim activity. However, it increased in May to

60%-70% of normal claims activity. Even during the lockdown, the vehicles were still covered for other perils such as theft and natural perils (e.g., Cyclone Amphan). It is currently not so evident and also early to adjudge if insurers will make ample gains and how some of those gains can be given back to the customers.

The second audience poll was opened about the Gross Direct Premium in FY2018-19. It was later followed with the last audience poll question about the Incurred Claims Ratio for General and Health insurers in FY2018-19.

Outlook

In Motor, the new car sales were severely impacted. The revival might come in segments such as smaller cities, smaller vehicles, tractor sales etc.

In Commercial lines, the industry was able to persuade the buyers. There was an increase in premium rates because the reinsurer enforced the IIBI loss costs.

Cyber liability is an emerging risk with increasing use of technology and customer data.

With regards to customer behavior, the understanding of risk and awareness of insurance products have increased. Increase in usage of technology by customers is also on the rise. There might be low spending by customers and also some buying decisions might be postponed.

Industry has to step up and provide the covers that the customers need. Actuaries have an important role to play.

The webinar concluded after the panelists answered questions from the audience.

Written by

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Webinar on Risk Management: COVID 19 - Response to business risks & championing them

Date: 16 June 2020; Tuesday **Time:** 10:30 - 12:00 IST

Chair: Kailash Mittal, Advisory Group on Risk Management

Moderator: Bikash Choudhary, Chief Risk Officer and Appointed Actuary, Future Generali India Life Insurance

Speakers: Satyan Jambunathan, Chief Financial Officer, ICICI Prudential Life Insurance

Rajosik Banerjee, Partner and Head, Financial Risk Management, KPMG

Adarsh Agarwal, Appointed Actuary, Digit General Insurance

Varun Gupta, Chief Risk Officer, Tata AIA Life Insurance

Gist

The COVID 19 pandemic is a stress event that has impacted the businesses globally and has put financial and operational infrastructure of the organizations to test. As the situation unfolds, business leaders are deliberating on ways to respond to the crisis and limit its impact on the business. Events such as this webinar serve as a useful tool in adding to our capability to assess the impact of such crisis and prepare ourselves for remedial actions to mitigate its impact.

Introduction

A webinar titled "COVID 19 - Response to business risks & championing them" was hosted by Advisory Group on Risk Management (AGRM) on 16 June 2020. The aim of the webinar was to discuss key risks faced by the insurance companies due to COVID 19 crisis and the way forward to mitigate these risks. The webinar was a confluence of ideas presented by industry leaders on various aspects of challenges caused by the COVID 19 crisis and possible ways to address them.

The webinar started with a welcome address by Kailash Mittal, where he highlighted IAI's focus on research and development work and shared the list of research projects which IAI will undertake in the areas of risk management in guaranteed annuity options for employee benefit schemes, CAT risk modelling, risk management techniques in annuities and credit risk. The project mentors and teams were shortlisted based on responses to an Expression of Interest that was floated inviting volunteers for the four research areas.

This was followed by Keynote address by Sunil Sharma, President of the Institute of Actuaries of India. He briefly summarized the current situation of COVID 19 spread in India and stressed on the need for actuaries to be at the forefront of remedial actions against the situation. He highlighted that there would be a need to go beyond the traditional method of insurance operations and there is a lot of scope for actuaries to offer their expertise in areas such as underwriting and data analytics.

Session Highlights

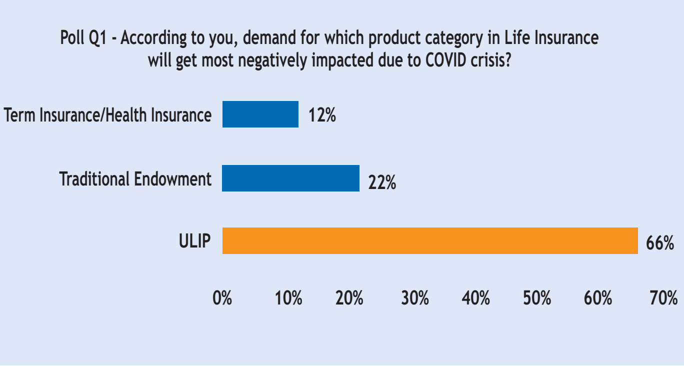
After introduction of the panellist, Bikash Choudhary invited views of the panel members on challenges faced by the industry.

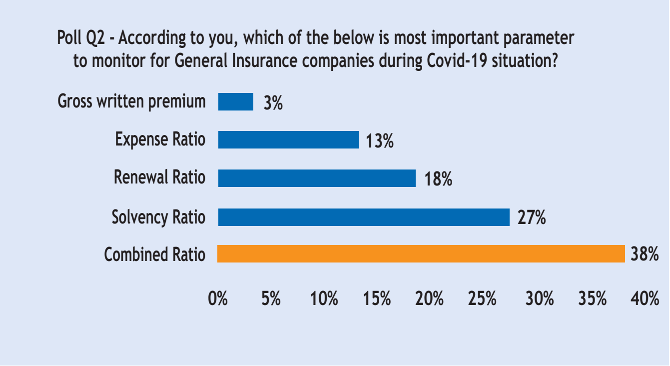
Varun Gupta opened with a poll question to take the participants' view on which insurance product is most negatively impacted by COVID 19 crisis. Result of the poll were on expected lines and indicated that majority of participants felt that sale of ULIP is going to be severely impacted by the crisis. Varun outlined broad steps involved in estimation of expected impact of COVID 19 mortality, allowing for factors such age mix, co-morbidities, geographical spread of the infection and IBNR. Further, due to the prevalent crisis, there can be an impact of anxiety, improper care and neglect of underlying conditions on medium to long term mortality. He also mentioned that 60% of the balance sheet world-wide of life insurance is economic risk and hence, in low interest rate scenario, maintaining price competitiveness of the products, especially in non-par business, is going to be a challenge.

