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the Actuary INDIA

INDIAN ACTUARIAL PROFESSION
Serving the Cause of Public Interest

THE MAGAZINE OF THE INSTITUTE OF ACTUARIES OF INDIA

APRIL 2013

VOL. V ISSUE 4

Pages 24

₹20

COUNCIL OF INSTITUTE OF ACTUARIES OF INDIA,
IN ITS MEETING ON 24TH AUGUST, 2012 ADOPTS VISION, MISSION AND VALUE STATEMENT

VISION	MISSION	VALUE
IAI to be globally well recognised professional organisation, developing enduring thought leadership to manage uncertainty of future financial outcomes.	To educate/train risk professionals • To enhance and maintain high professional standards • To shape Public Policy and Awareness • To engage with other professional/ regulatory/government bodies • To promote/build IAI as a respected Brand of risk management globally • To promote Research, to advance actuarial science/application	Integrity • Respect for others' views • Accountability • Continuing learning/Research oriented learning • Transparency • Be responsive/ sensitive

VISION, MISSION AND VALUE STATEMENT

(Excerpts from the book: Bootstrap leadership – 50 ways to break out, take charge, and move up by Steve Arneson)

Vision & Mission provides purpose and direction to an organization and paves way for road to success

VISION – Vision is the dream – the future state, where you want to go. Think of it as the why – as in, "Why does our group exist?" The vision should be aspirational and motivational; something the team can rally around. . . . . . . Aim high and make it aspirational. A great vision can unify a team and give its members a reason to come to work every morning.

MISSION - Mission is the goal: the objective in front of you. Think of it as the what – as in: "What are we trying to accomplish?" The mission should be challenging and should describe the business you're in and the customers you are trying to serve (whether internal or external). The mission should be connected to the vision; that is, by accomplishing the mission, you move closer towards making the vision a reality.

DEVELOP STRATEGY – Think of Strategy as the how – as in "how are we going to complete the vision?". Strategy describes the specific plans taken to meet the objective, and should be clear and measurable. Good strategy includes detail about how the work will be accomplished, and includes resources, responsibilities, budget, metrics, and milestones.

VALUES - Value statements are often referred to as "guiding principles". A value statement is an expression of a company's or individual's core beliefs. It allows for the company's staff to be aware of the priorities and goals of the company.

The value statement, along with a mission and vision statement forms the corporate culture and climate.

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Printed and Published monthly by Gururaj Nayak, Head of the Operation, Institute of Actuaries of India at ACME PACKS AND PRINTS (INDIA) PRIVATE LIMITED, A Wing, Gala No. 55, Ground Floor, Virwani Industrial Estate, Vishweshwar Nagar Road, Goregaon (E), Mumbai-63. for Institute of Actuaries of India : 302, Indian Globe Chambers, 142, Fort Street, Off D N Road, Near CST (VT) Station, Mumbai 400 001. • Tel +91 22 6784 3325 / 6784 3333 Fax +91 22 6784 3330 • Email : library@actuariesindia.org Webside : www.actuariesindia.org

15th GCA PLENARY SESSIONS

The 15th Global Conference of Actuaries, held from 17th February to 19th February, 2013 at hotel Grand hyatt, Mumbai was organized by Institute of Actuaries of India (IAI). The conference attracted more than 76 illustrious and eminent global speakers from all the areas of actuarial discipline and was well attended by actuaries as well as non actuaries all over the globe. The theme of the conference **"Waves of Reforms... Oceans of Opportunities"** was an award winning entry of **Ajai Kumar Tripathi. J. Hari Narayan,** Chairperson, Insurance Regulatory and Development Authority delivered the key note address on the first day, 18th February, 2013, which was followed by concurrent Sessions viz; (Life Insurance, General Insurance, Health Care Insurance, Pension, other Employee Benefits, and Social Security). This was followed by Global Round Table and Plenary Sessions on the second day, 19th February, 2013 under the various actuarial practice areas. We are presenting here Reportage on Plenary Sessions. (Reportage on Concurrent sessions have been published in Actuary India March 2013 Issue.)More information on the presentations, photos can be downloaded from the Institute of Actuaries of India's professional website http://www.actuariesindia.org

Organized by	:	**Institute of Actuaries of India**
Venue	:	**Hotel Grand Hyatt, Mumbai**
Date	:	**19Th February 2013**

Plenary Session [P1]

This was the first Plenary Session of the day and presenters discussed **Different Factors influencing Enterprise Risk Management Framework.**

Chairperson: Pashupati Kumar, Director – Deloitte and Touche Assurance and Enterprise Risk Services India Private Limited, India

Panel Members: Name of Members / Presenters:

Frank Ashe, Associate Professor Macquarie University Applied Finance Centre (Australia),

Jill Hoffman, President of Singapore Actuarial Society (Singapore)

John Holden, CEO Canara HSBC OBC Life (India)

Brief about the session:

The session was chaired by **Pashupati Kumar,** Director – Deloitte and Touche Assurance and Enterprise


Pashupati Kumar

Risk Services India Private Limited, India. First presentation was by **Frank Ashe**, Associate Professor Macquarie University Applied Finance Centre (Australia). He explained the role of

Frank Ashe

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R Jayaraman is the member of Institute of Actuaries of India (IAI). He currently, heads the Actuarial- Product Development in Kotak Life Insurance.

behavioural economics in the framework of enterprise risk management and how biases affect belief formation, business and economic decisions and human behaviour in general. Controlled and automatic brain processes, culture, beliefs, trust and trustworthiness, fairness, ambiguity and disgust were among the key factors discussed in detail during the presentation.

Second presentation was by **Jill Hoffman**, President of Singapore Actuarial Society (Singapore). Topics covered in the presentation were "Risk Based Capital 2 (RBC2)" framework proposed by

Jill Hoffman

Monetary Authority of Singapore (MAS) and Financial Advisory Industry Review (FAIR) and its implications for Asia-Pacific. Ms. Hoffman highlighted the key proposals in the new RBC2 framework with its advantages and disadvantages over the current approach. On the other side of the presentation, she discussed critical objectives of the financial advisory industry review. Some of the key objectives were to raise the competence and quality of financial advisory representatives, make financial advice a dedicated service, lower distribution costs of insurance products and to promote a culture of fair dealing.

Last presentation of the session was by **John Holden**, CEO Canara HSBC OBC

John Holden

Life (India). He discussed the impact of digital age on various factors related to insurance such as distribution, risk assessment and servicing. He also highlighted the challenges posed by digital age at the end of the presentation.

Plenary Session [P2]

The session on **"Evolving regulatory landscape and implications for insurers"** was helpful in understanding the impact on insurance industry due to recent regulatory changes.

Chairperson: Frank Ashe, Associate Professor Macquarie University Applied Finance Centre (Australia)

Panel Member: Ashvin Parekh, Partner and National Leader – Global Financial Services, E&Y

Brief about the session:

Mr. Parekh started his session with interesting Macroeconomic overview briefing audience about Insurance Sector's contribution to Indian Economy and India being third most attractive FDI destination in the world. He added about the Evolution of Insurance Industry (Life & Non-Life), from being unregulated sector with only public players till today. He mentioned that though the Life Insurance sector has shown robust

Ashvin Parekh

growth, it has been facing headwinds. He took audience through how non-life industry is yet to get that gear of growth and stability and also mentioned that overall there is significant opportunity of growth in the insurance sector.

While talking about Evolving Regulatory Landscape, he touched upon various norms on distribution channels allowed, IPO eligibility, Mergers & Acquisitions, various regulations on Traditional Life products, and Non-Life insurance industry. He also mentioned that Reinsurance, the least regulated area of the industry has now been regulated by the IRDA. He quickly took audience through how Health insurance industry is emerging.

After talking about the overall industry's growth and implications of current regulations, Mr. Parekh took the audience a level further by talking about the challenges that industry is facing and how should we be able to make our way forward with it.

Plenary Session [P3]

The session on **"Money Market, Liquidity and Credit Crunch"** was important for the participants looking at the recent financial crisis in European markets.

Chairperson: Ashvin Parekh, Partner and National Leader – Global Financial Services, E&Y

Panel Members: Frank Ashe, Associate Professor Macquarie University Applied Finance Centre (Australia)

Brief about the session:

Frank started his session by introducing what money means. He explained to the audience by using a blank piece of paper how monetary transactions take place. He mentioned, one wouldn't even need to have the physical money, if other people trust his/her credit then one can just give bills to them and they can use them to buy what they needed.

