



Accounting for and Measuring Employee Benefit Risks in India

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India

Meeting the Challenges of Change

14th Global Conference of Actuaries

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Agenda

Snapshot
AS15 to
Ind AS19 (draft)

A few changes

Risk - What Risk?

Keep an eye out

Evolving role for
actuaries

Opportunities

Snapshot AS15 to Ind AS19

AS15 Revised

- New Benefits
- New Disclosures
- A new realisation

Towards Ind AS19

- IFRS convergence
- Focus on Risks
- Changes in Disclosures
- A further opportunity

Basics don't change but opportunity to focus companies on risks

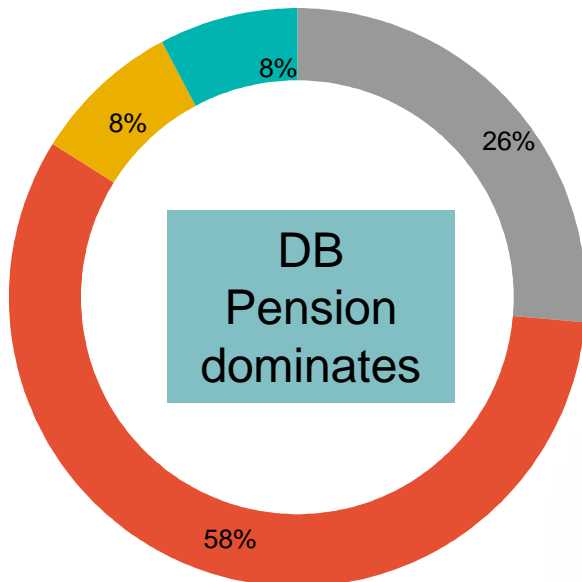
Snapshot AS15 – India Inc.

3,000 billion INR liabilities disclosed in BSE 100 alone - 2011

Study of 83 companies
50% liability increase from 2010

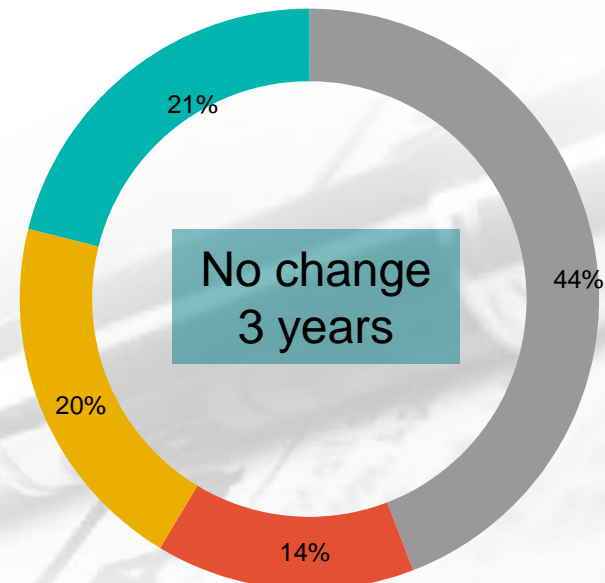
Classification of Defined Benefit Schemes by value (BSE including banks)

■ Gratuity ■ DB Pension ■ Leave Benefit ■ Other DB Plans



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IAS19 (2011) & Ind AS19

Key updates that will affect India

Comprehensive Income (P&L + OCI)

Immediate recognition of all changes in funded position in Other Comprehensive Income

Financing Cost

Interest cost and expected return on plan assets replaced with net interest on net DB liability/asset

Financial Reporting and Disclosure

Disaggregate cost into employment, financing, and remeasurement effects
Disclosures to provide more insight on plan risks

IAS19 (2011) & Ind AS19

Comprehensive Income

Actuarial Gains/Losses in OCI statement

- A pain point of P&L volatility may reduce
- But increased visibility so more scrutiny on assumptions possible