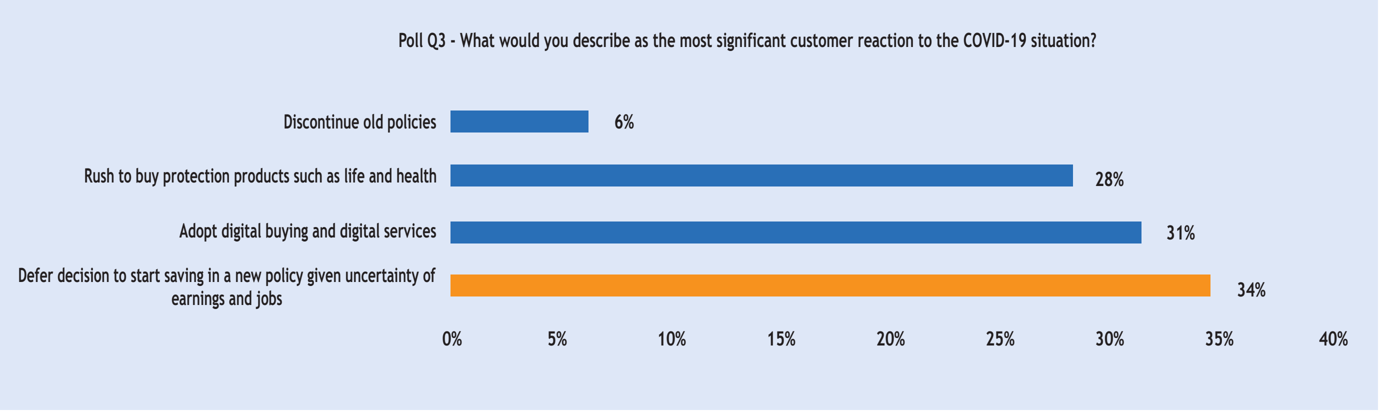
The session was then taken over by Rajosik Banerjee, who presented an insightful summary on recovery period of various industries post 2008 financial crisis to highlight what earlier crisis taught us. He elaborated (by way of four quadrants) that the of impact of pandemic on a given industry would depend on the pace of recovery and degree of permanence of changes to that industry. As per the analysis, insurance and banking industry is likely to recover early with lower degree of permanent changes, whereas the hardest hit industries would be hotels, entertainment and airlines. Rajosik then presented a segregated analysis of the challenges for financial and non-financial sector. While the key challenges for non-financial sector would be around volume slow-down, supply chain interruptions and increased cost, the challenges for financial sector would pertain to worsening asset quality and ALM mismatches. He concluded by stressing that a cohesive approach would be required to estimate the potential impact of COVID 19 crisis and stress testing around various risks parameters allowing for the inter-relationship between risks would be an important instrument of impact analysis.

This was followed by Adarsh Agarwal highlighting the risks of COVID 19 on general insurance companies. Adarsh listed the impact of crisis on key business aspects of general insurance such as underwriting, claims handling, pricing etc. He explained that there is a demand for products which offer cover specific to COVID 19, however, due to shortage of beds in hospitals and new guidelines on home quarantine of COVID 19 patients, it is difficult to estimate the cost of treatment accurately and hence, pricing of such specialized products becomes a challenge. Further, insurers have also noticed a demand for products which offer loss of job cover. Adarsh outlined the impact of crisis on top line and bottom line of general insurance companies. While there was a reduction in claims activity and increase in demand for health insurance products, renewal rates for private motor insurance business were particularly low in the last three months. He concluded his session with a poll question for participants on the most important parameters for general insurance companies to monitor during COVID 19 situation with majority of participants voting for solvency ratio and combined ratio.

Satyan Jambunathan opened with a poll question on the most significant customer reaction to COVID 19 situation. Results of the poll revealed that 34% of participants felt that customers will defer their decision to start saving in new policy, whereas 31% felt that customers will adopt digital buying and services. Satyan talked through his own experience in the organization in the last three months and divided the timeline into three phases. First phase was the early response to crisis where organization's priority was employee safety, uninterrupted customer service and focus on business to a limited extent. Second phase was about scoping of situation, which covered the readiness of organization to the crisis, feasibility of meeting reporting timeliness, assessment of impact of crisis on asset, liability, liquidity, solvency etc. The final phase is future-proofing, where it is important to assess how resilient organization's balance sheet is to changes in interest rate, credit and ALM risk and to understand and adapt to the changing customer preferences. Satyan concluded by emphasizing on the importance of a strong and sound balance sheet in the current environment.







Way Forward

Bikash raised an open question to all the panellist to share their top priorities in this situation and responses from the panel members presented meaningful insights into the way forward for businesses. Some of the key priority areas included:

- Importance of building resilience within organization to different outcomes.
- Focus on keeping the balance sheet healthy and flexibility to adapt to the change in product mix.
- Need to re-forecast the business plan and come up with new products and opportunities.
- Adoption of digital claims, sales and underwriting practices while being mindful of the cyber risks associated with such transformations.

Bikash concluded the panel discussion by highlighting that with risks, there is also scope for new opportunities in terms of new products, rationalization of expenses, digitization, new customers, revisited process etc. and insurance industry would benefit by being agile and quickly adapting to the changes in business environment and consumer demand.

This was followed by Q&A session which witnessed an active participation from the attendees with extensive queries on different aspects of insurance business. The questions raised were a diversified mix pertaining to areas such as use of data algorithms in underwriting, importance of trade credit insurance during COVID 19 crisis, regulatory initiatives during the crisis, age-wise impact of COVID 19 on mortality and morbidity, increase in M&A activities in post COVID 19 world etc. Queries raised by the participants were addressed by the speakers who tried to answer most of them with practical insights to the current business environment.

Ashish Ranjan, Member AGRM concluded the webinar with a vote of thanks to all the speakers and participants for an insightful and interactive session on key impact areas of COVID 19 on insurance industry and way forward to address them.

