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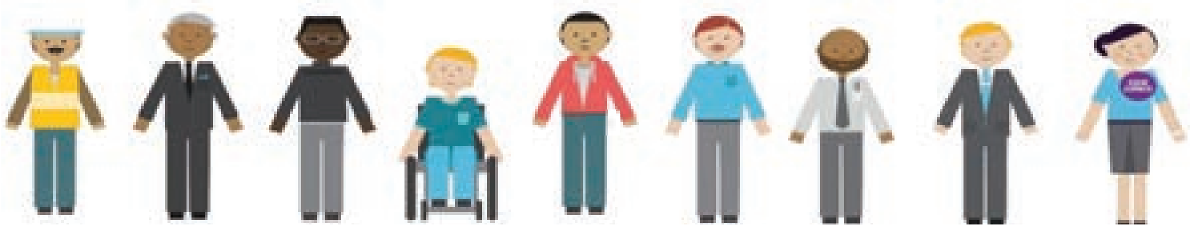

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CONTENTS

"A noble man's thoughts will never go in vain. -Mahatma Gandhi."

"I hold every person a debtor to his profession, from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to help and ornament thereunto -Francis Bacon"

FROM THE DESK OF PRESIDENT

Mr. Rajesh Dalmia 4

FROM THE DESK OF CHIEF EDITOR

Mr. Sunil Sharma 5

FEATURES

Source of Earning by Ms. Vandana Baluni 6

Service tax on reimbursement of salary paid to expatriate employees by CA Kashish Gupta & CA Yogesh Gaba 9

Join the movement of viewing risk as being two sided by Mr. Robert Johnsen 13

20TH ASIAN ACTUARIAL CONFERENCE (20TH AAC)

Invitation 15

Call for Papers 16

INTERVIEW

Mr. Munish Sharda, CEO- Future Generali Life Insurance Co. 19

Mr. Derek Cribb, Chief Executive - IFoA 22

INDUSTRY UPDATE

Volatility in Discount Rates

Mr. Akshay Pandit & Ms. Rashi Manek 25

AG UPDATE

Advisory Group on Pensions, Other Employee Benefits & Social Security 28

COUNTRY REPORT

SriLanka by Mr. Frank Munro 29

IAI ANNOUNCEMENT

7th Capacity Building Workshop on GLM Pricing Techniques and Excess of Loss Pricing Skills 30

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RSA 2

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From the Desk of the President

– Mr. Rajesh Dalmia

Dear Members,

I am really pleased to share that the council in its last meeting has approved a very ambitious budget for development of the profession. This has enabled us to initiate quite a few projects some of which I would hope are completed before end of my tenure. Nevertheless, these projects would have significant impact on all aspects of the functioning of the Institute.

Some projects would have an impact on members directly. For example, the project on redesigning of website so that it is operable on multiple devices and multiple browsers. The idea is that it should also be easy for members and outsiders to get the information they need. This would also be supported by strengthening the IT infrastructure at the Institute. Some would not be that visible though are necessary and should have been done. For example, business continue planning or disaster recovery planning is a very important aspect for any organization. If something happens to the current building then we would lose significant amount of data. Digitization of all these records is necessary for such a situation and that's another project which has been undertaken.

We are knowledge based profession and knowledge plays an important role in our working. Library is a key source of knowledge. However, we do not see much usage of our library currently. Therefore, it would be good to understand if you would like us to subscribe to some online libraries and buy these subscriptions for you. UK profession tried with this idea by allowing member subscription to Ebsco and they found that members were not using this facility and they stopped. Alternatively, we can work on digitization of our library. It is important to understand your preferences so that we do not end up spending on something which is not useful.

We would have to improve on the various initiatives we have already undertaken. For example, videos for CPD were launched in the month of March and we got lot of feedback for the same. We need to improve the infrastructure around the same so that these feedbacks are addressed in the next version. We integrated sms with the examination results. However, some sms did not reach due to mobile numbers were not captured properly. We need to force that it is captured correctly in our database.

Recently we launched an employment portal for our members. Members on their login can enter various details and select that their profile would be available for the employment portal. Once we have some substantial number of profiles on this database then we would enable the employers of actuaries to access these portals for their employment related activities. This would be very helpful for members and employers, both. However, there would be some safeguards for example your current employer will not be able to see that your profile is uploaded in this database. I would request members to look into the same and provide their feedback, if any.

The last exam diet we experimented with the way we conduct our exams and partnered with a global vendor for conducting the exams. We ended up spending three times the amount we used to spend normally and yet we got mixed reviews. Some were happy with the facilities and some were unhappy with the change. A lot of learning happened and we plan to use the best of both the approaches for September. Hopefully, this would improve the experience. We agree that not every experiment would be successful and it does not mean that we stop experimenting. Next year the exams would have to be conducted in March in place of April so that students who are working would find it easier to take the exams.

I would be happy to have your views on the things that you believe Institute should be doing as we are open to take-up various projects.

From the Desk of

Chief Editor

– Mr. Sunil Sharma

Dear Members,

Actuarial examinations for summer 2016 season and Board meetings of most of the insurers for the period ending 31st March, 2016 is over and the actuarial team is relatively relaxed before the year end regulatory reporting.

This year the Life Insurance industry in India has shown a significant growth in the new business volume. Overall new business premium grew by 11% to ₹59,663 cr compared with ₹53,595 cr last year. While Private Life insurance Industry grew at 14% to ₹28,537 Cr, the Public sector Life insurer grew at 9% to ₹31,126 cr. The market share of public sector rose by about 1% as a result of better growth. This is pretty good sign and indicates the strength and the resilience of the insurance Industry.

One other indication of spread of insurance across the population is number of policies sold during the financial year. The number of policies sold during FY 2016 grew at 3.3% to 26.7 million (6.2 milllion from pvt insurers and 20.5 million from public sector insurer). Per policy premium size for private insurers have shown a remarkable growth of 70% and increased from 24 K to 41 K. The case size for the public sector Life insurer remained at 16K. Overall the year has been a very successful year for Life Insurance Industry.

One of the major concerns that the Authority is concerned is the acquisition expense overrun. Majority of the insurer are in development phase and therefore there are large acquisition cost and cost of expansion. However, there is a feeling that companies need to reduce their expenses in order to provide better value to customers.

Actuaries can play a significant role in finding out the inefficiencies in their organisations and help optimise costs. As I always mention, given current level of under insurance in India there is a huge potential for the insurance. Lets utilise this opportunity to maximum to ensure a win win situation for all stakeholders. With this message I would like to sign off.

