



# *VA & Pensions in India*

Michael Winkler  
Head of Life, New Re  
Switzerland

***Meeting the Challenges of Change***

***14<sup>th</sup> Global Conference of Actuaries***

19<sup>th</sup> – 21<sup>st</sup> Feb, 2012 | Mumbai, India

# Agenda

- **Unit-Linked Pensions in Europe**
  - Variable Annuity (VA) Concept
  - Pensions in India
  - Financial Market Restrictions
  - Options for Guarantees

# Riester Pension in Germany

## Riester Pension

- Tax relief of full premiums or state grants
- Maximum premium 1.050 Euro as of 2008: 2.100 Euro
- Annuities are fully subject to taxes
- Potential Policyholders: all people except self-employed
- Lump sum up to 30 % of old age assets
- **At maturity, at least the sum of premiums is guaranteed**
- Unit-linked or traditional
- In case of death: Transfer of assets to spouse or state subsidy has to be paid back

CPPI or hybrid

# „Zukunftsvorsorge“ in Austria

- Regular premiums
- Minimum accumulation period of 10 years, with **an option to convert to a life annuity**
- Entry age: 40-60
- State incentive /subsidy:
  - annual top-ups of ca 10% of paid premium up to a max premium of EUR 2,200 p.a.
  - Option to further increase the regular premiums in case the state subsidy grows (annual subsidy adjustment)
- Maturity benefit: **max (AV, sum of all premiums incl. subsidies paid until maturity)**
- Death cover: **max (AV, sum of all premiums incl. subsidies paid until death)**
- Accidental death: 150% of DB
- Premium holidays: max 1 year (AD is cancelled)
- **Surrender benefit:** max {AV - 1%, (sum of all premiums incl. subsidies paid, only if the insured has already obtaining a state pension provision) }
- Funds: 40 % Austrian equities, 60% money market

reinsured

## Other European countries

Unit-linked Pensions normally do not contain any guarantees, however follow a given investment strategy

# Agenda

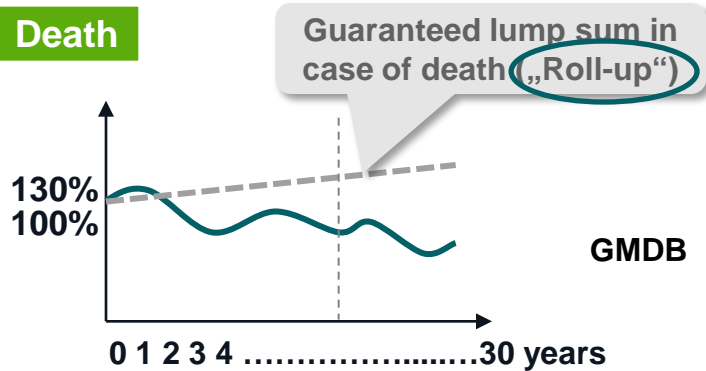
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# VA Guarantee Features