Written by

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UPCOMING WEBINARS

S.No.	Webinar	Date	CPD
1	2nd Webinar on Risk Management - Webinar on COVID 19 – Response to Basis and Operational risks & championing them!	31 July, 2020	1.5 hrs in Any Area of practice
2	2nd Webinar on IFRS 17	6-7 August, 2020	1.5 hrs in Any Area of practice
3	2nd Webinar on Life Insurance	13 August, 2020	1.5 hrs in Life Indurance
4	3rd Webinar on Pension - 17th CIRB Module 1 - Exempt Provident Fund Actuarial Valuations- Overview of industry opinions and way forward presented by Special Task Force	18 August, 2020	1.5 hrs in Pension, Employee Benefits and Social Security
5	3rd Webinar on Pension, Employee Benefits and Social Security - 17th CIRB Module 2 - To Annuity and beyond...	19 August, 2020	1.5 hrs in Pension, Employee Benefits and Social Security
6	2nd Webinar on Health Care Insurance	27 August, 2020	1.5 hrs in Health Care Insurance
7	2nd Webinar on Banking, Finance & Investment	5 September, 2020	1.5 hrs in Banking, Finance & Investment
8	3rd Webinar on Pension, Employee Benefits and Social Security - 17th CIRB Module 3 - Latest trends and impacts on ESOP design and valuations	10 September, 2020	1.5 hrs in Pension, Employee Benefits and Social Security
9	3rd Webinar on Pension, Employee Benefits and Social Security - 17th CIRB Module 4 - Pensions in a low to very low interest rate environment	11 September, 2020	1.5 hrs in Pension, Employee Benefits and Social Security
10	Tech Talk	12 September, 2020	No CPD
11	3rd Webinar on Health Care Insurance	23 September, 2020	1.5 hrs in Health Care Insurance
12	6th Webinar on Data Science & Analytics	3 October, 2020	1.5 hrs in Any Area of practice
13	Tech Talk	10 October, 2020	No CPD
14	4th Webinar on Health Care Insurance - Data Science and Health Insurance	29 October, 2020	1.5 hrs in Health Care Insurance
15	Tech Talk	7 November, 2020	No CPD
16	3rd Webinar on Banking, Finance & Investment	5 December, 2020	1.5 hrs in Banking, Finance & Investment
17	Tech Talk	12 December, 2020	No CPD

The Actuaries of Tomorrow – Incorruptible Conscience Keepers

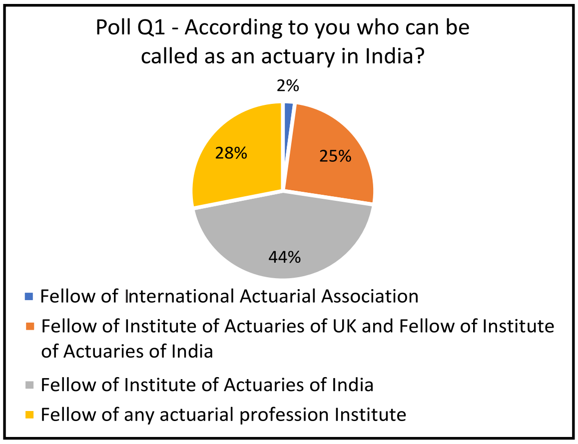
This was arguably one of the most informative and transparent interactions with our profession's stalwarts. Inspiring over 300 members of our illustrious community who joined the webinar on a fine Sunday morning. This session was about addressing various student issues, introducing our young actuaries to the IAI senior management and demystifying what our profession entails.

On the Sunday of 28th of June 2020, the first IAI Presidential townhall was conducted. It saw an overwhelming response and cemented the idea of making this a regular occurrence for our student members. The session was moderated by Sana Konnur, who gracefully posed all pertinent questions of the students and ensured a smooth flow of the whole townhall.

The esteemed panel was made up of:
Sunil Sharma, President IAI
Subhendu Kumar Bal, Honorary Secretary, IAI
Abhay Tewari, Chairperson, Education Committee, IAI
Dr. K Sriram, Chairperson, Education Advisory Group, IAI
Souvik Jash, Chairperson, Examination Advisory Group, IAI

Post a round of introductions of the panel, a very interesting poll question was flashed to kick-off the engagement. The question was regarding who can be called an "Actuary" in India? This question was primarily aimed at busting the myth around this topic.

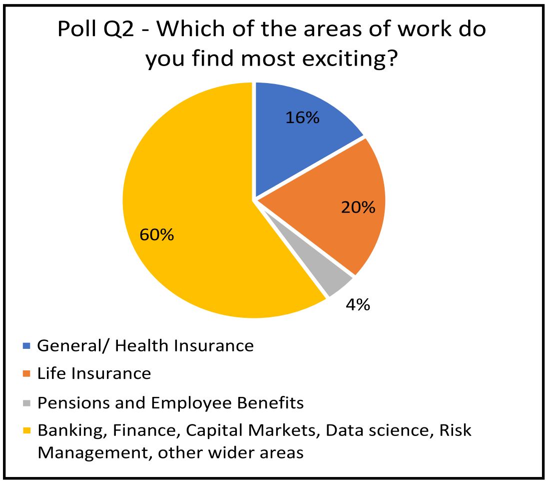
The pie chart below showcases the results of the poll graphically:



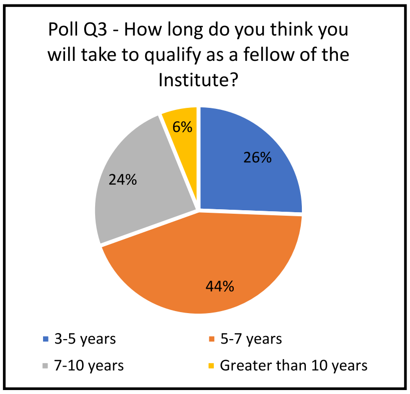
This question's answer was discussed by the President as it is an important aspect and find its place in The Actuaries Act, 2006. As per the Act, only a Fellow of Institute of Actuaries of India is recognized as the actuary in India.