LETTER TO THE EDITOR

We invite readers to respond briefly to our articles and to suggest new features with letters to the editor. Kindly mail your responses on library@actuariesindia.org with your name & contact details. Appropriate responses will be published in Actuary India magazine with the approval of competent authority.

FEATURE

Source of Earning

Can this be a true measure to analyse profit of Insurance Company?

It is always fascinating to relate performance of two companies; but no two insurance companies are alike, either in terms of their size, experience or even in the case of management strategies. Then how this would happen in reality? Is there any practical way of comparing the performance (and profitability) of two very different insurers? Or is it a conundrum - **E**nd **O**f **S**tory (EOS)?

The answer is probably hidden if we reverse the above acronym - yes, it is **S**ource **O**f **E**arnings, commonly known as **SOE**. The process is also known as earnings-by-source or analysis of surplus, depending on jurisdiction. The main idea behind Source of Earnings is to provide another representation of an income statement of an insurance company, a life insurance company in the present context. The overarching objective is to identify and quantify the various drivers of profit and loss reported in a financial statement.

This article is an attempt to put forward a view around SOE as a concept and how it can be used in practice.

Brief Methodology

As the context is now set, let me begin with a brief methodology. The SOE provides an analysis of the difference between actual income and expected income i.e. the income that would have been reported had all assumptions at the start of the reporting period been realized during the reporting period based on Best Estimate assumption. It also highlights the items that cause a variance to expected income.

In the regular income statement, the income is viewed as:

Actual Income = Σ Actual Revenues - Σ (Actual Expenses and other outgoes) ....(1)

On the other hand, in SOE, the income is viewed as a baseline expectation of income plus any experience gain or losses (deviations between actual cash flows and the expected cash flows based on Best Estimate assumptions):

Actual Income = Expected Income + Σ Experience Gain/Losses ....(2)

where,

Expected Income = Σ Expected Revenues - Σ Expected Expenses/ Outflows and

Σ Experience Gain/Losses = Σ Actual Cash Flows - Σ Expected Cash Flows

As you can see, formula (2) will simplify to equal the formula (1) at the end. Thus, they both represent the income accurately, with the only difference being how the cash flows are presented.

Components of SOE

Like any income statement, a number of components come together to form a Source of Earnings analysis. Below table is an alternative presentation of an insurance company's net income, in a different form than the traditional income statement. The components listed below would be calculated regardless of their materiality to give an idea about the performance of key drivers which affect profitability of a company.

	Period of Investigation	
	Year XXXX	Year XXXX -1
Expected Profit on In-Force Business		
Impact of New Business		
Experience Gains & Losses		
Investment		
Mortality		
Lapse/Surrender		
Expenses		
Other small experiences, if any monitored by company		
The impact on income from management's actions, changes in actuarial assumptions / margin in assumptions / actuarial methodology and error corrections made during the year. This can be again broken down at more granular levels if required.		
Other		
Earnings on Operations (pre-income tax)		
Earnings on Surplus		
Income before Income Tax		
Income Taxes		
Net Income		

Please note that the above list is meant for illustration only and should not be considered as exhaustive. There may be additional sources of earnings for some companies that are material. These can be calculated and shown separately.

The terminologies used in the sources of earnings analysis, as depicted above are described below.

Expected Profit on In-Force Business – The profit that would be expected using the best estimate assumptions of the actuarial liability at the start of the period.

Impact of New Business – The impact on income at the time of sale from new business written during the year.

Experience Gains and Losses (G/L) – This could be seen as the most important part of SOE exercise as this will help to identify the key drivers which have impacted profit either in favour or in adverse of company. Experience G/L is basically the impact on net income from differences between the company's actual experiences during the year compared to the assumptions made for the actuarial liabilities at the start of the year. This can be further drilled down to all the profitability drivers.

- **Investment G/L**

  This item represents the experience gain/loss on investment income from the assets backing the actuarial liabilities. Investment gains can be the result of higher income returns than expected and/or realized gains on the sale of investments.

- **Mortality G/L**

  This item is specifically designed to capture the experience gain/loss from actual death claims received than expected claims.

- **Lapse G/L**

  Similarly, lapse gain/loss captures the gain/loss from premium income experience and reserve movements related to lapse behaviors.

- **Other Experience G/L**

  Other experience gain/loss represents the gain/loss resulted from the differences between the actual experience incurred and the best estimate expected experience for the reporting period with respect to the drivers, other than mentioned above.

Management Actions and Changes in Assumptions – The impact on income from management's actions, changes in actuarial assumptions / margin in assumptions/actuarial methodology and error corrections made during the year. This again can be broken down at more granular levels if required.

Other – This captures any other variance from expected profit on in-force business, not included in any of the above categories.

Pros & Cons of SOE

Having understood the methodology and various components of SOE, it is imperative to discuss the pros and cons associated with this approach.

Before listing down the pros, I would like to quickly touch upon the usability of SOE analysis. In assumption setting - gains or losses resulting consistently from any one component mentioned above should help in assumption setting and hence is useful for both pricing or valuation functions.

Even after a thorough SOE analysis is carried out, some unexplained variances would still remain and that can highlight the areas of data or system irregularities.

Some of the advantages of SOE analysis are:

— The formulae as described earlier, are relatively simple and intuitive, hence it is easy to communicate

— Consistently applied from period to period as the sources are additive over time

— Technically robust- includes all material components of reported earnings

— The results can be reconciled to Reported Earnings without the need for unexplained material "balancing items" if done properly

— The structure of SOE analysis is consistent with the manner in which earnings are reported and this can be compared with the similar analysis in another insurance company, our starting point of discussion in this article.

While the above pointers work in favour of using such analysis in measuring performance of insurance companies, we should bear in mind that any SOE analysis represents an apportionment of total earnings which is sensitive to the methodology, assumptions and level of approximation. As no technical measurement is perfect, SOE also comes with its own set of challenges like:

— Order of calculation, or for that matter, sequence of analysis in experience variance will have an impact on the results. There could be second-order effects of experience variations, which need to be allocated in some reasonable manner

— Depending on the method chosen to implement an earnings analysis, there could be items that cannot be precisely reconciled.

— Similarly, method of setting and applying assumptions on cash flows might also have an impact on results as every company has different way of applying assumptions.