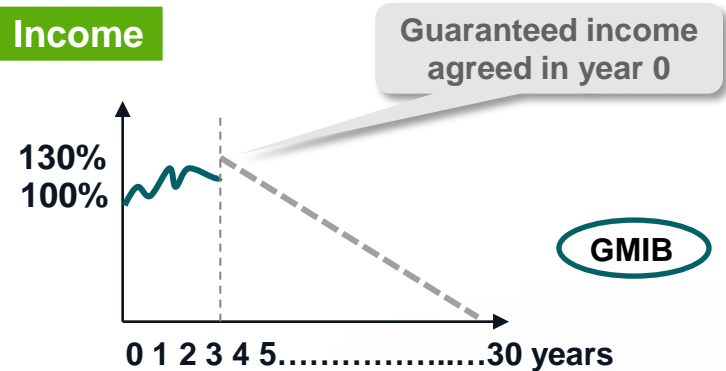
----- Guarantee    ~~~~~ Fund value

○ not possible with CPPI

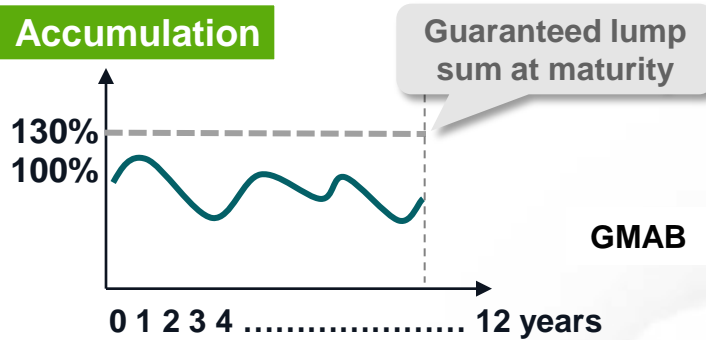
## Death



## Income



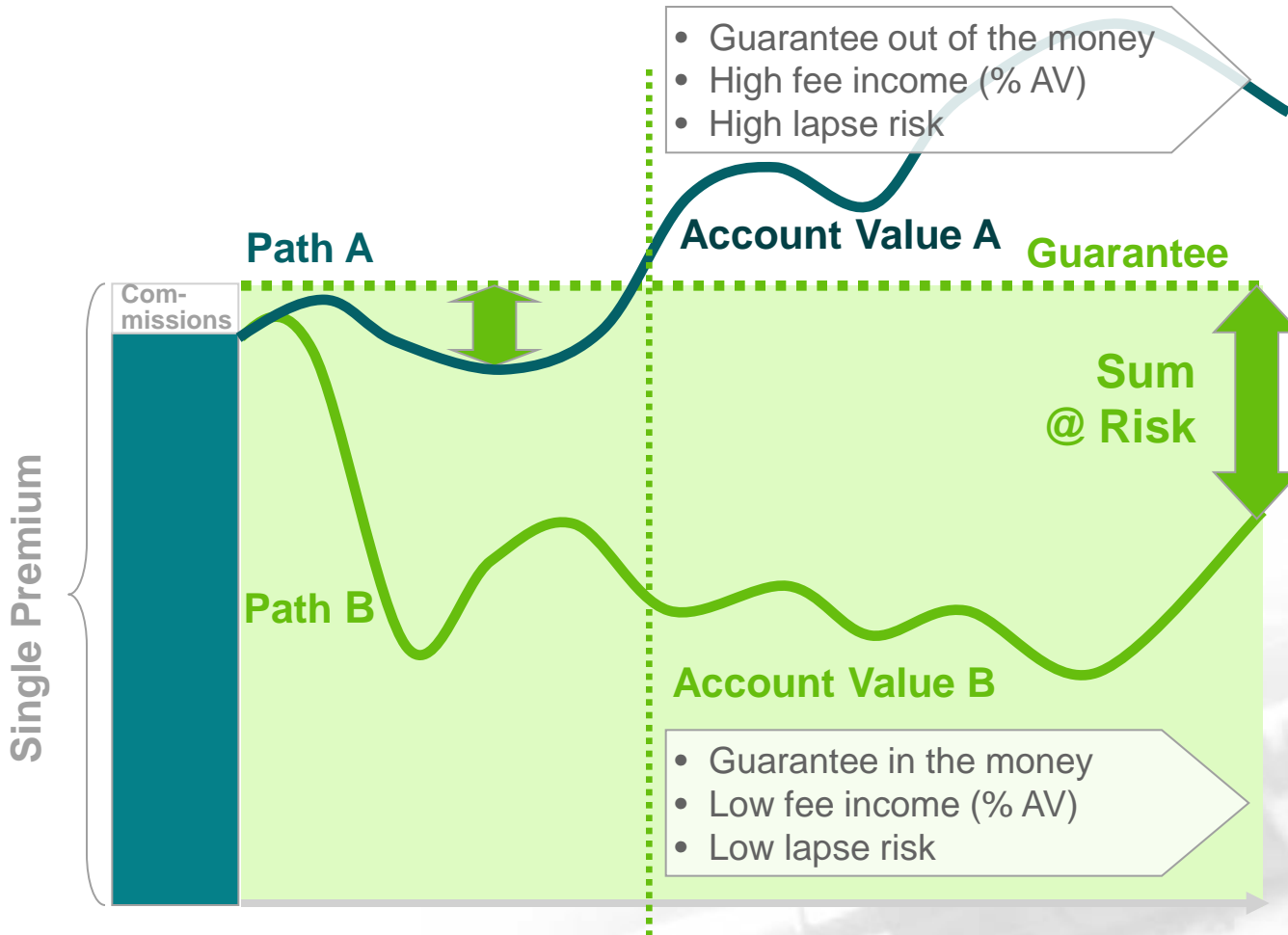
## Accumulation



## Withdrawal



# Impact of Policyholder Behaviour



**Lapse for periodic premiums even more difficult to manage**

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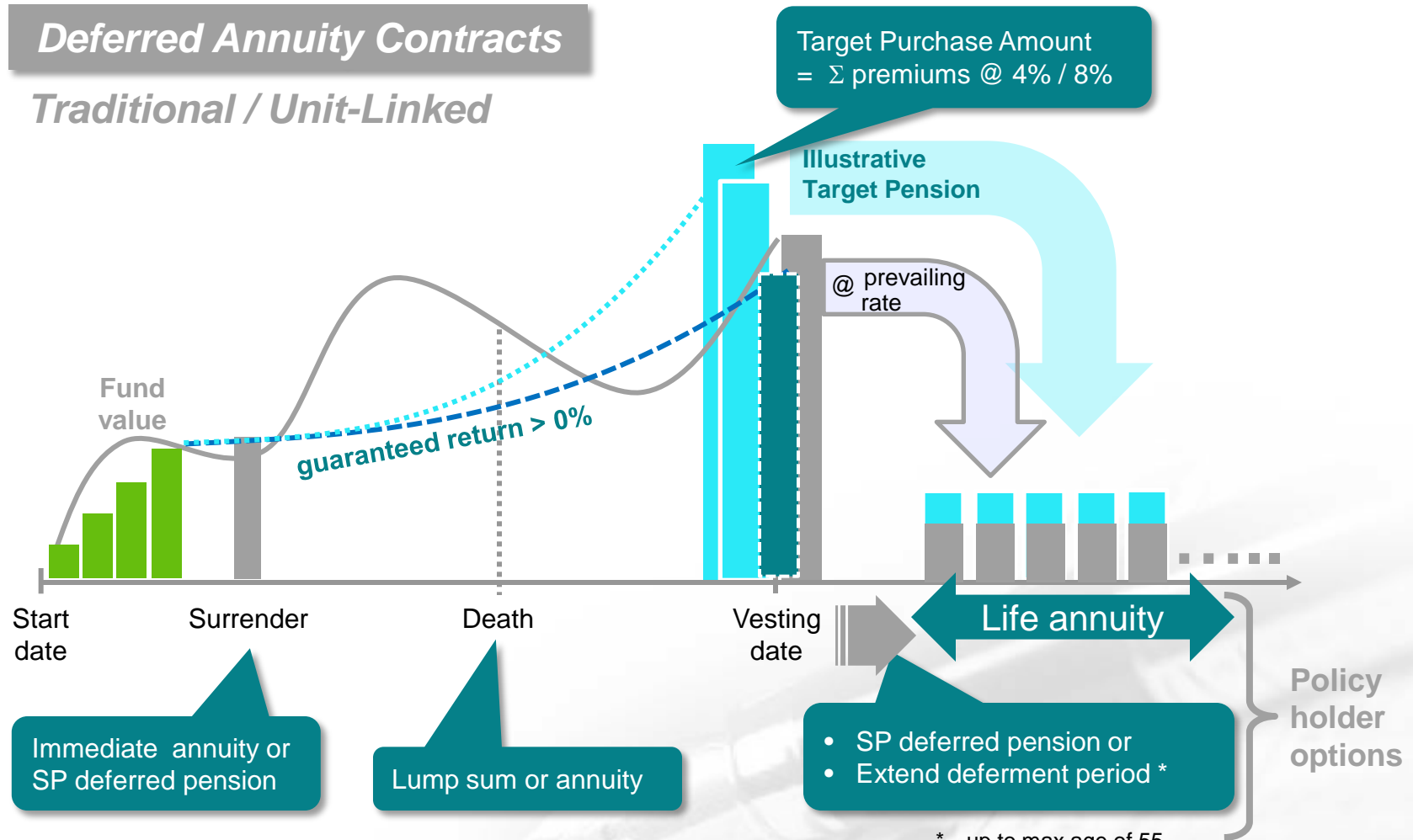
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# Pensions in India

## Deferred Annuity Contracts

### Traditional / Unit-Linked



Source: IRDA Circular 8 November, 2011  
Clarification 5 January, 2012

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# Financial Market Restructions

	<i>USA</i>	<i>Euro Zone</i>	<i>Ja-pan</i>	<i>Hong Kong</i>	<i>Korea</i>	<i>Tai-wan</i>	<i>India</i>	<i>China</i>
<b>Equities</b>								
Longest traded call expiry	10	5	5	3	3	3	0.5	0.5
<b>Interest</b>								
Longest Liquid Swap Maturity	30	30	30	10	20	10	5	5
Max Swaption Expiry / Tenor	10 x 20	10 x 20	10 x 20	5 x 5	10 x 10	5 x 5	–	–