The President, Sunil Sharma, gave a wonderful keynote session that invigorated all the attendees. He addressed the difficult times we are in and highlighted how swiftly IAI has managed to adapt to these changing circumstances with the usage of technology and constant communication with its members. In line with explaining the first poll question's answer, he gave a detailed insight into The Actuaries Act, 2006 and its various sections and its importance to all of us i.e. future Actuaries. The President also encouraged all the students and members to look beyond the traditional areas of actuarial work and explore the various opportunities in fields like data science, analytics, machine learning, artificial intelligence, banking etc. He gave a very valid and relevant example of the country of South Africa where several actuarial students and qualified actuaries work in the banking industry. We in India haven't even scratched the surface yet and encouragingly, we already possess the appropriate skillsets for molding ourselves in all non-traditional fields as well.

Coincidentally, the results of the 2nd poll question which was about understanding which area of work the students find most exciting, were exactly in line with the President's urge to all the students to work in non-traditional unexplored areas. 60% of the respondents chose the field of Banking, Finance, Capital Markets etc. as their answer, followed by 20% for Life insurance followed by 16% for General/Health insurance and the rest chose Pensions and employee benefits. The graphical representation of the results can be found below:



The poll questions were adding to the interactive and vibrant nature of this Townhall with the 3rd poll question being "How long do you think you will take to qualify as a Fellow of the Institute"? It was a fun engaging question with the following results:



Another extremely informational aspect covered by the President was Corporate Governance i.e. the overall structure of IAI. IAI is governed by the Council of 12 elected members and 3 government nominated members. The President is the Chair of the Council and CEO of IAI. There are various advisory groups assisting the Council namely, examination, education, life insurance, general insurance, microinsurance, communication etc. These multitude of committees simply showcase how the institute works for the students at large and is dedicated towards addressing all their concerns.

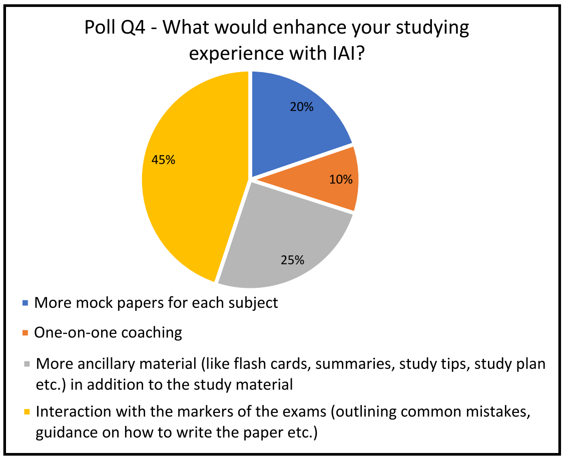
One pressing point for all of us students is obviously EXAMINATIONS. This townhall brought to light the several ongoing initiatives undertaken by the Institute to enhance our study experience and help us pass our papers. Study support provided by designated faculty members, video tutorials on R and Excel, exam counselling, verification of answer scripts, several courses on product design and valuation are just some of the many initiatives our Institute has undertaken to help. India specific curriculum 2022 is in the works and it expands our horizons through the course material into nontraditional areas as widely encouraged.

Due to the unprecedented pandemic situation in our country and all around the world, several examinations including the June 2020 Actuarial exam session, Board exams etc. were cancelled. The ambiguous future of this pandemic also leaves a looming question about the September 2020 exam session and its form of occurrence.

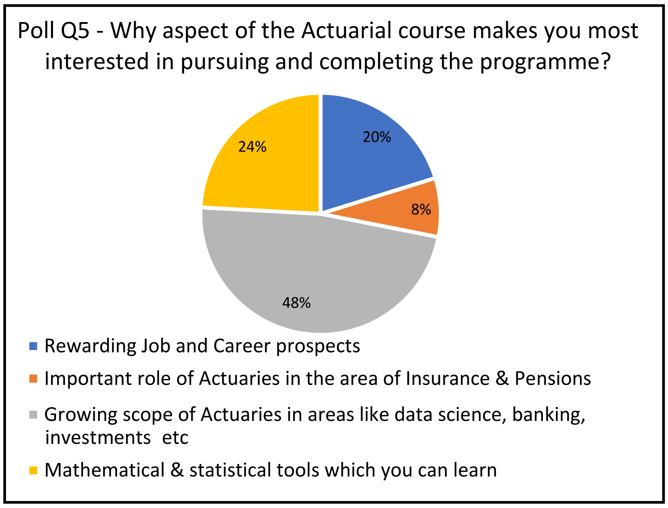
This was comfortingly addressed by the esteemed chairperson of the IAI Examination Advisory Group, Souvik Jash. He reassured all the students that the September 2020 examination session will definitely be held, and they are working hard to assess which is the best way to conduct the examinations (online or otherwise). An announcement regarding these will be reaching all of us very shortly. He motivated all the students to continue in their endeavor to work hard and pass these examinations. The clash of the examinations between the UK Institute and the Indian Institute was also addressed and the students were reassured that this has been duly noted and will be addressed in the appropriate manner.

Conforming to the topic of examinations, an apt poll question was posed to the audience regarding how their study experience with IAI can be enhanced.

A major proportion i.e. 45% of the students responded that an interaction with the markers of the papers will help, then 25% of them answered saying that more ancillary material like flash cards, study tips etc. would enhance their experience followed by 20% voting for availability of more mock papers and the rest for one-on-one coaching. These answers were duly acknowledged by everyone on the panel.



The last poll question was to understand which aspect of the Actuarial course interests' students the most and encourages them to complete the course. The pie chart below showcases the overwhelming response:



The floor was then opened for the question and answer section of the townhall.

An attempt was made to answer as many questions posed by the audience as possible within the time available.

As young actuaries and the torch bearers of tomorrow, a question was raised as to how to decide which field to choose to work in while stepping into the actuarial profession? Additionally, after working for a few years in a particular field, how to manage a shift into another domain?

There was no one better to have answered this question than the panelists. The panelists answered this by saying that the students must remember their background and aptitude towards a particular field while making their choice, to remember that now there are several wider areas, other than insurance, available to be explored and should definitely be considered while making the choice.

When it comes to switching, the panelists urged the students to remember that the switch will only be a small blip in a long rewarding career. A strong display of interest and inclination towards the latter field will drive the switch, given that it may take longer but will definitely happen.