— A similar issue arises with respect to reporting on a period-by-period basis or a year-to-date basis. For example, expected profit for a quarter could vary if an assumption is changed during a year

— There may be practical difficulties in determining the specific components necessary to complete the analysis of the impact of new business

Conclusion

Due to complex nature and inherent uncertainties in the life insurance business, SOE analysis can be an effective way to form a better view around the quality of business and also to deliberate on whether the earning pattern is sustainable.

By implementing SOE mechanism, stakeholders can form a better understanding of the business they are into and also assess the financial results in view of improving profitability by opportunity identification. Not only that, it also helps in establishing a control framework around financial statement preparation process by providing insights into the validity of the company's data and systems – and this is not trivial in current ever-changing regulatory landscape.

Even if companies do some form of such analysis, unfortunately the usefulness of SOE analysis as a management tool has been largely overlooked.

This analysis should be viewed as a strong and effective management tool rather than simply an actuarial exercise.

Reference:

- Guidelines on Sources of Earnings Disclosure (Life Insurance Companies) as prescribed by the Office of the Superintendent of Financial Institutions Canada
- Draft educational note on Sources of Earnings: Determination and Disclosure published by the Canadian Institute of Actuaries in 2004

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Service Tax on Reimbursement of Salary Paid to Expatriate Employees

Deputation of employees in India by a parent foreign Company for activities to be performed in India either for parent or for subsidiary has always been a matter of litigation before judicial forum but every time department was replied by judiciary with that most gnomic phrase "held against revenue or held in favour of assessee". In this article, an attempt has been made to analyse the statutory provision of Service Tax Laws covering three situations. The purpose sought to be achieved is to provide a handy reference tool to all professional colleagues and to ignite a spark of new thought apposite to toothcomb analysis so as to use it in all professional assignments in hand.

FACTUAL MATRIX-1

H Ltd and S Ltd are Holding and Subsidiary Companies. H Ltd is situated abroad and S Ltd is in India. Some employees of H Ltd were deputed in India to perform task of H Ltd. As per the tripartite agreement between H ltd., S Ltd. and employees, Payroll and TDS related matters were dealt with by S Ltd. Meaning thereby salary to employees were paid by S Ltd in India in their Indian Bank Accounts but right of termination vests with H Ltd. Salary paid by S Ltd is claimed on cost-to-cost basis from H Ltd.

QUESTIONS TO BE DISCUSSED:

1. Whether the reimbursement received by the S Ltd is a consideration for any service provided by the S Ltd to H Ltd?
2. Whether the activity of transfer of employees to Indian subsidiary is "supply of manpower"?

ANALYSIS OF LEGAL PROVISIONS:

A. To be a 'Service' there should be an Activity, Consideration and distinct persons

a. Meaning of "Service"

As per section 65B(44) of Finance Act, 1994- "Service" means any activity carried out by a person for another for consideration.....but shall not include-

a. .....

b. A provision of service by an employee to the employer in the course of or in relation to his employment;

c. .....

b. Meaning of "Consideration"

As per Explanation to section 67 of Finance Act, 1994- For the purposes of this section,-

a. "consideration" includes-

i. any amount that is payable for the taxable services provided or to be provided;

ii. any reimbursable expenditure or cost incurred by the service provider and charged, in the course of providing or agreeing to provide a taxable service, except in such circumstances, and subject to such conditions, as may be prescribed;

iii. .....

As per section 2(d) of Indian Contract Act, when at the desire of the promisor, the promisee.... promises to do or abstains from doing, something, such act or abstinence or promise is called a consideration for the promise.

Further 2.2.1 of the CBE&C's "Taxation of Services": An Education Guide': 'consideration' means everything received or recoverable in return for a provision of service which includes monetary payment and .... as well as the recharges between the establishments located in a non-taxable territory on the one hand and taxable territory on the other hand.

c. **A perusal of supra cited provisions reckons that important requirements of 'service' are –**

- It should be 'activity'
- Should be carried out by one person for another
- Activity should be for consideration

d. **The word 'activity' has not been defined in the Act. Para 2.1.1 of CBE&C's 'Taxation of Services:** An Education Guide' states that activity would include an act done, a work done, a deed done, *an operation carried out, execution of an act*, provision of a facility etc. It is a term with very wide connotation. As per Advanced Law Lexican a legal dictionary, 'activity' means any *cost incurring operation* within an organisation, which probably includes practically everything that happens. In terms of facts of the case, it can be succinctly construed that S Ltd has done an activity for H Ltd by handling payroll as well as income tax matters of expatriate employees for which *cost has been incurred* in the form of payment of salaries to expats. Thus an *'activity'* has been performed by S Ltd.

e. **One person must do an activity for another.** This means that service provider and service receiver must be separate persons. S Ltd is a subsidiary of H Ltd. In case of holding and subsidiary relationship, there are two distinct entities. Thus, S Ltd and H Ltd are two independent entities distinct from each other.

f. **An activity must be done by a person for another for consideration.** As per Indian Contract Act, consideration must be at the *desire* of promisor i.e. H Ltd in the instant case. If promisee promises to act as per desire of promisor, such act is called consideration for the promise. Stress shall be laid on phrase '*desire of promisor*'. The phrase signifies that whether consideration is there or not, has to be determined as per desire of the promisor. If an act is done by the promisee as per desire of promisor, doing such act as per desire is called as consideration for the promise. However, there should be *something in return* for the service i.e. assessee should charge the fee for the service. In the instant case, S Ltd has not charged any fee for the activity performed for H Ltd. Thus there is no consideration for the promise.

g. **On perusal of above provisions, it is construed that**

   a. S Ltd has done an '*activity*' for H Ltd and

   b. They are '*distinct persons*' and

   c. As no fee is charged for the activity, there is no '*consideration*'.

Henceforth, it is not a service.

h. **Since it is not a service, hence question of levying service tax on reimbursement do not arise.**

B. H Ltd is not providing any service

a. As the employees are deputed in India to perform certain task of Group Company for which S Ltd has done arrangements for payment of salaries, assignment of tasks to be performed etc. In this process, H Ltd has obtained the services of S Ltd in consideration of reimbursement of actual cost incurred. In the succeeding para, necessary legal provisions are reproduced which provide accentuation to the captioned view.

b. **Meaning of Service of "Supply of manpower"**

   As per Rule 2 (1) (g) of the Service Tax Rules, 1994- "supply of manpower" means supply of manpower, temporarily or otherwise, to another person to work under his superintendence or control. In Circular No. *127/09/2010-ST*, dated *16.08.2010* it has been clarified that, "it is settled legal position that unless the link or nexus between the amount and the taxable activity can be established, the amount cannot be subject to service tax".

c. Nexus between the amount and taxable activity exist in the hands of S Ltd but not in the hands of H Ltd. It is pertinent to note that *H Ltd is the service receiver, not the service provider.*

Hence, it is not a case of 'Supply of Manpower Service' by H Ltd.

