15th CILA Seminar
Hotel Sea Princess, Mumbai
19/12/2019

Participating Products–
Context Setting

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Agenda

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- Product Regulation 2013 & 2019
- With Profit Governance Malaysia
- PRE
- Treatment of FFA
- Expense Management

Product Regulations 2013

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IRDA

Insurance Regulatory and Development Authority

- Introduced With Profit Committee (WPC) and Independent Actuary (IA)
- WPC shall be constituted with Independent Director, CEO, AA and Independent Actuary
- WPC shall approve asset share calculation, expense allocation, investment return
- With Profit Report to be submitted along with Annual Report
- Appointed Actuary (AA) has to demonstrate appropriateness of re-insurance arrangement

Product Regulations 2019

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- CFO added to WPC
- Criteria for Independent Actuary modified
- Asset share working, expenses, the investment return etc shall be determined by the AA
- **WPC Report to include**
  - Methodology and justification for any change
  - Bonus Earning Capacity
  - Sensitivity of Bonus Rates and basis
  - Note on Policyholders' Reasonable Expectation (PRE)
  - Any change in Special Surrender Value
  - Treatment of Future Fund Appropriation (FFA)
  - Appropriateness of expenses
- WPC Report to share with Board before finalization
- Final responsibility lies with Appointed Actuary.

With Profit Governance Malaysia

- Board must
  - Review and approval of policy for managing participating life business (MPB)
  - Require independent review (at least once in 3 years) and appropriate recommendation
  - Ensure fair treatment of policyholders
  - Review and approve Bonus
- Senior management has to ensure effective implementation of policy
- Appointed Actuary provides critical support for the effective oversight and implementation of policy

(source Management of participating Life Business – Bank Negara Malaysia)

Policyholders' Reasonable Expectation (PRE)

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- As per AA Regulation 2017, duty of AA includes ensuring consideration of PRE in valuation and distribution of surplus

- What is PRE?

  Depends of

  - Historic bonus declared by the company and
  - Past Illustrations made by the company at the time of sale

  Also PRE takes account of return from alternative instrument after paying mortality cost

PRE Measure

- Fulfilment Ratio (HK) =

  Actual aggregate non-guaranteed (RB, TB) benefits / Aggregated such benefits at BI

  HK has developed "Fulfilment Ratio Index"

- PPFM (like UK), defining target asset share distribution at maturity and surrender. Currently there is mandatory PPFM in India.
- UK Companies generally targets 90-100% asset share distribution at maturity.
- HK, Malaysia aims for 100% distribution of asset share on surrender and maturity

Treatment of FFA

- Malaysian practice:

  "Must not use Estate in a manner that creates unfair competitive advantage and / or leads to adverse effects on the interests of existing participating life owners, including:

  - To support aggressive pricing that are inconsistent with technical pricing
  - To support a greater level of risk than would be the case had there been no estate
  - To pay compensation costs arising from mis-selling and consumer redress etc"

Treatment of FFA

- UK practice:

  "The Company should identify Distributable Estate. The objective is that the estate of the with-profits fund other than the Distributable Estate will be large enough to support existing PRE by providing:

  - For any excess of guaranteed benefits over asset shares
  - For the temporary cost of smoothing payouts
  - Security through protection against adverse experience
  - Support for financing New Business
  - For shareholders' tax in respect of transfers from Fund
  - To provide investment freedom for the fund permitting exposure to volatile asset
  - Support required for Solvency Margins"

Expense Management

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- Prod Reg. 2013: AA has to demonstrate appropriateness and prudence in debiting of expense to Par and other funds, reducing cross subsidy among groups of Par policyholders
- Prod Reg. 2019: WPC Report to include appropriateness of expense debited
- How to ensure parity between par and non-par?
- How does EOM Regulation impacts the expense allocation to Par fund?

THANK YOU

Movement of FFA

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	2019	2018	2017	2016
Company				
A	901	436	321	207
B	1103	959	867	705
C	282	193	0	0
D	2249	1857	1548	1456
E	0	0	0	0

FFA Growth	2019	2018	2017
A	107%	36%	55%
B	15%	11%	23%
C	46%	0%	0%
D	21%	20%	6%

PH Distribution

As % of Pre-tax Surplus

Company	% of Surplus(pre-tax) distributed to PHs
A	72%
B	71%
C	70%
D	61%
E	73%