He then took the audience to the next level where he explained how Government creates money either by printing it or by putting physical money into the economy by giving it to people or buying things from them. He further explained in simple words why standard money definition (or in other word currency) is required and what is the role of Central Bank.

He then talked about liquidity by mentioning how a positive amount in one's bank account is a financial asset for him/her and a financial liability for the bank. How Banks and Central Bank ensures that sufficient physical money is kept on hand keeping in mind that many transfers can occur together.

The session ended with interesting Questions & Answer session.

Plenary Session [P4]

The session on "**Lessons from UK Actuarial Professions' Project on Discount rate**" gave detailed insights into the profession's efforts on the particular project in UK.

Mark Freedman

Chairperson: **Mark Freedman**, President Elect –Society of Actuaries (US)

Panel Members: Charles Cowling, Managing Director – JLT Pension Capital Strategies (UK)

Brief about the session:

The session started by specifying the objectives in two simple questions – "Is it appropriate for the Actuarial Profession to have different actuaries in different practice areas producing very different answers to very similar questions? Is it possible to create a common language and transparent framework for describing and determining discount rates and possibly reduce the diversity of current practice?"

Charles Cowling put down developing a


Charles Cowling

common language and framework to describe current practices as one of the major objectives of the UK Actuarial profession. He then went on to trace the history of discount rate framework listing out "Matching" and "Budgeting" as the two main families of calculations used for discounting liabilities. He contrasted this with the set of concerns being faced currently while choosing the rate and how practical constraints limit the pure matching approach.

The matching approach mainly involves transactions avoiding arbitrage and adequacy of assets, knowing that these can secure assets in market if perfect matching can be achieved. Budgeting approach, on the other hand, has more to do with planning, based on assumed rates of return or funding, where market transactions are not anticipated.

Charles then gave an overview of how this issue is being looked at internationally particularly in Denmark, Sweden, Netherlands and the US. He then touched upon the recent developments in the UK where the government issued consultation papers on Pensions and Growth. He also discussed the smoothing and it's expected effects.

In his concluding remarks Charles mentioned that Matching and Budgeting should produce essentially same answer if 'expected' relates to matching / replicating portfolio.

The session ended with interesting Questions & Answer session relating to Indian scenarios.

Plenary Session [P5]

The session on **Actuarial Outsourcing Industry** and was important from the perspective of understanding the growth potential of the industry and key ingredients required for ensuring successful service delivery.

Chairperson: V Balamurugan Chief Executive Officer JLT (India)

Panel Members:

Liyaquat Khan, Immediate past-President, Institute of Actuaries of India (India)

Ankur Agrawal, Head of Actuarial function at AXA Business Services (India)

Tassos Anastasiou, Chief Actuary - Emerging Markets, RSA Group (UK)

Brief about the session.

V Balamurugan was the chair-person of


V Balamurugan

the session and gave a presentation on key factors driving the Indian Offshoring industry – Availability of Talent, Cost of operations, quality of infrastructure and Government Policies. Then he spoke about the growth in 2012 in the Indian IT-BPO industry and its contribution to GDP. Then he elaborated on how other Countries can be rated on IT-BPO industry with respect to the key factors stated above. Then he concluded the presentation by explaining the key problems faced by the IT-BPO sector in India and the advantages India has over other countries.

Liyaquat Khan, started the session with


Liyaquat Khan

a presentation on the Survey Conducted on Offshored Actuarial Work in India. The survey covered various aspects of Actuarial Outsourcing industry. It included the number of companies operating split by area of operation like Life Insurance, General Insurance and Pension. Number of people employed by geographic location was covered as well. He concluded the presentation with the reasons for outsourcing and the steps that can be taken to help the industry

Ankur Agrawal gave a presentation on challenges faced by Actuarial Service


Ankur Agrawal

Delivery from India. He started the presentation with the motivation behind outsourcing. Then he dwelt on various aspects of Indian Outsourcing Story like distribution by functional areas, geographical distribution of Outsourcing Companies etc. Then he explained the key challenges faced by the industry and the Key Drivers of the Growth of the industry. He concluded the presentation with the steps we can take to meet the challenges faced by the industry and what IAI could to help the industry.

Tassos Anastasiou gave a presentation on the key factors behind successful offshoring of work to India. He explained


Tassos Anastasiou

various models used for outsourcing work to India ranging from Outsourcing to building a "Centre of Excellence". He explained the need for selecting an ideal model taking into account the needs of the organization. Then he dwelt on the challenges faced in outsourcing the work. He concluded the presentation with expectations of customers and key factors behind successful service delivery.

Plenary Session [P6]

Chairperson:

Gary Josephson, President - Casualty Actuarial Society, US

Panel Members:

Darryl Wagner, Principal, Deloitte Consulting (US)

Michael Sherris, Professor of Actuarial Studies, University of New South Wales (Australia)

Moulay El Ghali El Boukfaoui Vice President Insurance Client Solution Group, Numerix (US).

Marc Fakkel, Partner, Actuarial & Insurance Solutions practice, Deloitte (UK)

This session was on **Actuarial Frontiers** and was chaired by **Gary Josephson**, President - Casualty Actuarial Society,

Gary Josephson

US. This session gave a brief over view on various other developments with regards to Actuarial Modelling- its Importance, Applications, Management and Implementation.

The first part of the session was presented by **Darryl Wagner**, Principal, Deloitte Consulting (US) on the importance

Darryl Wagner

of Advanced data analytics and the role of the actuaries in it. He gave insights about the different types of analysis tools and its applications in and beyond the insurance industry.

Michael Sherris

The second part of the session was presented by **Michael Sherris**, Professor of Actuarial Studies, University of New South Wales (Australia) on Modelling and Managing Longevity Risks. The focus of the presentation was on effectively managing the pricing and mortality assumptions in the Pension/ Retirement Products to manage and mitigating the Risks related to longevity.

The session was continued by **Moulay El Ghali El Boukfaoui** Vice President

Moulay El Ghali El Boukfaoui

Insurance Client Solution Group, Numerix (US). The session gave a brief introduction of the various Economic Scenario generators and Model risk inherited by the models.

The session was concluded by **Marc Fakkel**, Partner, Actuarial & Insurance

Marc Fakkel

Solutions practice, Deloitte (UK) who gave a brief over view on Actuarial Model developments. He looked at developing these models not just as applications but as function spanning through Finance, IT and Change Functions and gave ways to implement change successfully.

Plenary Session [P7]

This was last Plenary Session and the presenter concentrated on reinsurance solutions to various challenges faced by insurers. The presenters backed their idea/solution with the help of case studies and facts.

Chairperson: Philip Scott, President - Institute and Faculty of Actuaries, UK

Panel Members:

David Alexander, Head of Business Development, Asia - Swiss Re (Hong Kong),

Gavin Maistry, Munich Re (Singapore),

Jonathan Porter SVP & Chief Pricing Actuary International Markets RGA International (Canada)

David O'Brien- Deputy Managing Director for Asia Pacific, Scor Re (Hong Kong)

Brief about the session:

Philip Scott

The session was chaired by **Philip Scott**, President - Institute and Faculty of Actuaries, UK. The first presentation was by David Alexander, Head of Business Development, Asia - Swiss Re (Hong Kong) who started with worldwide trends in regulations pertaining to Risk Based Capital and Solvency Regulations. He did a high level comparison of Solvency I and Solvency II and presented a case study of Malaysia RBC Framework. Towards the end, he threw light on implications and risks of changes to Solvency Regulations in Asia.

The second presentation was given by **Gavin Maistry**, Munich Re (Singapore).

Gavin Maistry

The talk was focused on how Reinsurance can be used as a tool for Risk Mitigation. He demonstrated how Biometric Risk is

Jonathan Porter

David O'Brien

composed of Trend, Calamity, Basis and Process Risks. He emphasized on Basis Risk with the help of a case study.

Gavin's presentation was followed by a presentation from **Jonathan Porter**, SVP & Chief Pricing Actuary International Markets RGA International (Canada). His presentation revolved around protection business and role of reinsurers in it. The presentation justified the importance of reinsurer in this business with the help of case studies on Product Development, Experience Analysis and Electronic Underwriting.

The session was wrapped up with the presentation by **David O'Brien** - Deputy Managing Director for Asia Pacific, Scor Re (Hong Kong) wherein he compared China, Brazil and India on Life insurance market growth outlook. The comparison was nicely structured covering likelihood of regulatory changes, level of maturity in protection product coverage and potential for micro insurance.