Other common questions that fresh young students always have were addressed by the panelists regarding job availability and the required skillset to become a great actuary. A very enlightening answer was provided by our President on the job availability. It is not about being fresh out of university, clearing papers and acquiring a job, he urged students to focus on enhancing their employability. Increased focus on upping their technology knowledge, being abreast with the happenings in the industry and profession, developing analytical and critical thinking skills etc. these will definitely provide every student with an edge in the job domain.

The Institute has a job portal and it is encouraged that students make their profiles on this portal to be aware of opportunities that are available.

To be a great actuary in today's time, alongside having an analytical and sharp mind, one should work on their soft skills of communication and creative thinking so as to present the best solution in the simplest manner.

The townhall was all in all a great learning for all of us students and looking forward to many of these in the future.

"An Actuary who is only an Actuary is not an Actuary."

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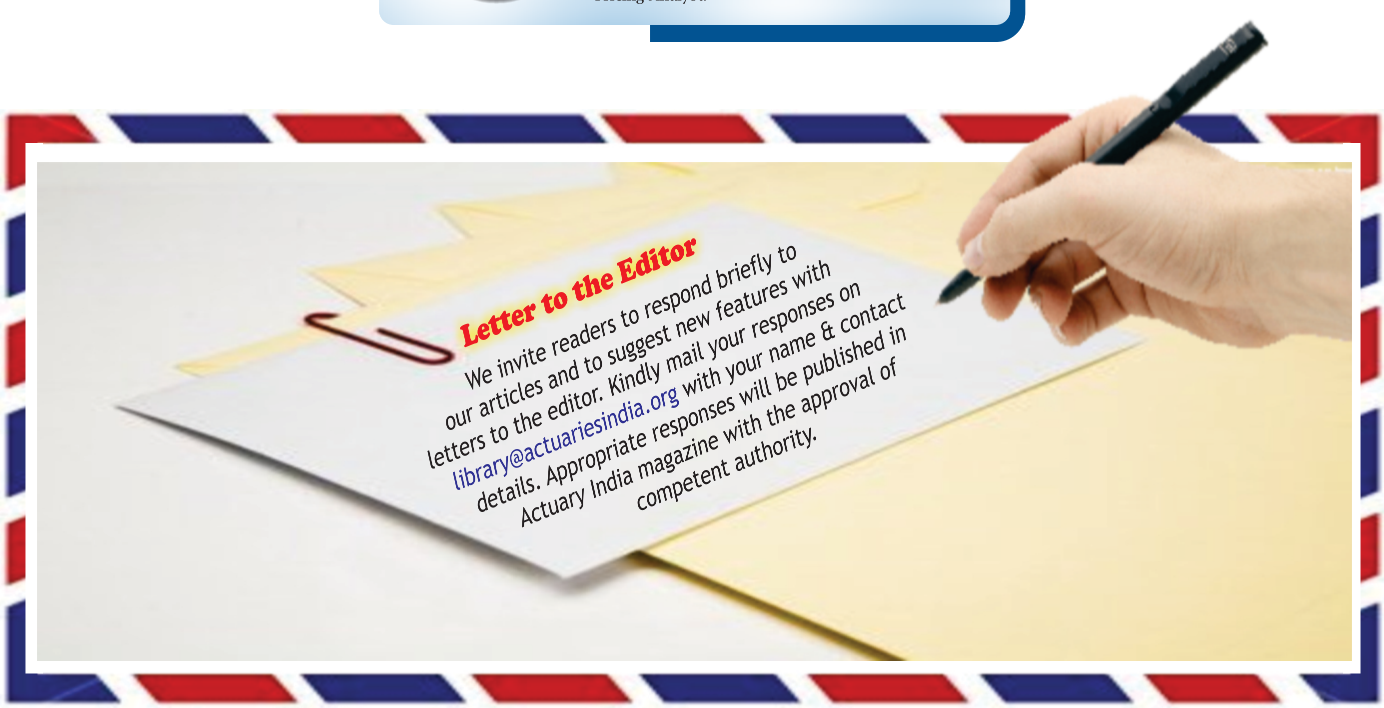


Alternative Risk Transfer: Future of Reinsurance

- Total economic losses from natural and man-made disasters in 2019 were around USD 140 billion
- Global insured losses in 2019 were estimated to be around USD 56 billion
- Natural catastrophes accounted for USD 133 billion economic losses in 2019

Due to great concerns caused by losses from catastrophes, insurers have been seeking solutions to mitigate catastrophe risks. Traditional reinsurance, despite being a commonly used solution, does not have enough capacity to digest all the catastrophe risks. In view of the large size of the capital market, alternative risk transfer (ART) mechanism can greatly enhance the risk bearing capacity of insurers and reinsurers.

ART is an umbrella term for non-traditional methods of risk transfer by which organisations can transfer excess risk to third parties. Broadly, these products combine traditional insurance and reinsurance protection with financial risk protection, often utilising the capital markets. Risk management is an integral part of any company. The use of ART arrangement helps companies in efficient and effective management of risks within their risk appetite and helps in delivering better performance. Most of these techniques permit investors in the capital markets to take a more direct role in insurance and reinsurance protection business. The broad field of ART is said to be bringing about a convergence of insurance and financial markets.

Insurance-Linked Securities:

A number of insurance products are available on the ART market, such as contingent capital, derivatives and insurance-linked securities. Amongst them, Insurance-linked securities are financial securities that have a payoff linked to insurance risks and are often designed to provide additional funds to insurers/reinsurers to pay large claims when triggered. They have been widely used by insurers/reinsurers as a tool to transfer catastrophic risks to the capital market. The use of ILSs helps insurer/reinsurer to raise risk capital from the capital market and it greatly enhances their risk-bearing capacity. Currently, commonly used ILSs in the market include CAT bonds, ILWs and Sidecars.

A. Catastrophe Bonds (CAT):

Developed in the 1990s, these bonds offer insurance and reinsurance companies another way of offsetting the risk associated with underwriting policies. These securities were primarily developed to transfer the natural catastrophe insurance risks to the capital market.

