



# Institute of Actuaries of India

## L2-Model Office Projection

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*Indian Actuarial Profession*  
*Serving the Cause of Public Interest*

# Agenda

Background – Case Study

Current Scenario

Implementing Proposal

Model Office Projections

Further Analysis of Proposal

Alternative Strategies

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# Background – Case Study

## Current Scenario

- Life Co not making much profit and unable to meet targets
- At current charge structure

## Proposal – Forecasting Actuary's

- Increase charges\*
- Increased charges exceed market norms
- Thereby satisfy profitability and internal targets

## Stakeholder discussion

- Forecasting Actuary
- Actuarial Function Holder

\*There is no specific product line mentioned here, for simplicity we are assuming UL

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# Current Scenario

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## Reasons for low profitability and inability to meet targets

- Current low charge structure
- Unrealistic target setting
- Expense overruns
  - Actual expenses higher than expected
  - New Business volumes lower than expected
  - IF book persistency lower than expected
- Un-favourable investment experience
  - Lower returns
  - Higher Guarantees biting in a low investment return scenario
- Assumptions not reflective of actual experience

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# Implementing Proposal (1)



## Ways of increasing UL charges and key drivers

### Which charge

- Compliance with regulation\*
- Compliance with policy contract – whether explicitly reviewable/fixed/silent?

### Reviewability

- In case of upward revision of charges, there might be an expectation of downward revision..in case of favourable experience

### Which product

- Filter to highest selling or best performing funds?
- Existing product or new launches – internal consistency

\*Unit Linked Regulations 2010 and 2013



# Implementing Proposal (2)

## Regulatory framework on charges - Post Sept'10

### Allocation Charge/Policy admin charge

- Evenly spread over 5 years
- Max/Min to not exceed 1.5 times

### Fund management Charge

- Cap of 135 basis points
- Cap on guarantee charge is 50 bps

### Surrender Charge

- Expressed as %age of premium/FV
- Varies by policy duration and prem paid

\*Unit Linked Regulations 2010

# Implementing Proposal (3)

## Regulatory framework on charges - Post Sept'10 and '13

### Mortality/Morbidity Charges

- Guaranteed during contract period
- Only reflect pure risk charge and not expense loading

### Net reduction in yield

- Compliance with yield structure at various durations
- Arrive at by adding specific non-negative additions

\*Unit Linked Regulations 2010 and 2013

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# Office projections for implementing proposal (1)

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Carry out peer benchmarking – gauge market norms on charges

Impact on cashflows – future profitability

Impact on solvency and capital requirement

Sensitivity test – gauge impact of key parameters

Iterative testing – compliance with net reduction in yield (UL 2013 Regulation)

Use of suitable basis for CF projection – TEV/MCEV

# Office projections for implementing proposal (2)

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Consistent implementation of revised charges across basis  
– Statutory/Reporting

Build in dynamic policyholder behaviour...

...impact on persistency, choice of fund etc.

Evaluate change in systems, policyholder communication,  
sales training and promotion material

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# Further analysis of proposal



## Impact on key stakeholders (1)

### Policyholders – Existing and New

Consider PRE set (BI/policy contract/past communication)

Ensure appropriate communication on revised charges

Lose the ability to attract New Business

# Further analysis of proposal



## Impact on key stakeholders (2)

### Sales intermediary

Sales training to adapt to new high charge products

Might lead to lower productivity..

..in turn higher incentive reqd to sell, defeats the purpose

Ability to attract new tie-ups



# Further analysis of proposal



## Impact on key stakeholders (3)

### Regulator

New charges to conform to regulations

PRE and TCF adhered to while rebasing charges

Disclose charges and stress on clear communication

Consider resultant solvency and capital requirements

Implement change in statutory basis

# Further analysis of proposal



## Impact on key stakeholders (4)

### Competition

New charges if higher than market norms, will accede business to competition..  
..esp if other players are not reducing their charges

If low profitability an industry wide phenomena..  
..product could be a loss leader  
Players could work together to revamp charges

# Further analysis of proposal

## Risks

Product Mix  
not as  
intended

Lead to bad  
press

System  
adaptability risk

Mass surrenders –  
frequent change in  
bid/offer basis

Conflict of Interest  
– to balance  
SH/PH interests'

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# Alternative Strategies

Explore other strategies to increase profitability

Setting realistic targets

Expense saving  
– in line with  
17D

Revise product mix

Launch new products – other segments/LoB

Sales channel mix

Less capital intensive products

Consider Reinsurance

# Questions?