PHOTO FEATURES - PLENARY SESSIONS

AMIT MALHOTRA

Head Risk Management, Senior Vice President,
Group Risk Management
Swiss Re Shared Services (India) Pvt. Ltd; Bangalore.

Amit_Malhotra@swissre.com

Amit Malhotra has been with Swiss Re for the last five years. Currently he heads the Risk Management unit of Swiss Re Bangalore. They are a part of the Global Risk Management team of Swiss Re and are part of various Risk Assessment activities within the Swiss Re world. Prior to this, he was working with Genpact as a Senior Consultant and was responsible for handling two teams in Product Development and Experience Analysis for a US based insurance firm. He was with Genpact for about three years. Prior to Genpact he was working with Max New York Life Insurance company, in the Actuarial Department for three years and was involved in pricing, valuation and experience analysis. Amit Malhotra is a student member of IAI as far as his educational background is concerned, he is a Masters in Statistics from Delhi University. In terms of his hobbies, whatever free time he gets, he like to spend it with his wife and two kids.

PERSONAL

What jobs and experiences have led you to your present position?

I started my career with Max New York Life in their Actuarial Department. I got involved in pricing, valuation and experience analysis. Worked there for three years and then I joined Genpact. I was given the responsibility of creating the experience analysis models for Variable Annuity products for a US based insurance firm. Later, I slowly moved into management roles which made me responsible for handling two teams in Gurgaon and Bangalore. I worked there for almost three years as well before deciding to join Swiss Re in their Bangalore office. In Swiss Re, I started with building their Life & Health actuarial support from Bangalore. Was in this role for four years and now have been given the responsibility of heading Swiss Re Bangalore's Risk Management function.

Describe your current roles and responsibilities?

As Head of Risk Management Bangalore, I am responsible for the work that gets delivered out of the location. I am responsible for the people that work out of Bangalore and how they grow in their careers. I am also responsible of finding out ways on how we can add value to the Swiss Re organization as a whole.

What are the key qualities required in your position?

The key qualities required in my position would be good management skills, good communication skills and good understanding of the people that you work with. Also, you need to be aware of the strategy that your company wants to run so that you can contribute towards it.

PROFESSION

Please describe a typical day at work?

My days are very interesting at work. On a typical day I would meet and talk to a lot of people, both locally and around the world. The topics of discussion range from how to run actuarial processes efficiently to how to make a team of actuaries participate in a dancing competition. It also involves some serious resource planning and project management discussions.

What can you tell me about the employment outlook in your occupational field?

I feel the employment outlook should improve. There are more companies who want to enter India as there is a huge market to tap into. As the market is largely untapped, these companies would require strong Actuarial and Risk Management functions to give the comfort to these companies that they are writing profitable business. Hence, they would require very bright people who can contribute to the success of these companies.

How much demand is there for people in this occupation? How rapidly is the field growing?

I can give you a Swiss Re Bangalore perspective. We have grown quite a bit in the past few years and are still growing. More than 50% percent of our growth has happened in the last two years which talks for itself on the in-organic growth that Swiss Re has seen. We still see a strong demand on the experienced Actuarial resources.

What do you consider to be the key areas where actuaries add value to the business?

I think the key areas are still pricing and valuation. I think in today's environment, actuaries need to invent new techniques/ models that can better explain this ever changing world. They need to build robust models and also ways in which they can be explained in a simple manner.

INSURANCE INDUSTRY IN INDIA

What trends do you see for this industry in the next 3 to 5 years?

I think there will be more life and health companies coming into the market. I also feel that the non-life sector will also grow and these companies will help in the overall economic growth of the country. I think the demand of experienced actuaries will grow even further and India will become a very exciting market to work in.

OFFSHORED ACTUARIAL WORK IN INDIA

Your current area of responsibility is managing actuarial work that belongs to Insurance Entity of the UK. Can you expand on this?

It is not only UK, we are doing actuarial work for UK, Europe, Asia, Australia, US and Canada. We are supporting these regions in conducting their valuation activities both on Life and non-Life side. For some regions we are responsible for certain lines of businesses and for others we are responsible for the entire markets. We do end to end valuation on a Stat, GAAP and economic basis. Part of my team is also involved in developing and maintaining these valuation models. We are also working on Model Validation for pricing and costing models, conducting Business Risk Reviews and Risk Reporting activities.

What are your views on such work being carried out within India: its volume, spread over countries, its challenges etc?

I think the approach that Swiss Re took that the Bangalore office just happens to be another office in another location of Swiss Re has really worked well. We are doing tasks that get done in any other office of Swiss Re. We live the same values and get treated as equal partners. Today, we are part of almost all priority projects running across the globe and are showcasing the value that we are able to add. Off course there are challenges along the way. There are legal challenges like kinds of services rendered or tax implications when dealing with some countries. There are regulatory challenges as there can be restrictions on certain work done out of the host country. There are also language challenges when dealing with countries where the reporting is not done in English. Dealing with different countries also leads to cultural challenges.

Any specific challenges facing actuarial workers in this area of employment within India?

One of the biggest challenges that actuarial workers face is their inability to push back. They keep on taking more and more work and committing themselves to targets which are very tough to achieve. The good part is that most of them are able to achieve these targets but in the long run it becomes unsustainable. Another big challenge is around communication. I feel that communication plays a key role in the success of a business model. Particularly in the offshoring model it is of vital importance. The actuarial workers need to work on their "speak up" behavior. They need to share their views openly, challenge the status quo and communicate effectively. I think we have a lot of intelligent people in India, they just need to profile themselves better.

OFFSHORED ACTUARIAL WORK IN INDIA - COMPANY PROFILE

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Dealing direct and working through brokers, its global client base consists of insurance companies, mid-to-large-sized corporations and public sector clients. From standard products to tailor-made coverage across all lines of business, Swiss Re deploys its capital strength, expertise and innovation power to enable the risk taking upon which enterprise and progress in society depend. Founded in Zurich, Switzerland, in 1863, Swiss Re serves clients through a network of over 60 offices globally and is rated "AA-" by Standard & Poor's, "A1" by Moody's and "A+" by A.M. Best. Swiss Re reports strong net income of USD 4.2 billion for the full-year 2012 and celebrates its 150 Year Anniversary in 2013.

Swiss Re began operations in Asia-Pacific in 1956 and has offices in Sydney, Beijing, Shanghai, Hong Kong, Tokyo, Seoul, Singapore, Kuala Lumpur, Mumbai and Bangalore, where it operates a global business processing office. Swiss Re has established a dedicated Retakaful branch in Malaysia offering solutions to Takaful operators worldwide. Additionally, Swiss Re is in a strategic partnership with Vina Re, Vietnam's leading reinsurance provider. Swiss Re was among the first foreign reinsurers to enter China after the country joined the WTO.

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COMPANIES BILL 2012: CORPORATE GOVERNANCE IN INSURANCE

by C.L. Baradhwaj

Corporate Governance has become one of the cornerstones for a successful management of business. This subject is more relevant in insurance since the industry handles substantial sums of Policyholders money and therefore needs to uphold these principles. This article of CLB on Companies Bill 2012 and Corporate Governance in Insurance specifically focusses on the key provisions relating to Corporate Governance as contained in the Bill as well as IRDA's Corporate Governance guidelines which are relevant for the Company Secretaries in insurance.

About the Author

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C.L. Baradhwaj (CLB as he is popularly called) is currently the Senior Vice President (Compliance), Chief Risk Officer and Company Secretary of Bharti AXA Life Insurance Company Limited. A Company Secretary, a Law Graduate and a Fellow of the Insurance Institute of India, CLB has worked for 10 years in LIC and for more than 10 years in private life insurance companies in the areas of Legal, Compliance, Taxation and Secretarial matters.

Introduction

Corporate Governance may be defined as a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders. It is the system by which companies are directed and controlled. It is about promoting corporate fairness, transparency and accountability. Corporate Governance involves regulatory and market mechanisms and the roles and relationships between a company's management, its board, its shareholders and other stakeholders and the goals for which the Company is governed.