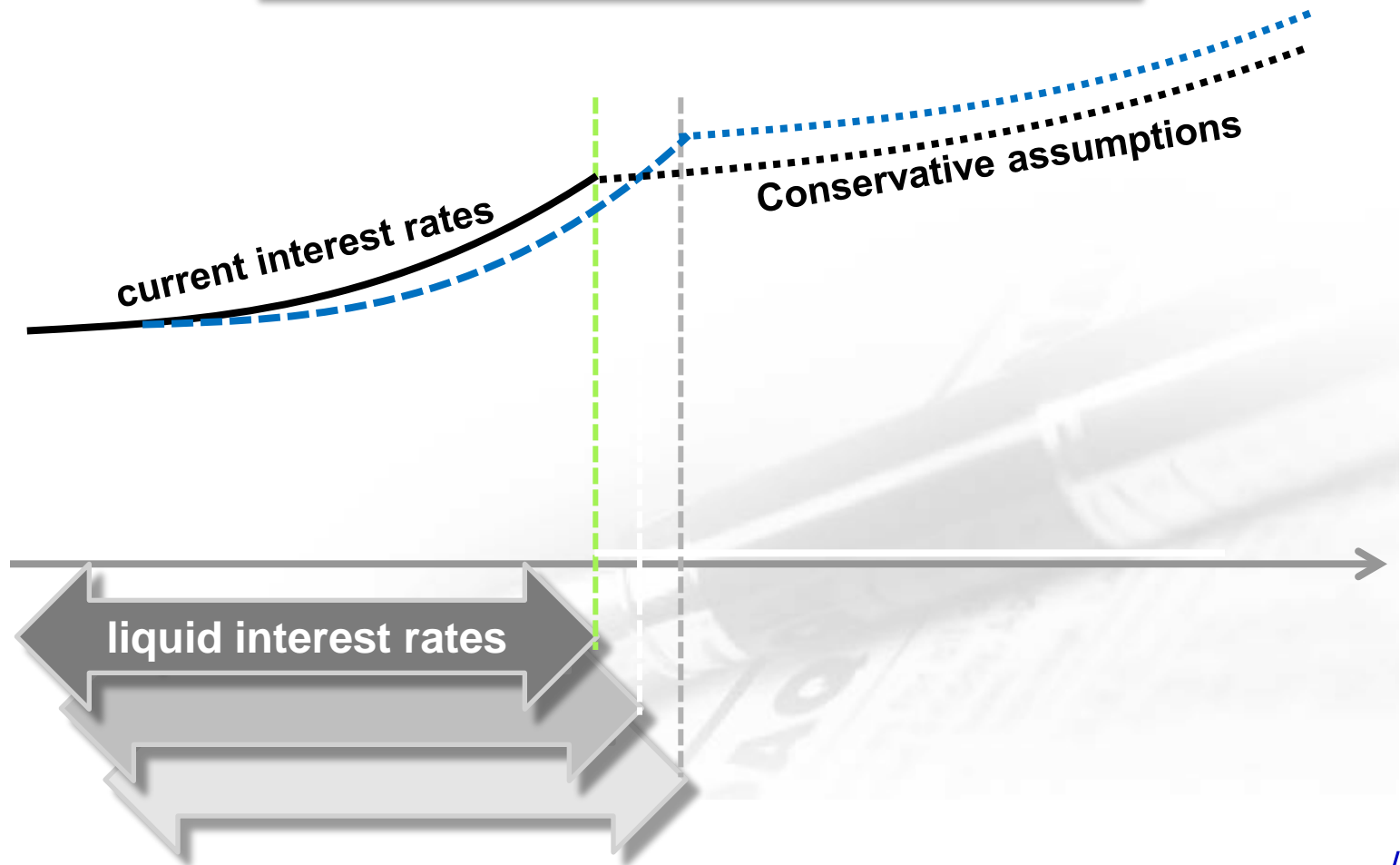
no long-term volatility protection

no long-term liquid interest rates

Source: own research

# Long Duration Product

## Interest rates applied to premiums



# Managing Long-term Volatility

Make equity proportion depending on volatility

→ target is a constant fund volatility

▶ No exposure to long-term volatility

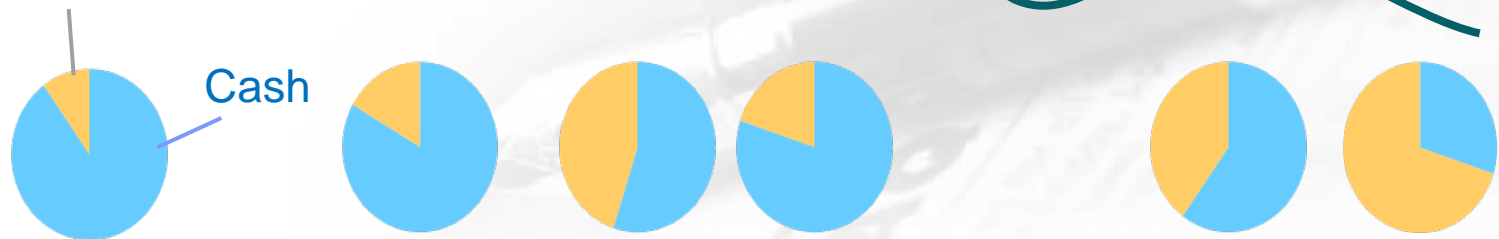
▶ long-term products possible

▶ price not depending on current volatility

Equity Volatility

equity

Cash



# Target Volatility Fund

re-balances the weightings between risky assets components and safety control components in order to stabilize the overall return.