ANALYSIS FROM OTHER VIEWPOINTS

VIEWPOINT 1: REIMBURSEMENT IS NOT INCLUDED IN VALUE OF SERVICE

Presuming a situation in which impugned service becomes taxable for other reasons which may be provided by another school of thought, even then it can be contended that reimbursement is not includible in '*value of service*'. In this regard, we wish to reproduce relevant para of judiciary view in the case of ***Intercontinental Consultants & Technocrats (P.) Ltd. Vs Union of India [2012] 28 taxmann.com 213 (Delhi)*** which provides accentuation to the fact that reimbursement is not a consideration for service-

"18. Section 66 levies service tax at a particular rate on the value of taxable services. Section 67 (1) makes the provisions of the section subject to the provisions of Chapter V, which includes Section 66. This is a clear mandate that the value of taxable services for charging service tax has to be in consonance with Section 66 which levies a tax only on the taxable service and nothing else. There is thus in built mechanism to ensure that only the taxable service shall be evaluated under the provisions of 67. Clause (i) of sub-section (1) of Section 67 provides that the value of the taxable service shall be the gross amount charged by the service provider "for such service". Reading Section 66 and Section 67 (1) (i) together and harmoniously, it seems clear to us that in the valuation of the taxable service, nothing more and nothing less than the consideration paid as quid pro quo for the service can be brought to charge. Sub-section (4) of Section 67 which enables the determination of the value of the taxable service «in such manner as may be prescribed» is expressly made subject to the provisions of sub-section (1). The thread which runs through Sections 66, 67 and Section 94, which empowers the Central Government to make rules for carrying out the provisions of Chapter V of the Act is manifest, in the sense that only the service actually provided by the service provider can be valued and assessed to service tax. We are, therefore, undoubtedly of the opinion that Rule 5 (1) of the Rules runs counter and is repugnant to Sections 66 and 67 of the Act and to that extent it is ultra vires. It purports to tax not what is due from the service provider under the charging Section, but it seeks to extract something more from him by including in the valuation of the taxable service the other expenditure and costs which are incurred by the service provider «in the course of providing taxable service». What is brought to charge under the relevant Sections is only the consideration for the taxable service. By including the expenditure and costs, Rule 5(1) goes far beyond the charging provisions and cannot be upheld. …..»

VIEWPOINT 2: ANOTHER GROUND TO AVOID LEVY OF SERVICE TAX

a. In case if tax authorities adjudge impugn service as taxable, to avoid the levy, shed of following view may be taken:

   "Said arrangement (paying salary to expats, deducting and depositing TDS thereon etc) has been done by H Ltd to simplify and ensure correct statutory compliance with provisions of Income Tax Act, 1961 in respect of income earned by expatriate employees in India. Otherwise, if salary is paid in bank account of expat in France, S Ltd has to arrange for 15CA/CB forms to remit salary abroad, has to refer to DTAA Agreement with France and consequently might incur cost for all this."

b. Therefore, in light of above, a standpoint may be taken that aforesaid procedural arrangement has been done to ensure compliance with Income Tax Act, 1961 and there is no intention to earn profit by S Ltd.

FACTUAL MATRIX-2

Some employees are deputed in India to perform task of S Ltd. Employees are on permanent payroll of H ltd. Under tripartite agreement between H Ltd, S Ltd and the Employee

a) Employee served the S Ltd for a particular term;

b) Payroll and TDS related matters were dealt with by S Ltd. Meaning thereby salary to employees were paid by S Ltd.

QUESTION TO BE DISCUSSED:

Whether salary paid to employees by S Ltd is 'service by employee to employer' and not 'service' under section 65B(44)(b)?

Analysis of Legal Provisions (as per Authority of Advance Rulings, Central Excise, Customs and Service Tax, New Delhi in case of North American Coal Corporation India (P) Ltd [2015] 64 taxmann.com 259):

One has to go by the definition of service and if the definition of service excludes the service offered by employee to the employer then it has to be so held. For interpreting this clause then, one cannot go beyond the past entries available prior to 2012 and cannot interpret this clause on the basis of that entries that will be against the canons of interpretation.

It is trite that employees would not get salary from the H Ltd when they are offering services to S Ltd, in that behalf, benefits are mutually exclusive, at least so far as, they are concerned with the salary.

Once this position is correct, there can be no question of attracting the service tax for the salary paid to employees. Thus, there shall be no liability to pay service tax on the salary and the allowances payable by the S Ltd to the employee in terms of the dual employment agreement and such salary will not be eligible to levy the service tax as per the provisions of the Finance Act.

FACTUAL MATRIX-3

Some employees are deputed in India to perform task of S Ltd. Payroll and TDS related matters were dealt with by H Ltd. Meaning thereby salary to employees were paid by H Ltd. Salary paid by H Ltd is claimed at par from S Ltd.

QUESTIONS TO BE DISCUSSED:

1. Whether the reimbursement received by the H Ltd is a consideration for any service provided by the H Ltd to S Ltd?
2. Whether the activity of transfer of employees to Indian subsidiary is "supply of manpower"?

ANALYSIS OF THE LEGAL PROVISIONS:

Prior to 01.07.2012, service provider i.e. H Ltd is not a 'manpower recruitment or supply agency' and therefore levy of service tax was not attracted [Section 65(105) (k)].