Principles of Corporate Governance

(a) Rights and equitable treatment of shareholders – Companies must encourage values and systems that respect rights of shareholders and help shareholders exercise those rights. Communicating the rights and encouraging shareholders to participate in meetings is very important

(b) Interests of other stakeholders – Other stakeholders include Customers, Employees, Investors, Creditors, Suppliers, Regulators, Communities, Policy makers etc. The Governance must ensure that the Company grows after taking care of the interests of the stakeholders

(c) Roles and responsibilities of the Board – The Board needs to be segregated from the management and the roles and responsibilities of the members of the management team including the CEO must be clearly defined. Management must be required to be accountable to the Board who must monitor their performance. While management runs the Company, the Board oversees it. The Board must have qualified and competent persons to evaluate the management performance

(d) Disclosure and transparency – this is a cardinal principle of Corporate governance and includes public disclosures as appropriate, internal communications, other external communications etc. Such a disclosure mechanism must enable all stakeholders to take an informed decision

Provisions promoting Corporate Governance under the Companies Bill 2012

The Companies Bill 2012 proposing to replace Companies Act, 1956, has been passed by Lok Sabha and is awaiting Rajya Sabha's approval. Let us examine the key provisions of the Bill which promote Corporate Governance

Provisions relating to Directors

Independent Directors (Section 149(4))

Companies Bill 2012 mandates atleast 1/3rd of the Directors of listed public companies to be independent directors. However Clause 49 of the Listing Agreement (applicable for companies listed in any Stock Exchange) provides that, where Chairman of the Board is non-executive, atleast 1/3rd of the Board shall comprise of independent directors, and atleast ½ where the Chairman of the Board is an Executive Director.

An independent director is defined as a person who does not have any pecuniary relationship with the Company or is not related to the promoters or managerial persons and has not been an executive of the Company during the preceding 3 financial years or is not a partner or executive during the preceding 3 years with any statutory or audit firm or a legal and consulting firm which renders services to the Company or is not a material supplier or a person holding equity shares of 2% or more in the company. Independence of the Board promotes good corporate governance. The Companies Bill has included another qualification criterion – the independent director should not have been a CEO or a non-profit organization which derives atleast 25% of its income from the Company or CEO of a nonprofit organisation holding more than 2% in the Company in which the director acts as an independent director. An independent director shall hold office for a period of 5 years and is eligible for being appointed for one more term after which a cooling off period of 3 years has been prescribed.

Independent Directors remove conflicts and bias in decision making, since they are not related to Promoters or do not have any material interest in the Company. Schedule IV of the Bill lays down the Code of conduct for Independent Directors, including guidelines for professional conduct, their roles, functions, duties and responsibilities

Directors representing small shareholders (Section 151) – In order to promote the interests of small shareholders, listed companies may have one Director on the Board appointed by Directors holding share not valued more than Rs.20,000 or such sum as may be prescribed. This step promotes interests of smaller stakeholders

Restrictions on number of directorships (Section 165) – not to exceed 20, out of which not more than 10 public companies

Disclosures of interests by Directors (Section 184) : The Bill requires Directors to disclose their interests in any contract or arrangement which the Company proposes to enter into. Further the Director is required to stay away from the discussions happening in the Board meetings and cannot participate in any voting which happens in the meetings on such matters. This has to be specifically recorded in the Minutes. A Director is deemed to be interested in an entity with whom the Company enters into an arrangement or a Contract, if such Director or groups of directors hold not less than 2% equity in such an entity. Register of Contracts in which Directors are interested to kept open during Annual General meeting for inspection by the Shareholders. Non disclosure of interest by Directors does not render the contract void. It renders the contract voidable at the instance of the company and makes the director accountable for any secret profit which he has made (Hely Hutchinson vs. Brayhead Limited (1968) 1 Comp LJ 263)

Loans to Directors (Section 185): Companies are prohibited in granting loans to Directors directly or indirectly to any person in whom the director is interested. This is aimed at promoting financial discipline

Related party transactions (Section 188): All related party transactions, including appointment of related parties of Directors to any office or place or profit in the Company) require the approval of Board. In certain cases as may be prescribed, Shareholders approval also required (shareholders who are interested in the related party transaction not to participate in the discussion or voting) in some cases.

Register of Contracts in which directors are interested (Section 189) and Contract of employment with Whole time or Managing Director (Section 190) required to be kept open for inspection by the Shareholders: This promotes greater transparency in the appointment of the key managerial person. The Shareholders may question where the terms of appointment as per the Contract are different from the terms approved by the Shareholders in their resolution.

Restrictions on non cash transactions involving directors (Section 192): Where any transaction is proposed to be entered into with a Director of the Company or Director of the Holding Company or Director of the Subsidiary Company for purchase of assets or sale of assets for consideration other than cash, approval of the shareholders of the Company as well as the concerned Holding or Subsidiary company shall be obtained.

Prohibition in Insider trading (Section 195) and forward dealings in securities by Directors or Key management personnel (Section 194): The Companies Bill 2012 has also introduced provisions restricting Insider Trading by Directors and Employee of the Company who are privy to price sensitive insider information and dealing in shares and securities of the Company based on such information. Further, in order to prohibit unhealthy forward trading in shares by insiders, Directors and key management personnel are prohibited from engaging in forward contracts to buy or sell the securities of the Company, as such transactions could also be based price sensitive insider information.

Provisions relating to appointment and remuneration of Wholetime and Managing Director (Section 196): Companies Act contains provisions for qualifications, appointment, remuneration, removal etc. of the Managing Director and Wholetime Directors. Approval of Shareholders required in certain cases. This promotes transparency in the appointment and remuneration of the key managerial person. Ceiling on managerial remuneration is calculated as a percentage of the company's profits

Prevention of Oppression and mismanagement (Section 241): On the basis of complaint by a shareholder of the Company that the affairs of a Company are carried on in a manner prejudicial or oppressive to interests of shareholders, the National Company Law Tribunal may investigate and take appropriate action as it deems fit. The Companies Bill 2012 also recognises Class action by Shareholders or Depositors of the Company if the Company's acts are prejudicial to their interests. The petition for class action before the Tribunal can seek for restraining the company from committing any act which is *ultra vires* the company or desist the company from taking any action based on a resolution which was based on irregular facts. This is another step towards promoting corporate democracy

Provisions concerning holding of meetings

Procedure for adjournment of meetings (Section 103 read with Clause 49 of Table F - Articles of Association): One of the pillars of Corporate democracy is proper conduct of meetings and rules relating thereto. Detailed procedures laid down for adjournment of meetings.

In respect of Shareholders' meetings and Board meetings, if a quorum (minimum number of members required to be present) is not present within half an hour of the scheduled time for commencement, the meeting stands adjourned to the same time the following week at the same place or at such other place the Board may decide. In the adjourned shareholders' meeting, if the quorum is not present, the members present shall be the quorum. In adjourned Board meetings also if there is no quorum, the Board meeting shall decide the dates of further adjourned Board meeting(s).

Chairperson may also adjourn a meeting after it is convened if the time was insufficient to complete the agenda items. However, no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

Procedures for assessing the sense of the meeting (Sections 106 to 110) – Details procedures laid down for voting by show of hands, polls etc. with the role of Chairman to ensure that the decisions are taken properly at the Shareholders' meetings. Persons holding share capital representing not less than 1/10th of the total voting power can demand a poll

Maintenance of records of proceedings of Shareholders meetings, Boards and the Board Committees (Section 118):

The Act requires drawing up of Minutes of meetings of Shareholders, Board of Directors and the Board Committees to be drawn within 30 days, signed by the Chairman and preserved for future reference. The Minutes of Shareholders meetings are open for inspection by any Shareholder. Under the Companies Bill 2012, every listed Company is required to file a report of the Annual General Meeting within 30 days of holding the meeting with the Registrar of Companies

Detailed Financial statements to form part of the Agenda papers for the Annual General meeting (Sections 129 & 134): The Financial statement of accounts with Schedules forms part of the Agenda for the Annual General meeting. Extensive disclosures are required to be made. Details of employees drawing remuneration in excess of the percentages specified, the Company's spend towards conservation of energy, foreign exchange outflow, technological absorption etc. need to be disclosed along with Directors' Annual Report. The said Report shall contain a Directors' Responsibility Statement on the true and fair representation of the financial position of the Company.

Corporate social responsibility

Corporate Social Responsibility (Section 135) : Companies Bill 2012 has recommended constitution of a Corporate Social Responsibility ('CSR') Committee of Directors by Companies having a Net profit of Rs.5 Crore or a Networth of Rs.500 Crores or a Turnover of Rs.1,000 Crores in a financial year. This Committee will decide on the expenditure of Companies for CSR activities (not less than 2% of average net profits for preceding 3 financial years) and monitor the implementation of the CSR programme. This initiative is aimed at making business "sustainable and responsible" and looking beyond profits as the sole purpose of business.