CAT bonds have short maturity dates between three-to-five years. They are a high-yield debt instrument which is designed to raise capital for companies in the insurance industry in the event of a catastrophe resulting in a high number of claims. The bonds are characterized with regular interest payments to the investor. If an event underwritten by the bond occurs, the insurer/reinsurer is discharged from the obligation to pay interest and repay the principal on the bond.

When CAT bonds are issued, the proceeds raised from investors go into a secure collateral account, where they may be invested in various other low-risk securities. Interest payments to investors come from the secure collateral account. Investors would lose their principal if the costs of the covered natural disasters exceed the total amount raised from the bond issuance. However, if the cost to cover the disaster does not exceed the specified amount during the bond's lifetime, investors would get their principal returned at the bond's maturity.

The risk of losing the principal amount invested is compensated by the shorter maturity term and high coupons from the bonds. Further, institutional investors may use CAT bonds to help diversify their portfolio to protect against economic and market risk. Investments in CAT bonds do not necessarily correlate to economic performance or stock market moves. As a result, CAT bonds offer investors stable interest payments even when interest rates are low and traditional bonds are offering lower yields.

The primary investors in these securities are mainly institutional investors such as hedge funds, pension funds, specialized catastrophe-oriented funds, life insurers, banks, reinsurers. Institutional investors can receive a higher return from CAT bonds than from most other fixed-income securities due to the higher risk associated with these bonds.

Studies show that the cost incurred for issuing and managing catastrophe bonds is comparatively lesser than the cost for reinsuring these risks and does the same function of transferring risk. CAT bonds being a debt financing instrument, has tax benefits as compared to equity financing. Hence, insurance companies prefer issuing catastrophe bonds.

Insurance companies are required to ensure that the funds mobilised through the issuance of CAT bonds are not exposed to high-risk investments. The investments need to be profitable to cover the high value coupons payable on CAT bonds but also need to be ready and easily realisable so as to be able to settle claims. Otherwise, it will have to pay up from its general pool of funds thus defeating the very purpose of issuing CAT bonds.

Ex: Kamp Re 2005 Ltd.

- Issuer: Kamp Re 2005 Ltd
- Sponsor: Zurich American Insurance Corporation
- Catastrophe risks covered: U.S. hurricane and earthquake
- Issue date: August 2005
- Maturity date: August 2008
- Amount: $190 million
- Ratings: BB+ (Standard & Poor's)
- Trigger type: Indemnity (triggered if losses from one single hurricane or earthquake exceeds $1 billion)

Kamp Re was triggered by the 2005 hurricane season, particularly Katrina with the end result being that investors lost 75% of the principal in the deal. This had a substantial impact on the prices of CAT bonds issued afterwards.

B. Sidecars:

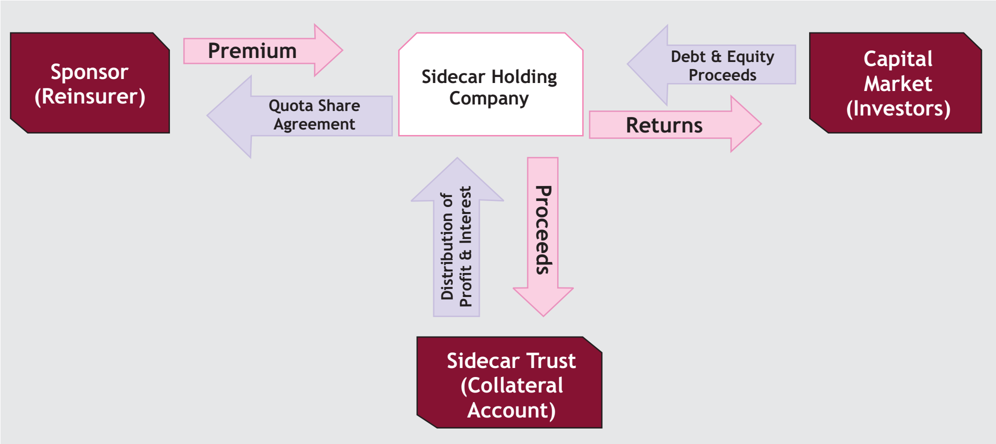
Reinsurance sidecars gained popularity in 2005, due to the aftermath of Hurricane Katrina and increased demand for capital adequacy. It is a specific purpose reinsurance company that provides insurers and reinsurers with alternative capital to reduce earnings and capital volatility developed in response to catastrophes.

A reinsurance sidecar operates in a similar structure as a traditional sidecar, it undertakes a proportion of the ceding company's underwriting risk (including losses and expenses) in exchange for a percentage premium. This agreement resembles a regular quota share agreement.

Sidecars are usually set up by an affiliated insurer or reinsurer and capitalized by equity and debt financing (often from hedge funds). The capital is invested and used to pay claims. Any proceeds arising from the sidecar are put in a trust, which pays interest and profits back to the holding company.

Normally, sidecars are structured with periods of 1-3 years. However, some sidecar structures are more permanent and require the policies associated with them to be underwritten at each renewal season. Sidecars help in diversifying the underwriting risk of insurance to the capital markets. The holding company owns 100% of the sidecar and the liability of the investors is, essentially, limited to the capital they have invested. As a result, sidecars are a purposeful financial mechanism because reinsurers are able to underwrite additional business without decreasing their financial and underwriting capacity, and capital market investors are able to participate in a market tool with the potential for high returns.

For investors, sidecars offer opportunity to take on insurance risk helping them diversify their capital market risks. These are typically for shorter durations and short tail business. This reduces the exposure of investors to a full book risk of the insurer/ reinsurer especially to longer tail business. The returns are dependent on the actual claim rate. The lower the claim rate, the higher the returns. The downside is only restricted to the loss of investment amount as they are



not liable for any losses over and above their invested amounts. The short duration, limited exposure and higher yields make it an attractive investment for investors seeking higher returns.