**Asset component**

**Control component**

Weighting depending on actual realized volatility and Target volatility

weighted average over last 40 days

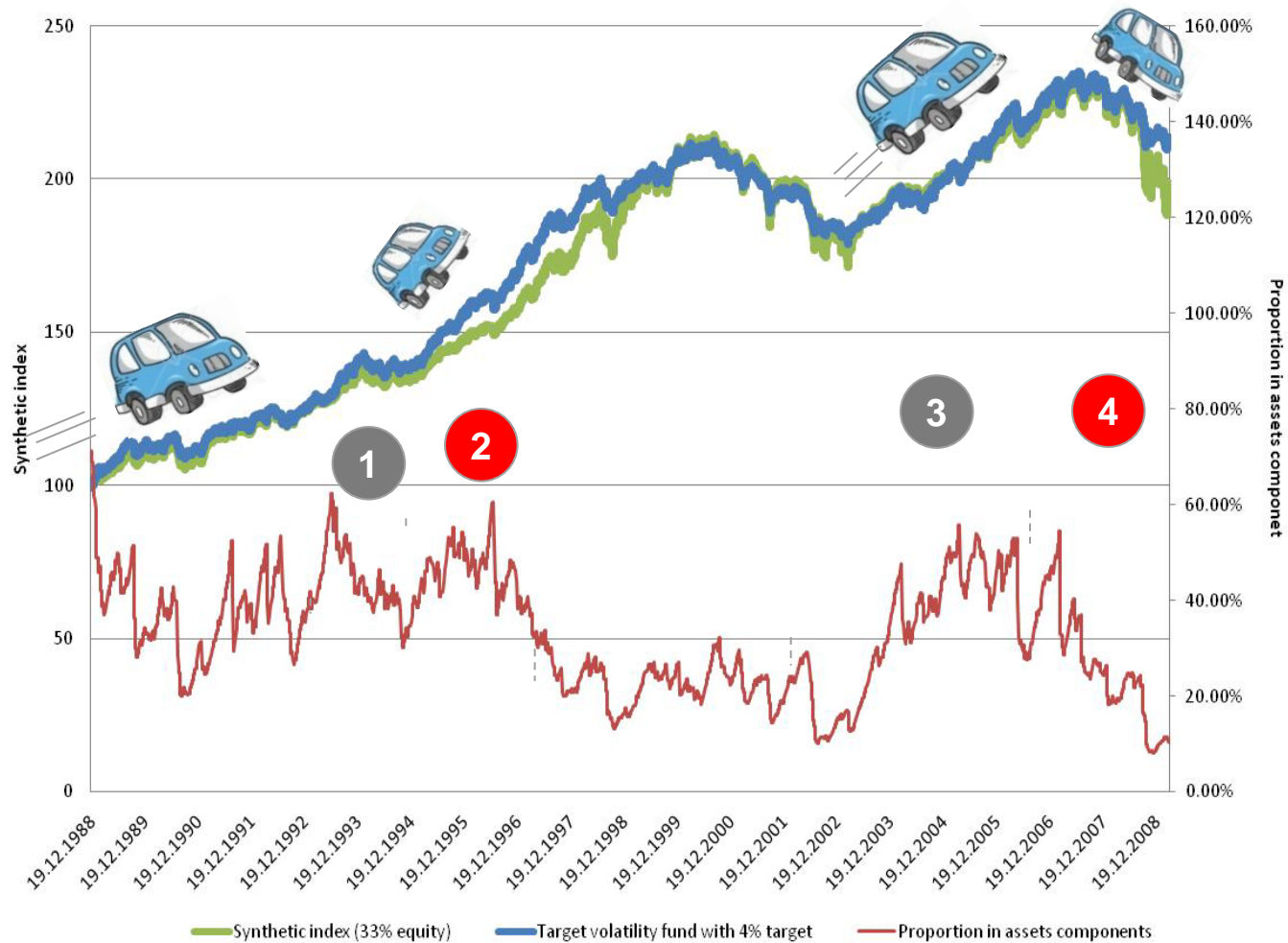
**Asset component**

- Assets that provide potential return (and contain risk)
- Invests in hedgeable indices like Nifty

**Control component**

- Assets that have minimum volatility
- Invest in Money Market Fund
- It balances the risks from the assets component such that the overall return is stabilized (stable volatility)