Internal Audit and Statutory Audit & Audit Committee

Requirement of internal audit (Section 138) for certain classes of Companies, prescribing qualifications for mandatory Statutory audit of all Companies once a year, provisions relating to appointment, qualifications and disqualifications of auditors, provisions relating to tenure and rotation of Auditors etc. In order to remove conflict, no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years. Further the Act also prohibits the Statutory auditors from having any other pecuniary relationship with the Company of which they are acting as Statutory auditors

Audit Committee (Section 177) – Every listed company and such other companies as may be prescribed shall have an audit committee comprising of majority of independent directors (minimum strength of the Committee: 3). Audit Committee to oversee appointment of statutory and internal auditors, review of financial statements, evaluation of financial controls and risk management systems and monitoring end use of funds. Further the Companies Act 2012 also provides for constitution of Nomination and Remuneration Committee for Listed companies to recommend the appropriate remuneration package to Directors, key management personnel and other employees

Miscellaneous rights of Shareholders

Rights to inspect Register of Members (Shareholders) and Register of Directors (Section 94) with their shareholdings and taking copies thereof

Right to call for Extraordinary General meeting (Section 100) on the requisition of members holding atleast 1/10th of the voting rights

Agenda for Shareholders meeting to contain disclosure of interests of Directors (Section 102) and key management personnel and their relatives in matters to be moved in the General meeting and the entities with which the Company proposes to enter into a contract and in which entity any of the directors or their key management personnel hold not less than 2% equity stake

Corporate Governance in insurance

IRDA's Corporate Governance guidelines are applicable to Insurance companies in addition to the applicable provisions of the Companies Act, 1956. Some of the important requirements under Corporate Governance guidelines are summarised below

Conflicts of interest

Auditors, Directors, Actuaries and other key managerial personnel are prohibited from holding positions which are conflicting with each other. This is to ensure that the business decisions are taken without any bias. For example, the Appointed Actuary cannot take responsibilities of Claims function, since Appointed Actuary is required to evaluate the impact of the variance between with actual and expected claims and the impact on the Company. Similarly the Statutory auditors of the Company cannot have any other contract with pecuniary interest in the Company, as this could conflict with rendering the audit services.

Independence of the Board

While the Guidelines expect the board to be broadbased and have independent directors in line with Clause 49 of the Listing Agreement, till such time the insurance companies are listed, a minimum of 2 independent directors have been advised. Chief Executive Officer shall be a member of the Board if the Chairman of the Board is non-executive, i.e. is not an employee of the Company.

Board of Directors

The Board has been given the responsibility of giving overall direction for the business of insurer, addressing conflicts of interests, ensuring overall compliance, fair treatment of policyholders and employees and developing a corporate culture.

Fit & Proper criteria and Deed of Covenants to be signed by Directors

While Insurance Act prohibits common directorships between life insurance companies and prohibition of agent being a director of an insurance company, the guidelines also expects the incumbent to have a clean track record and a declaration is required to be taken from the Director before his appointment. This declaration has to be renewed on an yearly basis. In order to ensure that there are no gaps in understanding the roles and responsibilities, the Guidelines also requires every Director to sign a Deed of Covenant with the company.

Constitution of Committees

The following Committees of Directors are mandatory for an insurance company:

(a) **Investment Committee** (formed under the Investment Regulations)

(b) **Audit Committee**

(c) **Risk Management Committee**

(d) **Policyholders Protection Committee**

The non-mandatory Committees (optional) are Asset Liability Management Committee, Ethics Committee, Nomination Committee and Remuneration Committee

Investment Committee shall comprise of a minimum of 2 non executive directors, Chief Investment Officer, Chief Financial Officer and Appointed Actuary to oversee the performance of the Investment function of the Company. The Committee shall be responsible for laying down an overall investment policy and operational framework for the investment operations of the insurer. The investment policy and operational framework is recommended by the Committee to the Board for approval and is also responsible for a period review of the investment policy in line with the market changes.

Audit Committee is primarily responsible for periodic review of financial statements, atleast once in a quarter. Further the Committee is also responsible for overseeing the process controls. The Committee also oversees the performance of the internal audit function. Further the terms of appointment and remuneration of any statutory auditors and Concurrent auditors are reviewed by this Committee and recommended to the Board for approval. The Chairman of this Committee shall be an Independent Director and CEO shall not be a member of this Committee.

Risk Management Committee oversees the overall risk management function of the Company. The Chief Risk Officer of the Company shall be responsible for risk management and attends the meetings of the Committee. This committee reviews risk registers prepared by the concerned functions with the help of CRO and the status of action plans to mitigate the risks

Policyholders Protection Committee is responsible for overseeing the interests of Policyholders of the Company. Normally this Committee is headed by an independent director though not mandatory, since the Committee represents Policyholders interests. The general agenda items include review of Customer complaints and Claims performance of the Company.

All mandatory committees shall meet 4 times in a year and not more than 4 months shall elapse between two meetings

Asset Liability Management committee (optional) is responsible for reviewing the asset liability management position and strategy of the Company and advise the company appropriately. Since this is an optional committee, some insurance companies have included this item in Board Investment Committee or Risk management Committee. A Nomination Committee is responsible for evaluation of the candidates for the post of Chief Executive Officer or Managing director and certain other key position. A due diligence is done and their suitability for appointment is confirmed by this committee. The appointment is made by Board of Directors, subject to approval by IRDA. A Remuneration committee is responsible for recommending the remuneration for Chief Executive Officer or Managing Director for approval by the Board, subject to approval of IRDA. The responsibility of Ethics Committee includes monitoring compliance programs of the company, acting as a channel for whistleblower complaints, advising the effectiveness of the compliance structure etc. In some insurance companies, these functions are clubbed with the Audit Committee.

Role of Appointed Actuary

The Guidelines also lay down the role of an Appointed Actuary. He shall also fulfill the ‘fit and proper’ criteria and accordingly confirm that he is ‘fit and proper’ in writing to the insurer before he is appointed. He has the responsibility of informing the Board of any non-compliance or a likely non-compliance within his knowledge. In case he feels the Board does not take any action, he has to inform IRDA. The Appointed Actuary is expected to provide expert or technical advice to the management on matters such as solvency margin requirements, financial condition testing, identification of material risks and management etc.

Statutory auditors

The firm of Statutory auditors of insurance companies will have to possess a track record of at least 15 years. One of the partners must have a qualification on Systems Audit. A cooling off period of 3 years is given between 2 audit tenures with the same insurer. Further one statutory auditor cannot work with more than 2 insurance companies at a time.

Disclosure requirements

The following disclosure requirements have been prescribed alongwith annual financial statements:

(a) Quantitative and qualitative information on the insurer’s financial and operating ratios, namely, incurred claim, commission and expenses ratios

(b) Actual solvency margin details vis-à-vis the required margin

(c) Policy lapse ratio for life insurers

(d) Financial performance including growth rate and current financial position of the insurer

(e) Description of the risk management architecture

(f) Details of number of claims intimated, disposed of and pending with details of duration

(g) All pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the insurer

(h) Details of the board composition

(i) Number of meetings of the Board and committees held during the year and the details of directors who attended

(j) Details of remuneration paid to Independent directors

(k) Any other matters, which have material impact on the insurer’s financial position.

Extensive guidelines on Disclosure norms in websites of insurance companies and Outsourcing by insurance companies have been released by IRDA.

Whistleblower Policy

The guidelines also require insurers to have a Whistleblower policy in place. This is intended to act as a mechanism to promote voluntary reporting of possible frauds and non-compliances. The whistleblower can remain anonymous, if he wishes to.

> “When you stop expecting people to be perfect, you can like them for who they are.”
>
> Donald Miller

JOINT VENTURE (IAS 31) TO JOINT ARRANGEMENTS (IFRS 11) – AN ACCOUNTING TRANSFORM

by Ankur Bharuka

On 12th May, 2011, IASB issued a set of new standards on accounting and disclosing information involving other entities. The work on revising accountings for consolidation and involvements with other entities was on IASB's agenda for a long time. One of the new standards from the set is IFRS 11 *Joint Arrangements* which concentrates on defining, classifying and accounting for joint arrangements. The issue of IFRS 11- *Joint Arrangements* is a first major revision of IAS 31 – *Interest in Joint Ventures* since it was issued in the year 1990. This article elaborates salient features of IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures (revised 2011)* and also highlights new requirements and changes made by these standards vis-à-vis their previous standards. Read on...