However, if the policies incur a loss, they will lose funds proportionately; if losses are large enough following a major catastrophe like Hurricane Katrina, they stand to lose all funds. As the loss is limited to the invested capital and profits can be substantial, sidecars are extremely appealing to investors in the private market.

C. Industry Loss Warranty (ILW):

It is a contract that covers losses from events where the industry-wide insured loss exceeds some pre-agreed threshold. This structure i.e. where the operative trigger is an industry loss rather than the company's own loss, implies some risk that there could be a loss to the reinsured portfolio without triggering the ILW if the corresponding industry loss is smaller than the industry trigger amount. This is the 'basis risk' for the reinsured.

This risk is higher for companies whose exposure concentrations are farther away from the industry averages. Therefore, ILW covers are typically bought by companies whose portfolios closely follow the market.

This disconnect can be mitigated to some extent by choosing the right kind of trigger. The trigger amount can vary by geography, level, and the kinds of events that contribute to it. They are most commonly written by reinsurance companies or hedge funds, since these organizations are able to absorb more losses than smaller insurance companies.

Ex: A hurricane with industry-wide insured loss in Texas is in excess of $15 bn.
In this case, if a hurriance occurs and total industry loss exceed the threshold limit of $15 bn then ILW can be triggered. But if the hurricane does a lot of damage to property that is not insured or the insured amount is small or if the damage is outside the State of Texas, then ILW may not be triggered.

ILWs provide an inexpensive solution to many of the catastrophic reinsurance needs that companies may have. These products have low transaction costs because the pricing risk for the sellers is comparatively low; they do not have to evaluate the expected losses to the reinsured portfolio from a given trigger, but only the loss distribution of the industry portfolio. This lowers the uncertainty and thus the needed risk margin.

Scope & Challenges for ART in India:

India is also no stranger to catastrophic events, with the Kerala region undergoing earlier in 2018 what some officials have called the worst flooding in a century – almost 500 dead and missing, at least a million displaced and official estimates of USD 5.5 bn in damage.

In comparison to other national economies, there is a huge opportunity in India due to the rapidly growing middle class and a comparatively low insurance penetration. Reinsurance business in India continues to achieve impressive growth. Reinsurance premium grew from USD 3.5 billion in 2016 to USD 6.2 billion in 2019, at a compound annual growth rate of 22.3%. Also, it is estimated that India's Reinsurance market to grow to USD 7.8 billion by 2024. India constitutes an attractive market for many reinsurance companies. As these companies look towards expanding their portfolios in a nation so prone to natural disaster, they are in need of non-traditional means to transfer their excess risk in order to optimize their risk return trade-off.

CAT bonds are not only pertinent for those who need investment but also a great opportunity for those who want to invest. Also, CAT bond offerings are more complex than traditional bond offerings and so this skepticism, on the part of the bond traders, may translate into limited marketability and a higher risk charge. However, fallout of CAT bonds could be bonds in general finding favor with investors in India since the bond market in India is shallow as well as small.

In Sidecars, for the sponsor there exists zero credit risk. The investors do not face exposure to the whole business of the sponsor and also catastrophic risk is uncorrelated with returns on traditional stock market investments, thereby offering portfolio diversification to investors. Even though sidecars are customized to meet the requirements of their sponsors and investors but there are common structuring issues for all sidecars.

In India, the catastrophe data and modeling have more inherent uncertainty and therefore the reinsurer would charge a premium for taking up the risk arising from this uncertainty. As a result, the product may get too expensive compared to the traditional reinsurance and government guarantees. Also, to the extent that ILWs compete on the basis of price with traditional reinsurance, they may be at a disadvantage until either the traditional reinsurance prices rise or the catastrophe potential and the corresponding models improve. For large buyers this may still be an excellent opportunity in the short term.

The future of alternative risk transfer in India is that it will grow with the assistance of the same elements that first expanded the market. The factors that can be recognized as the ones which helped the growth in previous years and that which will likely help in coming years are

1. ability to cope with market cycles
2. diversification of exposures
3. capitalization of enterprise value
4. coping with forces of regulation and deregulation.

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South Africa

Key Developments

South Africa has been adversely impacted by the rapid spread of the Corona Virus. Once the first cases were recorded in February 2020, government has continuously assessed an appropriate reaction resulting in a national lock-down in March, including the closing of the borders. The lock-down has been eased and most of the country is now back at work; although not at full capacity. Regulations are continuously published which stipulates the terms and conditions for each sector to function, the protective gear that must be worn and the health and safety standards that must be adhered to.

The current Covid-19 Statistics in South Africa as at 27 June 2020 are as follows:

Population	59,3m
Covid-19 Tests	1,53m
Positive Cases	131 800
Deaths	2,413
Recoveries	67,094
Active Cases	62,293

Economic Development

The South African economy has been adversely effected by the Covid-19 Virus. The increased uncertainty surrounding a possible vaccine has created doubts for certain sectors such as Tourism and the Hospitality industry; which are major contributors to the country's GDP.

South Africa's unemployment rate increased to 30,1% in 2020, the highest level ever recorded. The unemployment rate including those who have stopped looking for employment increased to 39,7%. Youth unemployment was at 59%. In April President Ramaphosa announced a R500bn stimulus package to assist South Africans counter the negative economic impact of the Virus.

The South African economy slipped into recession in 2020 after two consecutive quarters of negative growth. The economy is forecast to contract by 7% in this financial year and the Debt to GDP ratio is expected to increase from 62% to 82% of the GDP.

The major indicators are as follows:

Quarterly Growth Rate	-1,40%
Unemployment Rate	30,1%
Inflation Rate	3%
Base Interest Rate	3,75%
Government Debt to GDP ratio	62,20%
Dollar-Rand Exchange Rate	17,26

Retirement Funds

The South Africa's retirement industry is mainly composed of Defined Contribution for the private sector and has one of the world's largest Defined Benefit funds for the 1, 25 million active members and 500 thousands pensioners and beneficiaries in the public sector.