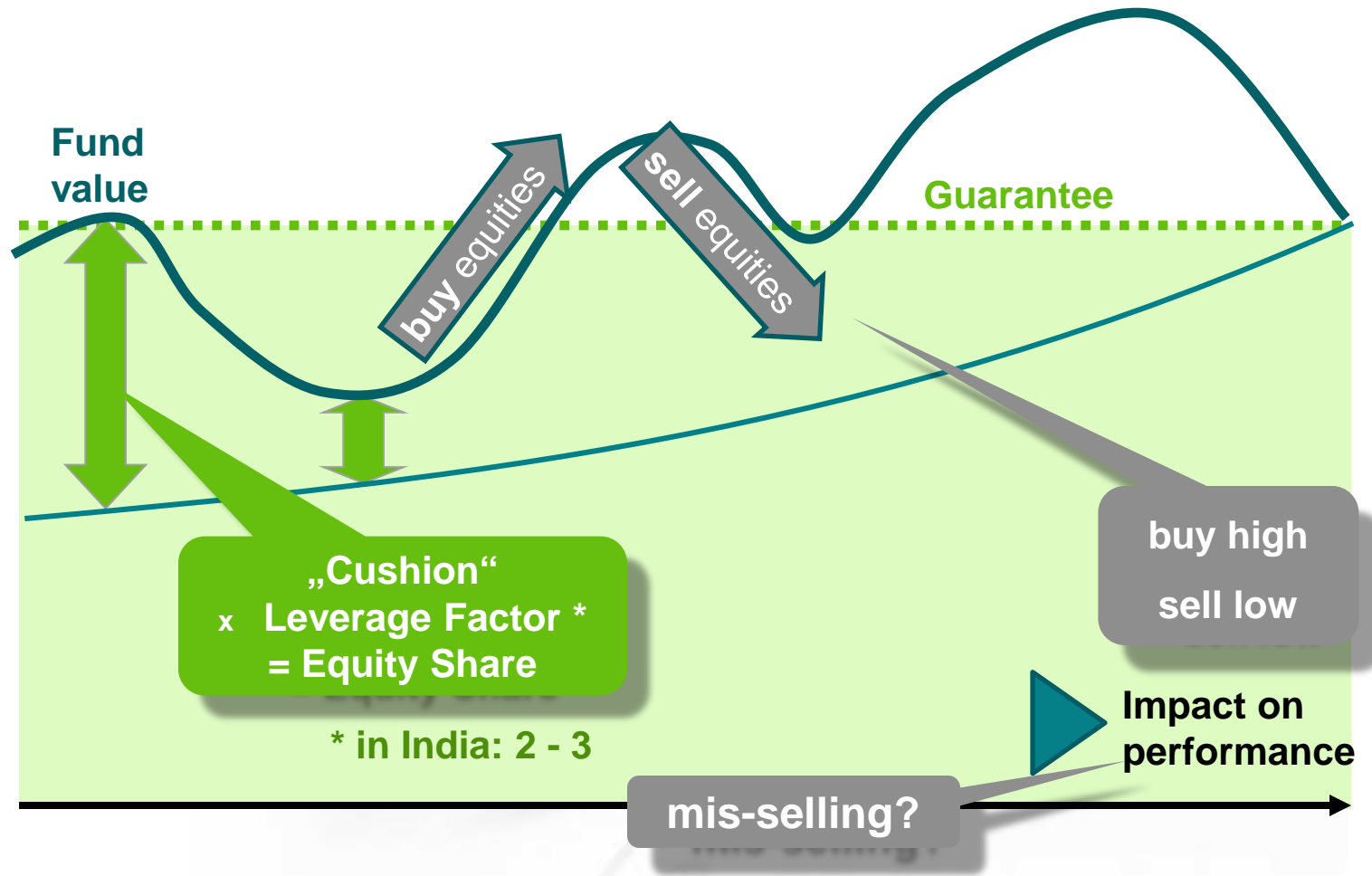
# Volatility as a Leading Indicator



**1 3**  
Assets component increased