Minimize Volatility



BSE 100 Actuarial Gain/Losses
median 30% to 50% of Benefits Cost

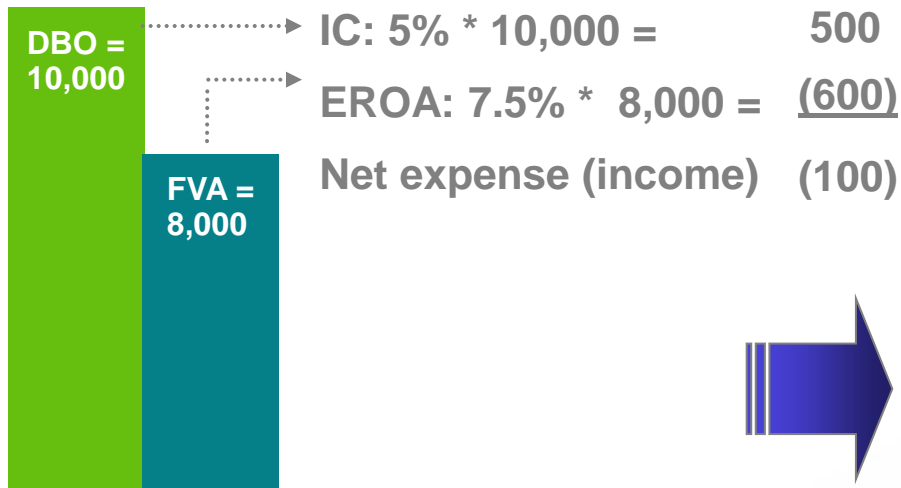
IAS19 (2011) & Ind AS19

Financing Cost

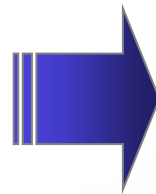
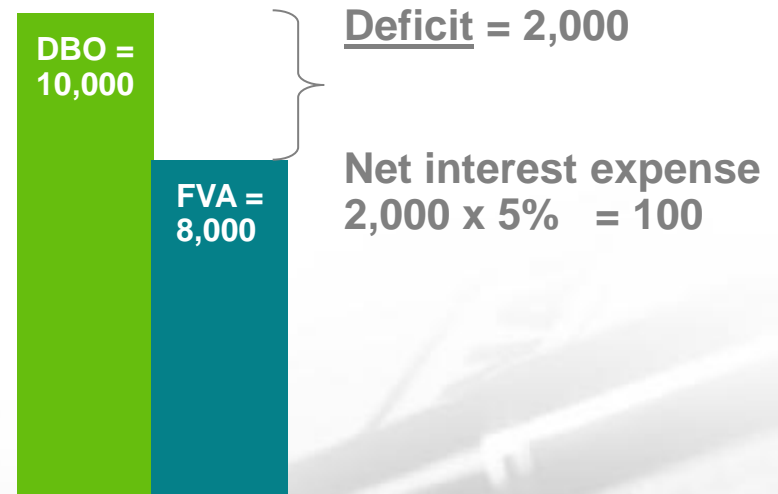
How will the change affect India plans