The increased unemployment rate will not assist South Africans in their efforts to save for retirement. In addition, National Treasury is looking to overhaul South Africa's retirement framework by introducing compulsory membership, compulsory preservation on exit and annuitisation of benefits at retirement. Net replacement ratios are extremely low when compared to the target of about 75% and evidence suggests that over 90% of workers who leave employment cash in their benefit rather than preserve them. Even amongst diligent savers; Net Replacements ratios will be under extreme pressure, given the combination of lower interest rates and lower equity markets.

One of the main contentious matters at the moment is the access to Retirement Fund monies to alleviate the hardships of Covid-19. Labour unions have called on government to allow members to have access to their retirement savings of up to six months' salary. This proposal if accepted, would mirror similar legislation in the United States, India and Malaysia.

In the months to follow the full impact of Covid-19 on retirement funds savings will become clearer. This would include the impact of potentially lower funding levels for Defined Benefit funds and lower benefits for Defined Contribution funds. Investment strategies may also tend to become more conservative with potentially lower returns in the long term. There could also be implications for workers with chronic conditions who may be considered as high risk during the Covid-19 pandemic.

Revised Financial Sector Regulations

South Africa entered a new era of financial regulation with the Financial Sector Regulation Act. This is commonly known as the Twin Peaks legislation where there is a clear distinction between Market Conduct and Prudential Regulation; with South Africa becoming the sixth country in the world to adopt such legislation. The South African Reserve Bank is now the custodian of Prudential Regulation and protects consumers against potential market failure of financial institutions by monitoring their solvency levels.

The Financial Sector Conduct Authority (FSCA) replaced the Financial Services Board and serves as a market conduct regulator. The core objectives of the FSCA include:

a) Promoting fair customer treatment by financial institutions;
b) Enhancing the efficiency and integrity of financial markets;
c) Providing financial education and promoting financial literacy; and
d) Assisting in maintaining financial stability.

The FSCA promotes the transformation of the economy to create a financial sector that is inclusive of those individuals who were historically marginalised. In addition the FSCA looks very closely at FinTech developments and understanding the new ways of doing business and the impact of disruptive technologies.

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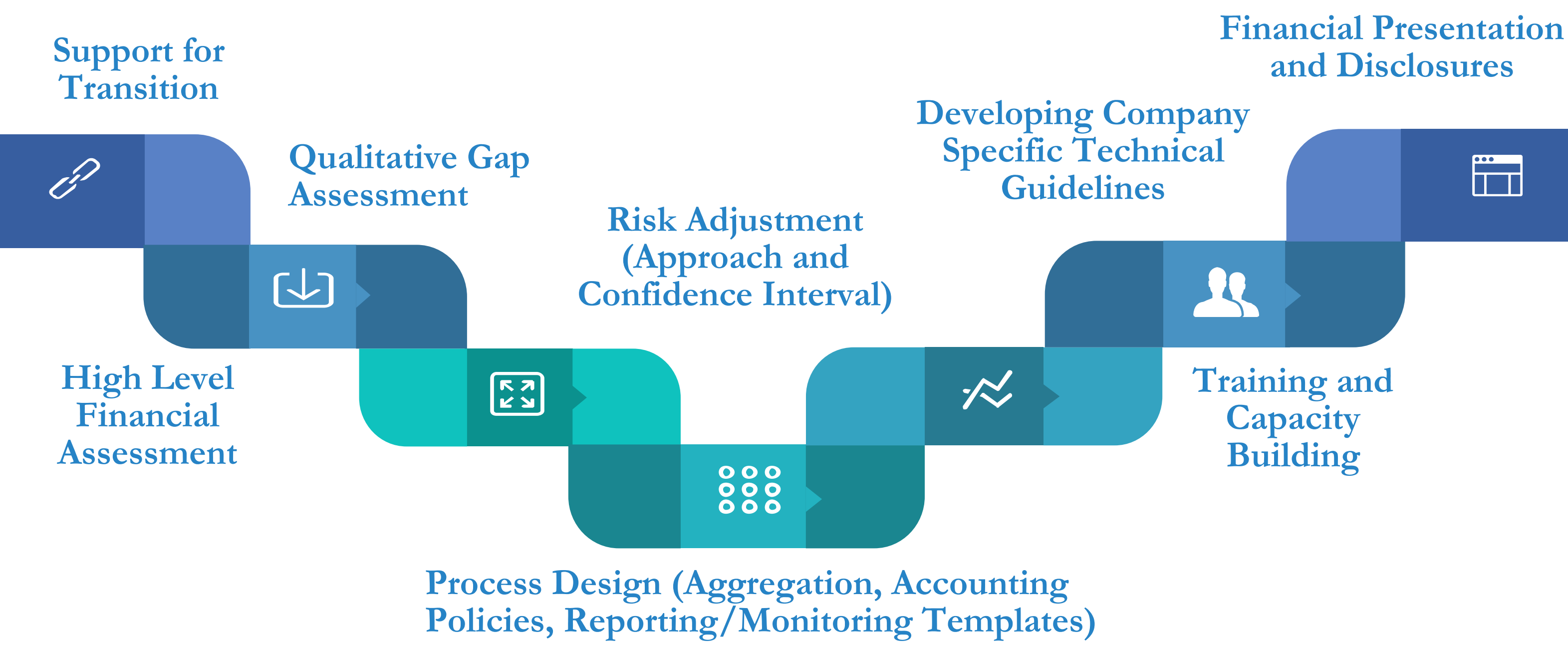
BECOMING IFRS 17 READY

IFRS 17 will fundamentally change the accounting for all entities that issue contracts within the scope of the standard for insurance contracts. The issuers of insurance contracts will need to use one of the defined measurement models and the way we read both the income statement and balance sheet will change. We understand that taking many new decisions could be challenging and are therefore available to support you to make traversing the road a little easier.



ABOUT KAP

Established on 1st February 1943, we are a firm based in India with Indian values but integrated with modern processes which cater to serve all businesses globally. With the major objective of client satisfaction, we provide services to a large clientele around the world. The breadth of our core competencies, innovative solutions and leadership roles help in providing perceptible insights that give our service its competitive edge.

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