About the Author

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Introduction

On 12th May, 2011 IASB issued following new standards covering consolidation and related areas:

- IFRS 10 Consolidated Financial Statements
- IFRA 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IAS 27 Separate Financial Statements (revised 2011)
- IAS 28 Investments in Associates and Joint Ventures (revised 2011)

Effective date for these standards as set by IASB is, for the annual period beginning on or after 1st January, 2013. These standards replace old standards IAS 27 - *Consolidated & Separate Financial Statements*, IAS 28 – *Investments in Associates* IAS 31 - *Interest in joint ventures* and Interpretations SIC 12 - *Consolidation – Special Purpose Entities* and SIC 13 - *JCE-Non monetary Contributions by Venturers*

The purpose of issuing IFRS 11 was to remedy two aspects of IAS 31:

1. Under IAS 31, Structure of the arrangement (i.e. whether the arrangement is through a separate independent entity or just a strategic alliance) was the only determining factor for accounting (i.e. either equity method of accounting or proportionate consolidated method) and
2. Under IAS 31, an entity had a choice of accounting treatment for interests in Jointly Controlled Entities (JCE). This choice gave rise to different accounting policy being adopted by companies and resulting is non-comparable financials statements.

Joint Arrangements (JA):

Joint Arrangements is an arrangement in which two or more parties have joint control. To have joint control parties should have contractually agreed to share control over an arrangement i.e. their unanimous consent is required to make decisions on activities that significantly affects return of the arrangement.

Control is not defined in IFRS 11. But reference can be made to the definition of control given in IFRS 10 *Consolidated Financial Statements* which states that *"an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."*

The standard provides two step analysis of joint arrangement:

1. Assessing existence of collective control over the arrangement and
2. Contractual arrangement gives two or more parties joint control over the arrangement.

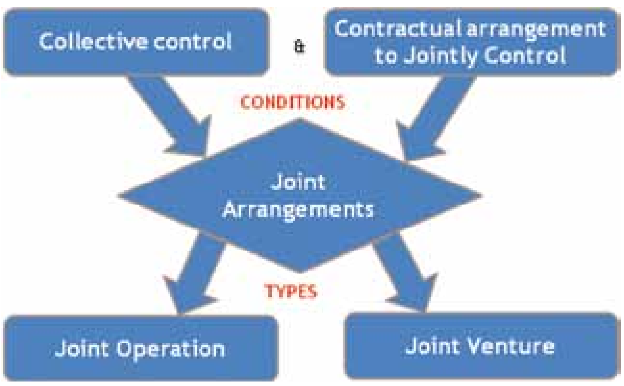
Example:

A, B and C establish an arrangement with voting right as A = 50%, B = 25%, C = 25% and the contractual arrangement specifies that at least 75% of voting is required to make a decision on relevant activity. In this case any combination of investor i.e. A & B or A & C can take relevant decision so collective control exist but for establishment of joint control the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to take the decisions about the relevant activities of the arrangement. But if the voting rights are A = 50%, B = 30% and C = 20%, then there is only one combination i.e. A & B to take decision on relevant activities so even though there is no explicit contractual arrangement to jointly control but it is implied that A & B jointly control the arrangement.

Type of Joint Arrangement:

Joint arrangements are classified into 2 types and the accounting model of the joint arrangement depends on its type.

1. A **Joint Operation (JO)** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are called joint operators.
2. A **Joint Venture (JV)** is a joint arrangement whereby parties that have joint control of the arrangement have rights in the net assets of the arrangement. These parties are called joint venturers.



Rights and obligations of the parties to the joint arrangement determine the type of joint arrangement.

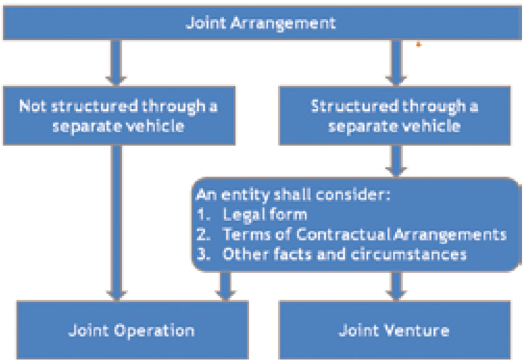
Consider following points while assessing the type of arrangement:

1. Structure of joint arrangement
2. If joint arrangement is through a separate vehicle:
   a) Legal form of separate vehicle
   b) Terms of contractual arrangement
   c) Other facts & circumstances

Joint arrangement not through a separate vehicle is always **Joint Operation**

Joint arrangement through separate vehicle can be Joint Operation or Joint Venture which will depend on legal form, the contractual arrangement and other facts and circumstances.

In Indian scenario, companies registered under The Companies Act, 1956 and other corporate bodies having separate legal entity would meet the criteria of joint venture. For partnership firms and other arrangements, further analysis will be required to be carried out to ascertain the type of arrangement.



Accounting of joint ventures in the books of joint venturers:

In consolidated financial statement:

- Joint Venturer shall recognise its interest in JV as an investment and use equity method in accordance with IAS 28
- The investment in JV shall be initially recognised at cost and subsequently adjusted for the post-acquisition changes in the share of the joint venture's net assets
- Joint Venturer's share of profit / loss and other comprehensive income of the joint venture is included in the profit / loss and other comprehensive income, respectively

In separate financial statement:

- Joint Venturer shall account its interest in JV as an investment in accordance with IAS 27: Separate Financial Statements (2011) i.e. at Cost or as per IFRS 9/IAS 39

Accounting of joint operation in the books of joint operators:

In both, consolidated and separate financial statement, a joint operator shall account for his share of assets, liabilities, revenue and expenditure in accordance with relevant standard applicable to those assets, liabilities, revenue and expenditure

Accounting of transactions between joint operator and joint operation:

- When the joint operator contributes assets to joint operation, it shall recognize gain / loss to the extent of other party's interest in JO
- When the joint operator purchases assets from joint operation, it does not recognize its share of gain/loss until those assets are sold to third party

Accounting by other parties to the joint arrangement:

1. In case of joint venture:
   - In consolidated financial statement, the party that participates in joint venture but does not have control, shall account for its interest in accordance with IAS 28 (revised 2011) if it exercises significant influence, else account it in accordance with IFRS 9/IAS 39.
   - In separate financial statement, if the party exercises significant influence then it can apply paragraph 10 of IAS 27 (revised 2011) i.e. at cost, else apply IFRS 9/IAS 39.
2. In case of joint operation:
   - If the party has the same interest as that of joint operator, then the party shall account its interest in joint operation in a similar way as that of the joint operator (as given above), else apply those standards which are applicable to that interest (i.e. IAS 28 (revised 2011) or IAS 39/IFRS 9).

Conclusion:

The accounting under new standard is Principle based and not Structure base (i.e. the legal form of the arrangement is not a deciding criteria for accounting but Rights and Obligations of the parties to the arrangement decides accounting of joint arrangements).

IFRS 11 would have significant impact on accounting for joint arrangements. It would majorly impact:

1. Jointly Controlled Entities which currently follow proportionate consolidation method of accounting, but subsequent to application of IFRS 11 will meet the definition of joint ventures and will have to adopt equity method. And
2. Jointly controlled entities which currently follow equity method of accounting, but will subsequently be treated as joint operation as per IFRS 11 and will have to adopt proportionate consolidation method.

Indian companies will be impacted by these standards when these will be notified by ministry of corporate affairs under Ind-AS framework.

Comparison of terms between JO & JV

Joint Operation	Joint Venture
• Parties have right to assets and obligations for liabilities	• Separate vehicle have rights and obligation. Not the parties
• Rights, Titles or Ownership of assets are with parties	• Assets brought by parties or subsequently acquired are arrangement's assets
• Arrangement specifies proportion of liabilities, obligations, cost & expense of parties	• JA is liable for its debts and obligations. Parties are liable to Joint Arrangement
• Creditors have recourse against the parties	• Creditors don't have recourse against any party with respect to liability of JA
• Parties have share in expense & revenue	• Share in Profit / Loss of JA

CUSTOMIZED REINSURANCE

by Hemal Sarnobat

About the Author

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Hemal Sarnobat is a student member of the IAI. He is currently working in Property & Casualty Reinsurance Industry.

Introduction:

A customized reinsurance is a reinsurance transaction involving risk transfer where the parameters of risk transfer are tailored depending on the objective of the transaction.