➢ **Prior to 01.07.2012**

a. Prior to 01.07.2012, there was a list specifying services which are taxable. During those times, it was disputed that whether 'supply of manpower' by holding company to subsidiary company qualifies for *'supply of manpower' service or not*. Therefore, it was germane to acquaint with definition of 'supply of manpower' given u/s 65 reproduced below:

   As per section 65(105) (k) of Finance Act, 1994 "taxable service" means any service provided or agreed to be provided to any person, by a manpower recruitment or supply agency in relation to the recruitment or supply of manpower, temporarily or otherwise, in any manner;

   Explanation ......

b. It is pertinent to note that phrase used was 'by a manpower recruitment or supply agency'. This means a service can be said to be a service of 'supply of manpower' only if it is provided by manpower recruitment or supply agency. In the instant case, service provider i.e. H Ltd is not a 'manpower recruitment or supply agency'. Hence, this taxable service was not specified in positive list of services and therefore levy of service tax was not attracted in terms of charging section 66 of the Act prior to 01.07.2012.

c. With view to substantiate this, reliance can be placed on the judiciary view, which accentuate the view that levy of tax is not attracted, mentioned below

   - The Commissioner of Central Excise vs M/s Computer Science Corporation of India Pvt Ltd 2014(11) TMI 125 – ALLAHABAD HC dated 16th October, 2014
   - The Commissioner of Service Tax vs Arvind Mills Limited 2014 (4) TMI 132 Gujrat HC, 2014 (35) STR 496 (Guj), 2014 (73) VST 251 (Guj)

   Relevant para of Allahabad HC judgement is reproduced below:

   "In the present case, the Commissioner clearly missed the requirement that the service which is provided or to be provided, must be by a manpower recruitment or supply agency. Moreover, such a service has to be in relation to the supply of manpower. The assessee obtained from its group companies directly or by transfer of the employees, the services of expatriate employees. The assessee paid the salaries of the employees in India, deducted tax and contributed to statutory social security benefits such as provident fund. The assessee was also required to remit contributions, which had to be paid towards social security and other benefits that were payable to the account of the employees under the laws of the foreign jurisdiction. There was no basis whatsoever to hold that in such a transaction, a taxable service involving the recruitment or supply of manpower was provided by a manpower recruitment or supply agency. ***Unless the critical requirements of clause (k) of Section 65(105) are fulfilled, the element of taxability would not arise."***

d. Though it was held that service tax is not leviable because this service does not qualify as a 'manpower supply' service but this judicial view is not relevant as on date because provisions has undergone a sea change w.e.f. 01.07.2012.

➢ **w.e.f. 01.07.2012**

a. **Meaning of 'Manpower Supply Service'**

As per Rule 2 (1) (g) of the Service Tax Rules, 1994- "supply of manpower" means supply of manpower, temporarily or otherwise, to another person to work under his superintendence or control.

b. A service qualifies for a 'supply of manpower service' only if control and superintendence is also transferred. In case deputation agreement, control is retained by the holding company. Hence, in view of the above definition, it cannot be construed that H Ltd has provided a service of manpower supply.

c. Further, the said amount is not taxable in hands of H Ltd as fee from Technical Services and therefore, S Ltd is not required to deduct TDS u/s 195.

Statutory provisions of Income Tax Act, 1961 to support the view are reproduced below:

Section 9. Income deemed to accrue or arise in India

(1) The following income shall be deemed to accrue or arise in India:-

……

(vii) income by way of fees for technical services payable by—

(a) …

(b) …

(c) a person who is a non-resident, where the fees are payable in respect of services utilised in a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India:

Explanation 2: *For the purposes of this clause, "fees for technical services" means any consideration (including any lump sum consideration) for the rendering of any managerial, technical or consultancy services (including the provision of services of technical or other personnel) but does not include consideration …… which would be income of the recipient chargeable under the head "Salaries".*

DTAA : France

Article 13. Royalties and Fees for Technical Services and payment for the use of equipment

"4. The term "fees for technical services" as used in this Article means payments of any kind to any person, other than payments to an employee of the person making the payments and to any individual for independent personal services mentioned in Article 15, in consideration for services of a managerial, technical or consultancy nature."

In view of the above provisions of Income Tax Act, 1961 it is construed that taxability of income in hands of Foreign Company depends on the fact whether said money is taxable in the hands of employees as salary or not. Since the amount is received by employees in India, it is assessable to income tax. In the instant case, it is succinctly construed from the provisions of Income Tax Act and article of DTAA with France, that reimbursement of salary paid to expatriate employees, deputed in India to work for subsidiary company, to Group Company is not taxable in hands of Group Company as "Fees for Technical Services" because said sum is taxable in the hands of expatriate employees in India under the head "Salaries". As a result, nothing is chargeable in the hands of Foreign Company and consequently there is no liability on the part of S Ltd to deduct TDS u/s 195 on amount reimbursed to Foreign Company.

Conclusion:

In light of above mentioned analysis, it can succinctly be construed that as simple the practical implications are, same is the level of technicalities imposed by the department by bringing the assessee on the doorsteps of judiciary. Let's hope that view taken in the article got final verdict of apex court so that this practice becomes an inevitable part in every organisation because of the simplicities involved.

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Join the movement of viewing risk as being two sided.

Is it possible to be a risk controller and a business enabler at the same time?

As risk managers we are supposed to act as both risk controllers and business enablers. As a starting point this is confusing to me. Aren't those two contradicting? Either you are one or you are the other?

Before getting on to how I mentally try to cope with being both, here is first a primer to tune your brain.

How would you – yes, you personally – define the word "risk"?

(Don't cheat by getting inspiration from the internet – write it down on a piece of paper. Don't think too much about it. When you are done, start reading the article)

Introduction to the two sided view of risk

There are many good definitions of risk. You probably just wrote another one, but the point is that I would expect answers to fall into two categories:

- A one sided view of risk along the lines of "*Unexpected worsening…*", "*threats to the balance sheet*", "*possibility of losses*", "*negative deviation….*".
  - o The focus is the traditional downside view of risk.
- A two sided view of risk along the lines of: "*Deviations from expected outcomes*", "*Overall uncertainty….*".
  - o The focus is on both negative and positive deviations from a benchmark.

My own favorite is the short risk definition: "Effect of uncertainty on objectives" (The ISO 31000 risk definition – Notice, it is a general definition beyond our insurance domain). This is a two sided view of risk.

Within Risk Management, I experience a difference in the way risk is approached. Some take a one sided view, others take a two sided view. This is, in my view, a fundamental cultural building block in our work. It impacts our focus and actions. That's why it is important to discuss.

Both a risk manager and chicken vindaloo can have two properties (that seem contradictory) at the same time.

Hot and cold seem contradicting, but think of

- a stunningly beautiful, but arrogant person or
- a chilled version of the spicy Indian chicken vindaloo.

Both the person and the curry can be described as being hot AND cold, right?

This takes us back to the original question of being both, a risk controller

and business enabler. With a two sided view of risk mind set, I believe you can be both.

My hypothesis is that bringing a two sided view of risk to the table will make it easier to enable the business without compromising on the traditional downside view of risk.

But, can positive deviations from the expected outcome even be considered a risk?