in stable time

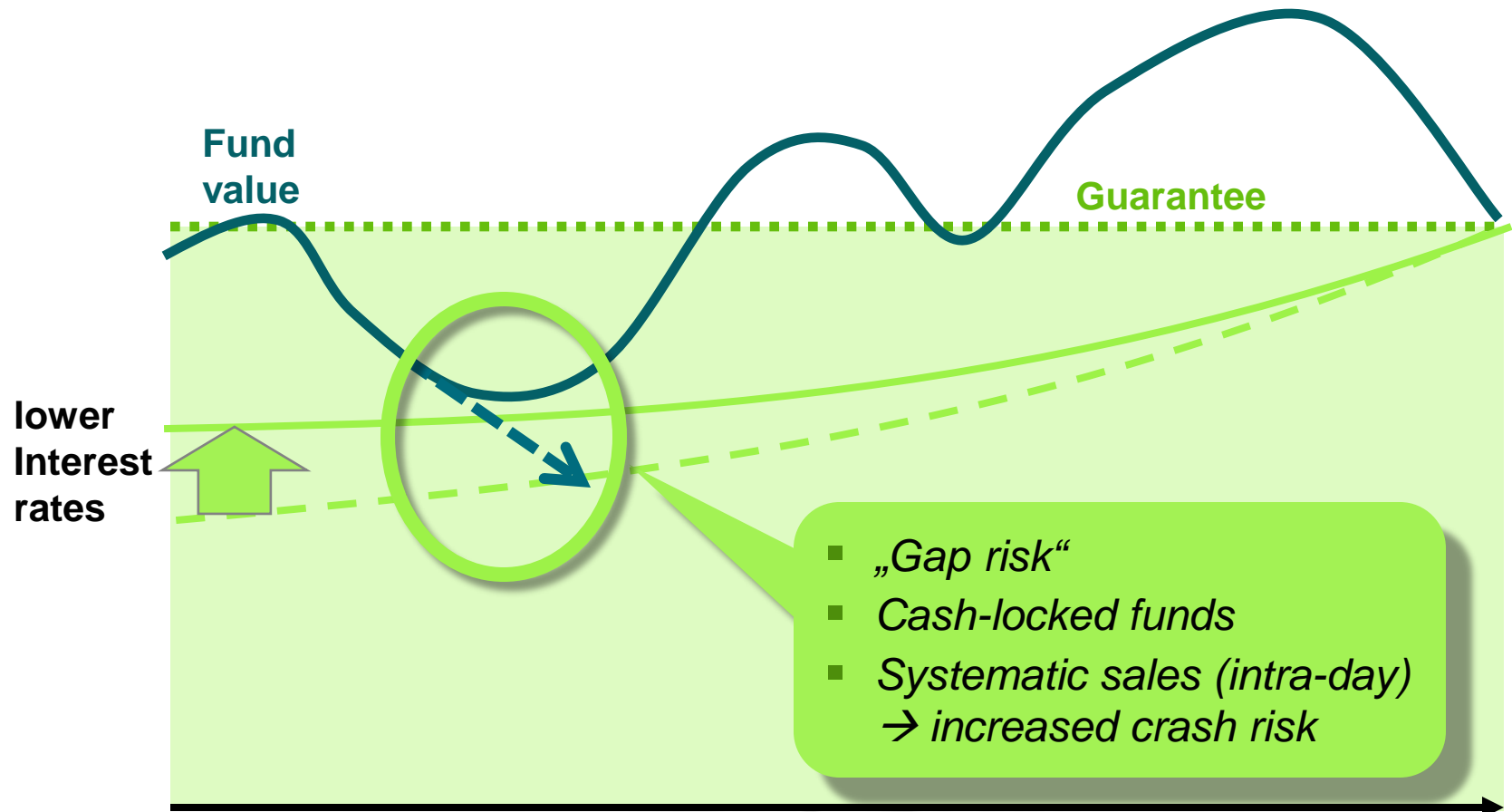
**2 4**  
Assets component decreased in crisis time