⌘ Main role of all reinsurance

- Protection of Balance Sheet by managing peak risks and exposures (protection against large losses)
- Bring stability over the cycle and protect capital base by transferring selected risks
- Spread risk
- Manage Cash Flow

⌘ "Traditional" reinsurance

- Individual lines of business (Fire, Marine etc) - increasingly smaller segmented boxes
- Typically for 12 month period
- Often commodity-like

⌘ "Customized" reinsurance

- Holistic and yet specific parameter focus
- Pooling of covers to take advantage of correlations (Diversification Benefit by protecting various classes of business)
- Customized solution (Cost effective and Measurable)
- Stability in purchase of protection rather than commodity like (Long term planning approach)

Product Offerings:

❖ Nearly any reinsurance product that falls outside of the "traditional" category.

❖ Often combines elements of traditional reinsurance with ideas from other financial disciplines but always ensures a risk transfer that is quantifiable

Prospective re/insurance	
• Excess of loss re/insurance	• Can be 1, 3 or 5 year period
• Quota-share re/insurance	• Can be combined with profit sharing
	• Single line, multi-line covers
	• Tailor-made risk retention & capacity
Exit strategies for corporate captives	
• Portfolio transfer	• Economic finality through run-off
	• Legal finality through portfolio transfer and sale
	• Support for exit and/ or M&A transactions
Structured finance (Insurance Linked Securities)	
• Securitization	• Earnings and / or balance sheet protection
• Weather Derivatives	• Increase financial leverage & flexibility
• ILW Covers	• Optimise capital structure
• Double Trigger	

Why Customized?

- Opportunity to leverage correlations
- Volatility and/or lack of conventional capacity due to lack of data or historical records
- Guaranteed coverage and pricing over a multi-year period
- Inability to place, 'hard to model' or 'uninsurable risks'
- As a complement to traditional cover or captives
- Potential lower overall price... usually a sharing of the results
- Facilitate exit of business line
- Mitigate or eliminate parts of acquired books of business
- Can be a form of self insurance but with a Capital / Cash protection

Effective Risk Management to include Traditional and Customized

Customized Reinsurance -: Range of Solutions

Aggregate XOL	Loss Portfolio Transfer	Securitization
Capital Relief QS	Captives	Adverse Development Cover
Capital Gearing	Contingent Capital	Weather Derivative
ILW covers	Cat Bond	Double Trigger Covers

What is the future?

- Transparency continues to increase.
- Requirement for increased risk transfer levels.
- Innovation will continue.
- Capital market solutions will continue to grow.
- Regulators and Accountants will look to the US and Europe for guidance how to handle customized reinsurance products – IFRS, US GAAP etc

- The current factor based solvency regime may see a move towards Solvency II/RBC regime in future as the Economic Capital framework has already been introduced by the Regulator. **Customized Reinsurance has a greater recognition under Solvency II/RBC.**
- This creates more opportunities for Customized Reinsurance.

Risk Transfer from an Accounting Perspective

US GAAP - FAS 113:

Accounting and Reporting for Reinsurance Contracts

Transaction qualifies only as reinsurance:

- if it transfers *significant insurance risk* (both underwriting and timing risk);
- if it is "reasonably possible" that the reinsurer will suffer a *significant loss;*
- where a contract contains elements which are *divisible* (separate risk transfer and financing elements) these are to be accounted for separately.

Risk Transfer Tests ("10/10 rule") Evaluation of the present value of all cash flows under reasonably possible outcomes

9a: there must be significant timing and underwriting risk assumed by the reinsurer

- significance not clearly defined under FAS 113
- rule of thumb: min. of 10% of all cash flow scenarios

9b: there must be a reasonable possibility of a significant loss

- reasonable possibility not clearly defined under FAS 113
- rule of thumb: 10% probability of loss

IFRS 4 – B23 (March 2004):

Significant Insurance Risk

- Insurance risk is significant if, and only if, an insured event could cause an insurer (reinsurer) to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance [...].
- [...] even if the insured event is extremely unlikely or even if the expected (i.e. probability-weighted) present value of the contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.
- No distinction made between underwriting or timing risk.

UK GAAP – ABI SORP - FRAG 35/94:

Transfer of significant insurance risk

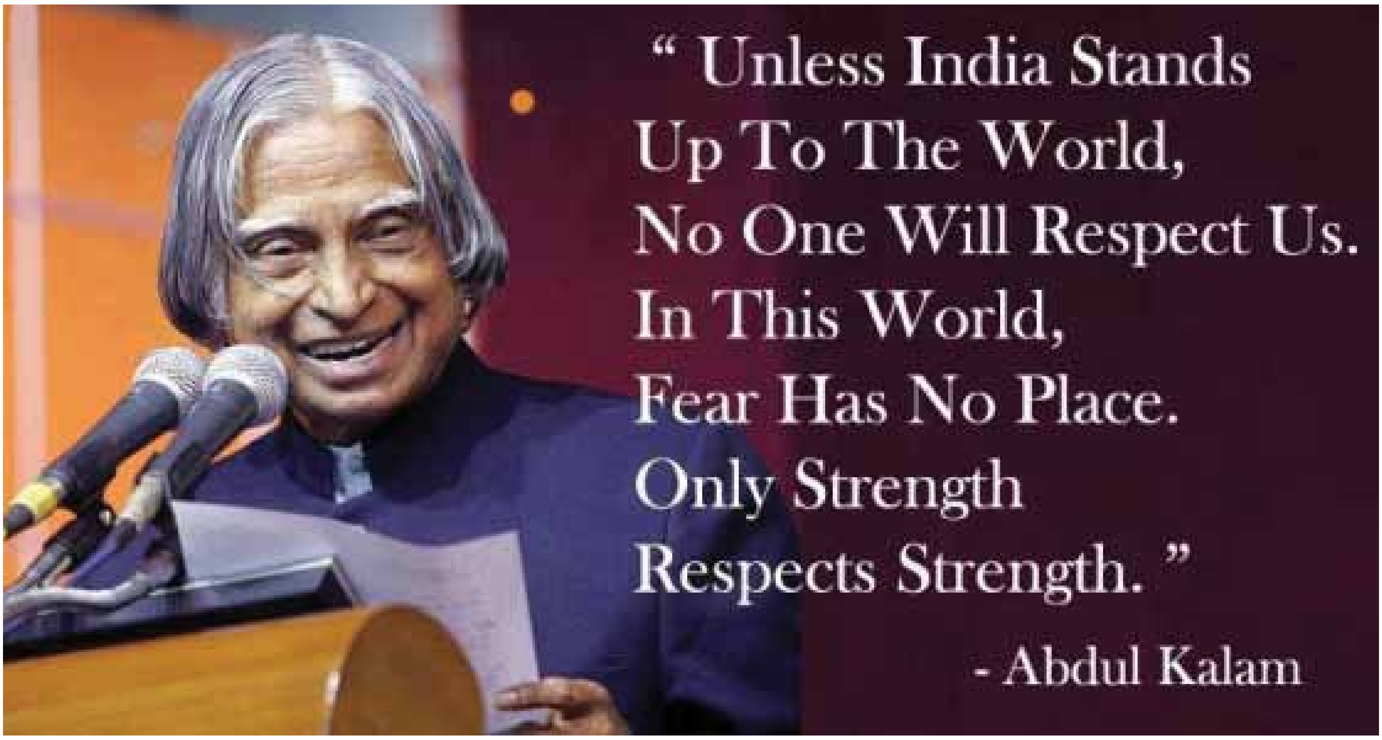
- [...] either or both underwriting or timing risk;
- It is uncertain whether such loss event will occur, when it will occur, or what cost it will have.
- [...] reasonable possibility of a significant range of outcomes [...] in the context of the commercial substance of the contract or contracts being evaluated as a whole [...].

Accounting Implications on Reinsurance

- Principally, a **guaranteed pay back** in a contract or series of contracts require the set up of a liability (respectively an asset) under US-GAAP and IFRS.
- Providing reinsurance may trigger consolidation under US-GAAP FIN 46R, even without any true "ownership" components.
- In some cases compliance is a bigger issue than accounting: **motivation for and/or substance of a contract is key.**

Conclusion

Customized Reinsurance is not new in concept/technique – being used for more than 40 years. Customized Reinsurance fulfils the same business purpose as traditional reinsurance; both are intended to spread risk. Long term stability and addressing Counter party credit risk is more important today as Security selection remains paramount. Careful selection of traditional and customized solutions can provide optimal balance sheet protection and streamline costs.



THE BEAUTIFUL JAPAN WHY CAN'T WE BE LIKE THEM?

1 Japanese children clean their schools every day for a quarter of an hour with teachers, which... led to the emergence of a Japanese generation who is modest and keen on cleanliness.