Net interest on DB liability/asset replaces interest cost and EROA

Today



Future



Assume 5% discount rate, 7.5% EROA

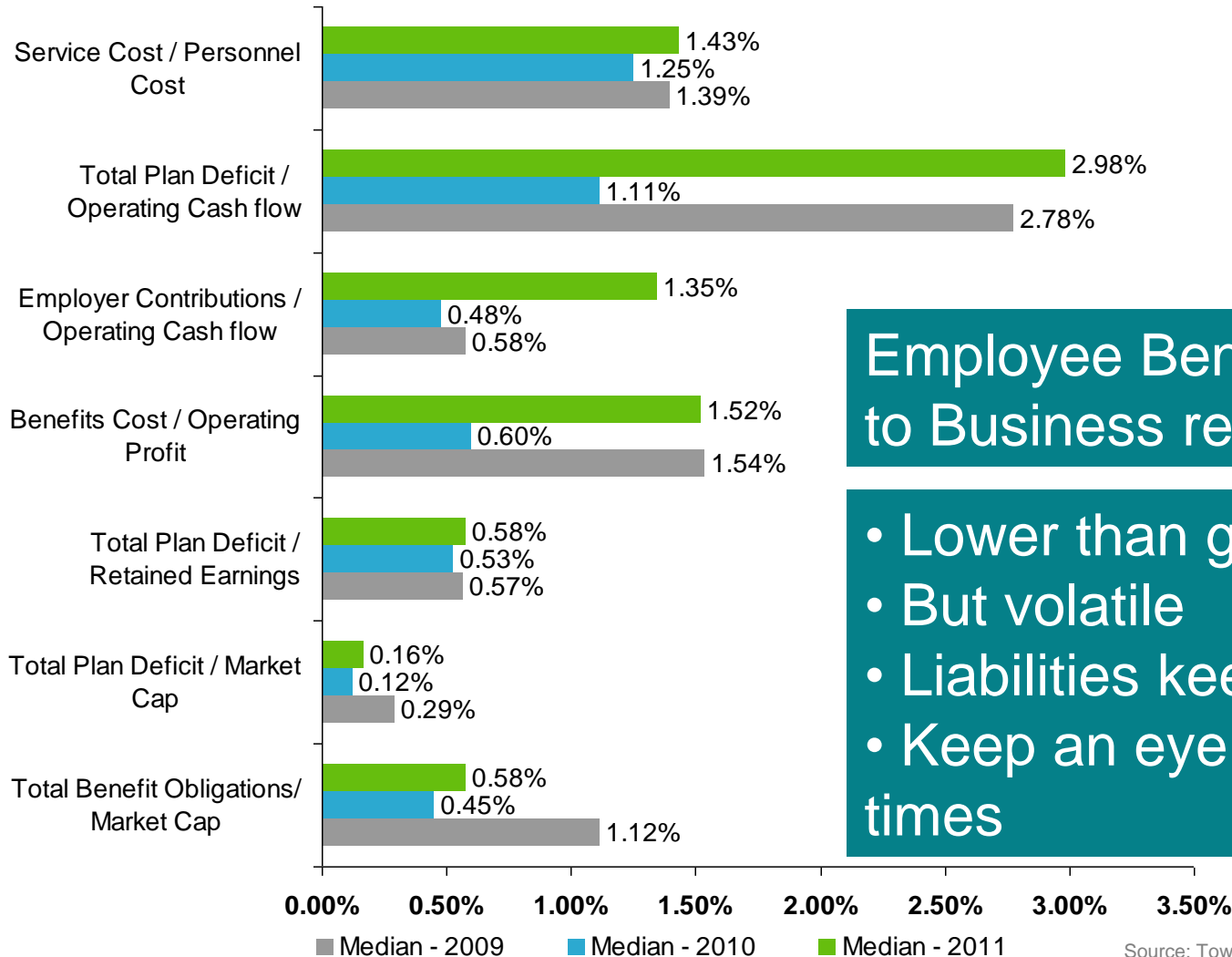
Where EROA > Discount rate there will be an increase in the expense

BSE 100 companies the gap has hovered +/- 0.5% to 1% last 2 years in either direction

Risk? – What Risk?

Financial Reporting and Disclosure

Disclosures on plan risks



Employee Benefit Risk to Business relevance

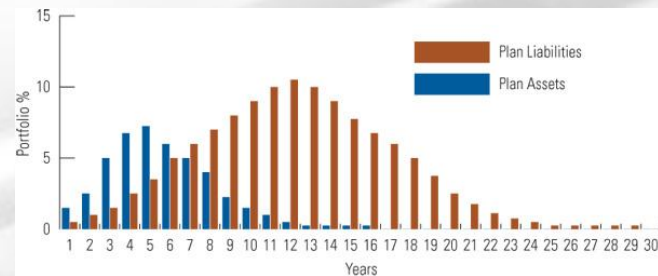
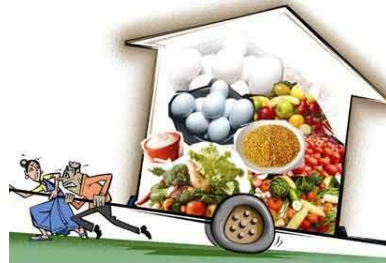
- Lower than global norms
- But volatile
- Liabilities keep increasing
- Keep an eye in uncertain times

Risk? – What Risk?

Financial Reporting and Disclosure

Disclosures on plan risks

Actuaries will need to educate client on risks and sensitivities



Evolving Role for Actuaries

With compliance changes – gives us further opportunities

Ensure companies understand relevance of liabilities to the business

Increased scrutiny leads to assumptions assistance and advice

Educate on the risks and characteristics of plans

Assist with business planning

Thank you.....