I believe they can. Here are two of examples of upside risk:

1: When we have run-off profits, the profitability is better than anticipated at the time the costing decision was made. This is great on the surface, but had we known the true profitability at the time of costing, we might have chosen to take larger shares. Perhaps, larger dividends could have been paid? Perhaps the additional financial flexibility could have been used to support new profitable business when it still was around?

Conservatism in costing can make us miss profitable business that we would have accepted if we had applied an unbiased view. This can be expensive. We just have not figured out how to track it properly. This is different to the bad business on our books that we eventually recognize as being bad over the years. Run off losses attract attention, missed opportunities are less noticed. This drives an unfortunate conservative behavior.

2: Conservatism in reserving impacts our financial flexibility and in the extreme can get us into financial distress unnecessarily. Do you consider the consequences for reserving actuaries in case of run off profits to be the same as those for run off losses? Which behavior do you think that drives?

I think we should combat implicit conservatism. This is not a crusade against financial buffers – particularly not in reserving – my point is just that they need to be quantified explicitly.

Another word for upside risk could be opportunity.

Conclusion: Join the movement of viewing risk as being two sided.

Most companies want risk managers to provide unbiased views, but with a one-sided view of risk, our partners could argue that Risk Management as a function promotes a biased view, when only focusing on the downside.

To me, a two sided and complete view of risk is a way to combine an enabling and controlling Risk Management mind set: Promoting opportunities earn us credibility with our business partners, which will help us next time we have a difficult message to deliver. It is another way of avoiding losses and work also becomes more fun.

Do you dare sharing the risk definition you wrote down on your piece of paper? write to me on the email below.

Are you one sided or two sided?

About the author

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AAC

20th AAC
GURGAON • INDIA
2016

20th Asian Actuarial Conference

Hotel Hyatt Regency, Gurgaon
NCR, India

9 - 12 November 2016

We are pleased to invite you all to **20th Asian Actuarial Conference**, the largest annual actuarial conference in the region, which will be hosted at **Gurgaon (NCR)**, **India** over **9th -12th Nov, 2016**. This will not only provide you the best knowledge sharing platform but also great opportunities to connect with members of other actuarial societies.

It also gives you an opportunity to feel the enthusiasm, vibrancy and the growing confidence of the populace on the back of the rapidly growing economy. The recent liberalization in Insurance industry along with other regulatory changes has bought back the limelight.

The conference is being hosted in the National Capital Region which is the heart of India, having many tourist attractions. This may be a great opportunity to experience India and relive the old memories, if any.

Moreover, should you be interested to make a presentation at the conference, you are requested to submit your Expression of Interest through our Online Submission Process - http://www.actuariesindia.org/callforpapers.aspx
Early bird Registrations started. For more details please visit our website at http://www.actuariesindia.in

I look forward to welcome you and invite you to actively participate in 20th AAC.

In case of any query, please feel free to email us at 20aac@actuariesindia.org
Yours sincerely,

Rajesh Dalmia
Chair - 20th AAC Organizing Committee

Call for Papers

AAC

20th AAC
GURGAON • INDIA
2016

20th Asian Actuarial Conference

Hotel Hyatt Regency, Gurgaon,NCR, India

9 - 12 November 2016

20th AAC Organizing Committee invites papers/presentations for deliberation at the above mentioned conference.

A: Introduction: The Asian Actuarial Conference organized by Asian Actuarial Congress comes to India for the first time since its inception in year 1981 in Malaysia. The reach of the conference covers whole of Asia with theme "Changing Asian Societies: Challenges and Opportunities". 20th AAC enables a forum for discourse and dialogue.

The Papers/Presentations around the above theme could be from anyone with knowledge and expertise in the subject of Presentation.

This four-day conference provides an excellent platform for participants to exchange ideas and share experiences with fellow participants from different jurisdictions within and outside Asia, the event has taken the stature of world-event, though focused on issues around Asia.

The 20th AAC is expected to attract around 1,000 participants, the 19th AAC in Bangkok in year 2015 having crossed 800 participants.

B: The Papers/Presentations and Programmes: The broad objective in selection of Papers/Presentation will be to provide a balance of topics to cover the **Core Disciplines** of;

1) Life insurance,
2) Property & Casualty (i.e. Non-life or General Insurance),
3) Health insurance,
4) Pension, Employee Benefits and Social Security,
5) Reinsurance
6) Enterprise Risk Management,
7) Financial Risks
8) Data Sciences, Analytics
9) Regulating Insurance Industry including IAIS Core Principles
10) Corporate Governance
11) Regulatory Role of the Actuary
12) Environmental / Climatic changes
13) Ethics & Values.

The Papers/Presentations may be based on Research work published or un-published but should not be exact repeat of any presentation/s already done in any fora.

We plan to have around 35-45 concurrent sessions and few plenary sessions including panel discussions.

The Programme structure is not final yet, however the same is unlikely to be significantly divergent from the Programmes during 19th AAC in Bangkok or 18th AAC in Chinese Taipei and potential speakers are encouraged to peruse the same at

http://www.actuariesindia.in

C: Financial support: For all accepted presentations, the registration fee will be waived. We will also have prize money for best three submissions selected based on laid down parameters to be determined in due course. The prize money for the best three submissions would be rupee equivalent of USD 5,000, USD 4,000 and USD 3,000.

In case of any enquiry or clarification please contact us at 20aac@actuariesindia.org.

Rajesh Dalmia
Chair - 20th AAC Organizing Committee

Vivek Jalan
Chair - 20th AAC Programme and Papers

Paper/Presentation submission process

Appendix1: Time lines

Expression of Interest	From 15-May-2016 till 15-June-2016	**Submit the following:**
		Biography (appendix II)
		Summary outline of presentation (appendix III)
		Detailed outline of the presentation (either in traditional text format or in presentation format)
Paper acceptance	By 30-June-2016	Accepted presenters will be notified and a presentation template will be provided
First draft submission	By 30-August-2016	Draft presentation to be submitted for review in the prescribed format. Comments will be provided based on the review by committee in 3 weeks' time from date of submission
Final submission	By 30-September-2016	Final presentation to be submitted with updated biography for final review.
Meeting of Contributors	9-November-2016	Accepted presenters will be required to attend a conference briefing meeting at the Hotel Hyatt Regency, the Conference Venue.