# Comparison with CPPI (1)





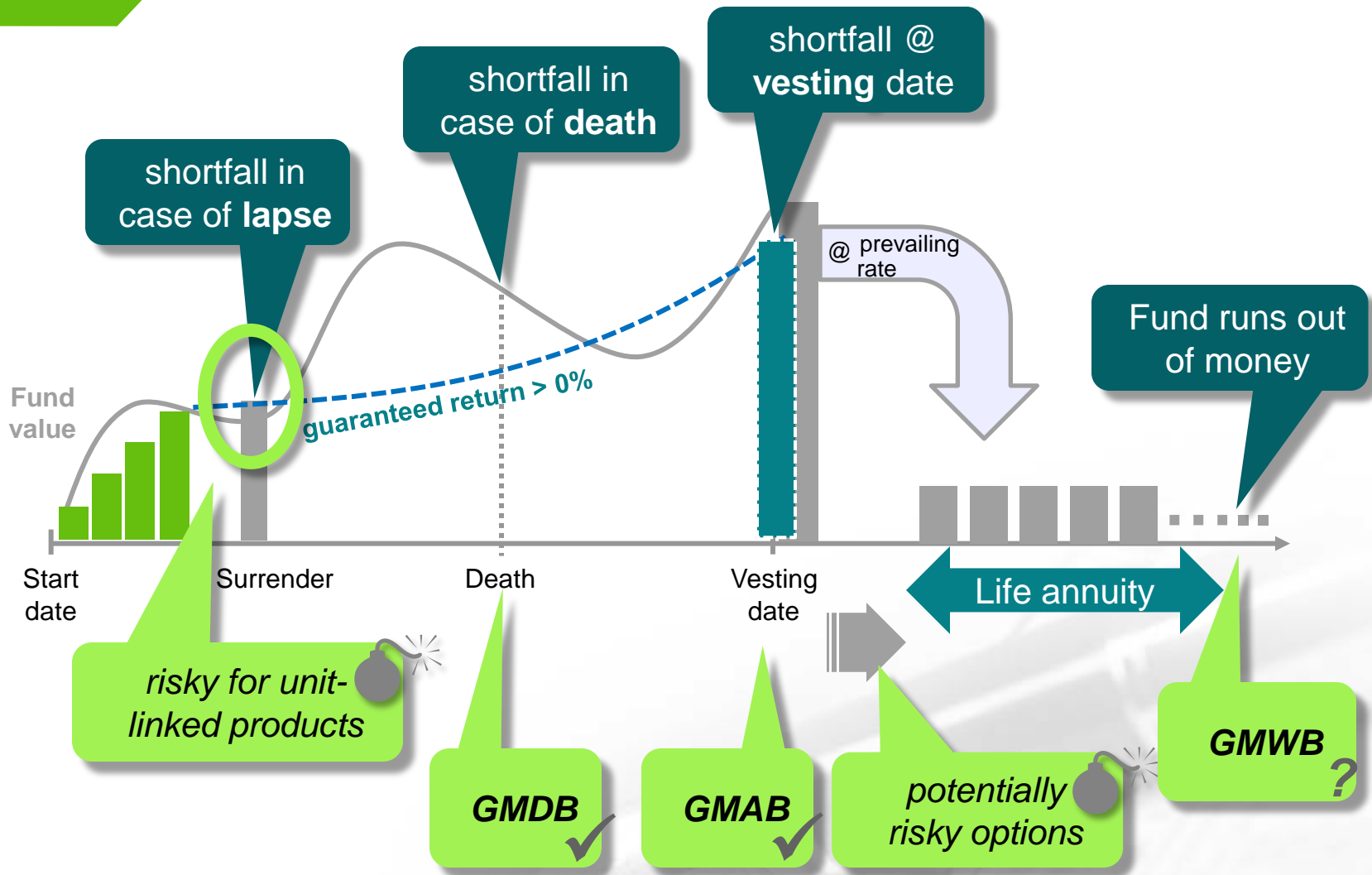
# Comparison with CPPI (2)



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# Pensions in India



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*Thank you very much for your attention*

**Michael Winkler**  
Head of Life

**new/re**

**New Reinsurance Company Ltd.**  
Zollikerstrasse 226  
CH-8008 Zürich

Phone +41 58 22 66 230  
Mobile +41 79 671 59 24  
E-Mail: [Mwinkler@Newre.com](mailto:Mwinkler@Newre.com)

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