2 Any Japanese citizen who has a dog must carry bag and special bags to pick up dog droppings. Hygiene and their eagerness to address cleanliness is part of Japanese ethics.

3 Hygiene worker in Japan is called "health engineer" and can command salary of USD 5000 to 8000 per month, and a cleaner is subjected to written and oral tests!!

4 Japan does not have any natural resources, and they are exposed to hundreds of earthquakes a year but do not prevent her from becoming the second largest economy in the world? -

5 Hiroshima returned to what it was economically vibrant before the fall of the atomic bomb in just ten years?

6 Japan prevents the use of mobile in trains, restaurants and indoor

7 Japan students from the first to sixth primary year must learn ethics in dealing with people -

8 Japanese even though one of the richest people in the world but they do not have servants. The parents are responsible for the house and children -

9 There is no examination from the first to the third primary level; because the goal of education is to instill concepts and character building, not just examination and indoctrination. -

10 If you go to a buffet restaurant in Japan you will notice people only eat as much as they need without any waste. No wasteful food.

11 The rate of delayed trains in Japan is about 7 seconds per year!! They appreciate the value of time, very punctual to minutes and seconds

12 Children in schools brush their teeth (sterile) and clean their teeth after a meal at school; They maintain their health from an early age -

13 Students take half an hour to finish their meals to ensure right digestion When asked about this concern, they said: These students are the future of Japan

COUNTRY REPORT : INDONESIA

by Pranshu Maheshwari & Anshuman Anand

Country Overview -

Greetings from Indonesia! Considering the latest developments, it is an apt time to be in Indonesia as the country remains one of the most exciting markets for life insurance in global terms. Indonesia is one of few life markets in the world that is both rapidly growing and quite big in absolute terms. Premiums have been growing at a robust pace of ~ 25% per annum as the growing middle class increasingly takes advantage of the offerings of the life insurers. This growth has been sustained despite the fact that there has not been a voluminous increase in the life insurance penetration which as per market reports stands somewhere between 10% - 20%. The life sector in Indonesia is dominated by subsidiaries of regional and global multinationals that have access to global capital markets and best practices in terms of management. Based on market estimates, most of the life insurance companies in Indonesia have reported strong, profitable expansion of their businesses and this grown can be mainly attributable to at least one of the following factors:

- Higher agency productivity;
- Significant expansion in agency forces;
- Forging of new bancassurance relationships with major banking groups;
- New product offerings

Although the country continues to remain on a strong growth trajectory, some of the key challenges which are being faced are as follows

- Indonesia's overall business environment is still developing and catching up with the more developed economies in the region although this has not hindered the tremendous pace of development of the life segment
- Aligning the regulatory framework to be consistent with the prevalent global best practices and industry's preparedness to adapt to the changes

Regulatory Overview -

New Regulator

The Insurance Industry in Indonesia is regulated by Otoritas Jasa Keuangan ("OJK") which works under Ministry of Finance ("MOF"). OJK is the newly formed Financial Services Authority which serves to regulate and supervise activities in the financial sector including: banking, financial markets, insurance and re-insurance, pension funds and other financial institutions. The functions and authorities of the MOF that were earlier performed by Bapepam-LK (erstwhile Financial Services Regulator) have been transferred to OJK since 31 December 2012.

Recent Regulatory Changes

I. Gross Premium Valuation

The reserving methodology has been changed from Net Premium Valuation ("NPV") to Gross Premium Valuation ("GPV") effective 1 January 2013. This is applicable for all products except Shariah. For Shariah products, the effective date of GPV implementation has been proposed as 1 Jan 2014. Some key features of the GPV regulation are:

- Provision for Adverse Deviation ("PAD") with 75% and 95% Confidence Level for reserving and risk based capital respectively
- Negative reserves zeroised at product level
- Interest rate based on government bond yield
- Transition factors for 2013, 2014 and 2015.

II. New Risk Based Capital (called MMBR in Indonesia)

In line with the GPV regulations, the regulations on new Risk Based Capital ("RBC") have been implemented and are effective from 1 January 2013. Prior to the issuance of these new regulations, RBC was in place however some changes have been made as follows:

- Existing risk charge basis modified
- New risk charges introduced, for example, to capture Operational Risk
- Transitional factors allowed for 2013, 2014 and 2015 with the intention to gradually scale up the risk charge impact

III. IFRS

Indonesia adopted IFRS Phase I from 1 January 2012. However, in consultation with the accounting board, the insurance industry has implemented this change effective from 31 December 2012 in order to align with the new GPV regulations.

IV. Reinsurance

Effective 1 January 2013, there are some new regulations on reinsurance which may affect some of the existing reinsurance arrangements of the life insurers. Some of the key features include

- Minimum retention per life is IDR 100 million for Surplus basis
- Minimum retention is 50% of Gross Premium for Quota Share basis

In addition to above, there are some draft regulations proposed by OJK like revision of the Law on Insurance and they are also expected to come up with a technical note on GPV in near future. We will publish further updates if there have been any substantial developments relating to these. Stay tuned!

About the Authors

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Puzzle No 189:
What fills more of the available space – a square peg in a round hole or a round peg in a square hole?

Puzzle No 190:
Let x and y be two whole numbers, x>=y. When (x2 + y2) is divided by (x +y), let the quotient be q and the remainder be r. If q2 + r = 6146, find all possible values for x and y.

Solutions to puzzles:

Puzzle No 183:
One, one, nine, three and nine

Puzzle No 184:
93,239 or 95,759

Puzzle No 185:
The sequence is formed by the integers that do not contain the letter "e". The next two terms are 42 and 44.

Puzzle No 186:
The solution of TIM × SOLE = AMOUNT is 257 × 3806 = 978142. Thus LEAST is 06932, MOST is 7832, and LEAST is less than MOST. The difference between the two is 900, which in letters is ALL.

Correct solutions were received from:

Puzzle No 183:
1. Gyanesh Jain
2. Graham Lyons
3. V. V. N. K. K. Sarma
4. Vaishnavi Purandare
5. PS Durga Prasad

Puzzle No 184:
1. Gyanesh Jain
2. Trupti Apraj
3. Shilpi Jain
4. Vikas Khurana
5. Titiksha Jain
6. Aswin Pugalia
7. B. Krishnan
8. R. Mythili
9. Graham Lyons
10. Richie Lahoti
11. Manoj Barbhaya
12. Ram Nivas Meena
13. C. R. N. Krishna Sai
14. Puja Rege
15. Prathamesh Ghanekar
16. Vaishnavi Purandare
17. PS Durga Prasad

Puzzle No 185:
1. Puja Rege
2. Charumathy Balan
3. Vaishnavi Purandare

Puzzle No 186:
1. Vaishnavi Purandare

shilpa_vm@hotmail.com

puzzle No. 10 for the month of April 2013

HOW TO PLAY
Fill in the grid so that every horizontal row, every vertical column and every 3x3 box contains the digits 1-9, without repeating the numbers in the same row, column or box.
You can't change the digits already given in the grid.

- Sudoku Puzzle by Vinod Kumar

HARD

9							8	
4					2	1		
6					3	5		
	7			5			4	
	6			4			2	
	8			6			9	
		2	7					3
		5	1					8
	3						1	4

Many Happy Returns of the day

the Actuary India wishes many more years of healthy life to the following fellow members whose Birthday fall in **April 2013**

A BALASUBRAMANIAN
M U UPADHYAYA
SAMBASIVA I RAO

(Birthday greetings to fellow members who have attained 60 years of age)

HARD SOLUTION

Solution of Sudoku Puzzle No.9 published in the Month of March 2013

2	3	8	9	6	1	4	5	7
1	4	7	5	3	2	8	9	6
9	6	5	8	4	7	3	1	2
6	5	2	3	7	9	1	8	4
7	8	4	1	5	6	9	2	3
3	1	9	4	2	8	7	6	5
8	2	3	6	9	4	5	7	1
5	7	1	2	8	3	6	4	9
4	9	6	7	1	5	2	3	8

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Who ?

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- An **Engineer** or studying for it.
- A **Management Graduate** or studying for it,
- A **Chartered Accountant, Cost Accountant** or a **Company Secretary** OR studying for any of these,
- Have a degree in **Finance** or studying for it, OR any other, but you have love for Mathematics and skills in Numeracy.

With minimum of 10+2 or even a maximum of a Phd in Maths or Stats or any other.

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RNI NO. - MAHENG/2009/28427
Published on 16th of every month
Postal Registration No. - MH/MR/South/297/2012-14
Posted between 17th - 23rd of every month