All submissions must be made to through Online Submission System. (visit www.actuariesindia.in)

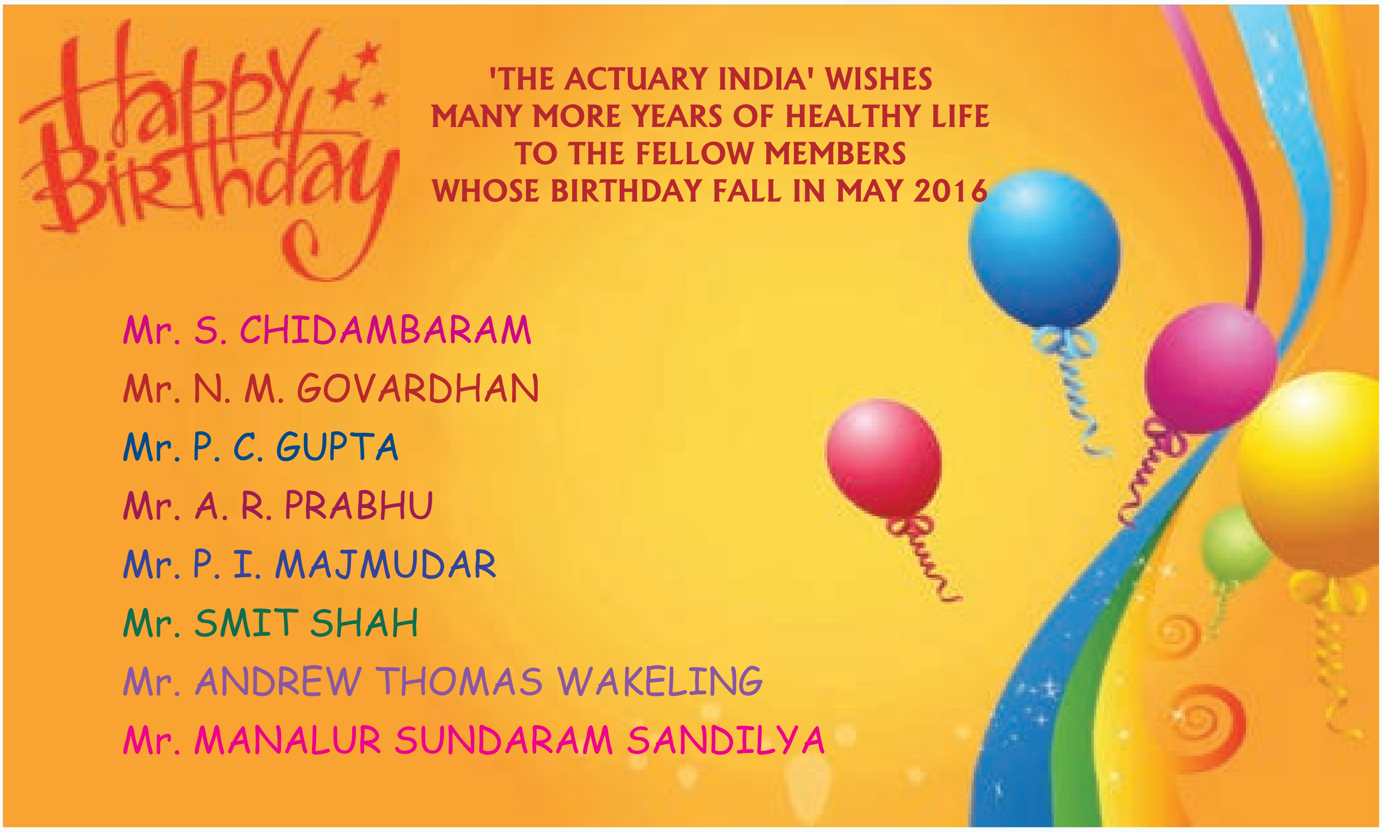
The presentations shall constitute property of the 20th AAC though having personal (of the Author/presenter) responsibility for the content and views expressed, will be published on the 20th AAC website at a later date. By submitting the slides to the 20th AAC presenters will be deemed to have given permission to publish their presentations.

Appendix II – Biography

Insert Photo	Name :
	Title :
	Organization
Work experience:	Please provide an outline of your background and relevant work experience.
Recent public presentations	Please provide details of recent public presentations, including audience and when the presentation was conducted
Contact Details	Email:
	Telephone :

Appendix III – Summary outline of presentation.

Area	Presentation information
Title of presentation	Add the title of presentation.
Core discipline	Please specify the core discipline, this should be one of the seven Core Disciplines specified under Para B.
Summary of presentation	Please provide brief outline of the topic including the linkage to the conference theme of "Changing Asian Societies: Challenges and Opportunities."
Detailed outline of presentation	Please provide a detailed outline of the presentation. This could be either in text format or presentation format which could be attached.
Length of presentation	Typical presentation session will be 45 mnts and there may be more than one presenters in a session.



Mr. Munish Sharda

CEO- Future Generali Life Insurance Co.

Personal

What qualifications and experience do you think is appropriate for a CEO of a Life Insurance Company to be successful? What are the key qualities one should possess to be a successful and what are the challenges that you faced on the route to becoming a CEO?

I believe that there are no quantifiable markers which define what is appropriate for a successful CEO; however, the most important thing for any leader is to have a deep understanding about the sector and the market today and where it will be tomorrow. There is a famous quote from Walter Gretzky, father of hockey legend Wayne Gretzky that goes "Skate where the puck is going, not where it's been". This is one of the key traits for long term success.

The life insurance sector is a business led by trust and building relationships across stakeholders. To offer long term value to our customers, it is important to envision what the customer would want in future, even before the customer thinks about it.

Another important quality of a good CEO is the ability to identify a good quality leadership team. Some of the other important attributes of a good CEO are taking ownership in every situation, values, ethics and integrity, transparency, flexibility, collaboration and definitely the art of empowering and motivating his people.

I would not like to call these challenges. My journey towards becoming a CEO has been extremely exciting and indeed I have had some great inspirations, insights and learnings from each and every interaction that I have had with my colleagues and my customers.

What are your hobbies and how do you manage your work life balance?

For me, work is an integral part of life and a source of many joys and learnings. But I do think it's important to switch off once in a while to recharge yourself. I enjoy watching movies across languages and reading and I unwind by running and spending time with my family.

Profession

What is your typical day at work?

Every day is unique when you are building a business and growing it. So there is no typical day at work. I must say that each day brings new challenges and opportunities. I try to follow some rhythm in my work between reviews, talking to customers, meeting distributors. I am an early riser and try to reach office early which gives me some time to put together my thoughts at the beginning of the day. I do spend time over the weekend trying to plan for the week ahead and prioritising items which require my attention.

What can you tell us about the future employment outlook in insurance sector for actuaries?

Actuaries play a crucial role in the insurance sector. They understand the data and statistics and work towards providing a snapshot of the business financials, profitability and view of long term sustainability for the business. Hence, it is imperative for actuaries to be integral part of the insurance business. However, there is a huge scope for actuaries entering into the area of finance, investment and risk sides of the insurance business including operations and compliance. I have also come across some actuaries who are very eager to take on functions like sales etc to drive growth of the company which would allow them to assume business roles like CEOs.

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

Actuarial plays a crucial role in designing and pricing products, maintaining and projecting the solvency position of the company, providing inputs on the value of the company and its profitability, reinsurance management and experience analysis of actual to what was planned for. I think that with proper MIS and analysis, Actuaries can contribute a lot towards guiding the other functions to play a role in driving profitability and ensuring that those functions take appropriate actions in the areas of concern. The other areas include advising on investments and financial risks for the company.

What impact do actuaries have on consumers and society? What should they do to connect with the society?

Actuaries sit between the consumers and the shareholders. Their key responsibility is to protect the interest of customers even while being remunerated by the shareholder. They are the financial custodians of consumers' interests. Hence, there is a direct impact of actuaries action to the larger society, either through products, illustrations, pricing, bonus declarations etc.Actuaries / Regulator and other insurance bodies need to create more awareness about insurance and its importance.

How do you think Institute of actuaries of India can support better its members?

Given actuaries are aware of how insurance business works, the Institute may conduct workshops for insurance professionals (who are not actuaries), making it easy to understand and clearing concepts. Similarly, they may conduct short term courses and certifications to help them understand the financials of insurance business.

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

The life insurance industry, which has seen some tough times during the last few years, is expected to grow 10-15 per cent in the coming years. A stable government and clear indications of expediting reforms have laid the foundation for India to regain the growth momentum, and the insurance industry is expected to benefit from the same and provide social security, employment as well as the means to deepen financial markets in India. In the current phase of development we see significant thrust around consumer awareness, advocacy and trust. This augurs well for the industry as we will see innovative products, innovation in distribution, digitisingand simplification of processes. Technology will play vital role in enabling value not only for customers but also for distributors and employees. The shift in favour of profitable growth as against only growth is already happening in the industry and that, we believe, will be a great outcome to expect.

Are there things that the IRDAI or the Government should have or should not have done to assist the industry?

The pace of change in the regulatory landscape over the past few years has been unprecedented. I think that the key objective has been to strengthen the Industry and bring customers to the center of every board room. Given that we have a robust framework in place and insurers have realigned their business model to drive profitable growth with a focus on customer value, and we are excited about the future prospects. We believe that the stage is now set for the industry to deliver a healthier growth.

Regulator has taken significant noteworthy steps in this direction already and there are further discussions to continue development on this front. The regulator has introduced various guidelines such as requirement for instituting Policy Holders Protection Committee, board approved policy for Insurance Awareness, simplification of product structures, allowing multi insurer tie ups for banks, standardisation of marketing literature, new models of distribution like IMF, mandating bank accounts for benefits payout, and introduction of CSCs to insurance to name a few which are already showing results and shall continue to do so in the development of insurance business.

What market share do you see the private sector players having in ten years time?

I think it's a difficult question to answer. Market share will be garnered but those players(irrespective of whether they are in private sector or not) who will keep pace with the changing customer needs, distribution model, effective use of technology and building a high quality distribution. I do think that the private sector will continue to grow its share but difficult to say what its likely to be.

What are the top three issues facing the Insurance sector in India.

Life Insurance business requires steady flow of patient capital in the growth phase. Given the long gestation period, raising capital to grow the operations was a concern that the FDI bill has aimed to address. With this, theindustry shall now witness an influx of fresh capital that augurs well for insurers and customers alike.

Secondly, given the wide geographical and cultural diversity of the country, distribution costs act as a limiting factor in improving insurance penetration especially in areas where it most deserves. This is where distribution models such as Bancassurance, OTC and digital can play a decisive role.Another key challenge is the ability to build quality distribution which serves the customer for the entire tenure of the policy term.

Thirdly, it is time for the industry to squarely focus removing complexity, improving efficiency, lowering costs and thereby delivering excellence in customer service. It is widely recognised that a fundamental change is required in the way customers think – not only are they more educated but also more demanding. Keeping pace with development in technology especially digital technologies is a matter of significant relevance for insurers all across. The potential of big data, analytics, preference for online platforms for sales, facilitation and servicing, gaining popularity of social media etc all require a strategic re-think.

Q What do you believe are the inefficiencies in the insurance industry? How do you think such inefficiencies can be overcome?

A (1) Cost of establishing and nurturing a productive distribution especially Agents, require enormous amount of energy, resources and sustained efforts.

(2) Customers are increasingly demanding transparency, simplicity and ease of dealing with insurance companies.

I believe technology can be a great leveler in overcoming these inefficiencies and help build scale in a profitable manner. At Future Generali, we have embraced technology as a way of enabling our brand proposition of being 'Simpler and Smarter'. One of our key priorities was to facilitate the success of our sales teams by giving them winning customer products/propositions, training them to become better insurance professionals, and continuously improving our distributor proposition to attract and retain best-in-class distributors. Over the last two years, we have made significant progress on these fronts. We completely reviewed our product propositions which culminated with the launch of 3 best-in-class, simple and value for moneyproducts. We also built a roadmap for helping frontline managers acquire the required skills to do well in the marketplace and launched initiatives for identifying areas of Competency Development for our team managers. We are working closely with the Future Retail team to harness the massive potential it offers in the form of a regular, loyal customer base by working on simple products, efficient processes aided by technology. We have also enhanced our technology platform to empower our front line staff to address customer issues on a real time basis.

Q What do you think are the strengths of Indian Insurance Industry?

A The biggest strength of the Indian insurance industry is its vibrant, underserved insurable population. As a vast emerging economy and a country with more than 1bn people, India is too large to ignore, even if the present barriers to entry are high. A democracy with a functioning governance and a regulatory framework familiar to Western corporations makes Industry that much more attractive. With the recent increase in FDI, open architecture, impetus on consumer awareness and digitisation, the industry is set to gain further momentum. From the consumers' side, the products are far more transparent, accessible and simpler.

Q How do you keep abreast with latest happenings in insurance sector in India and across globe particularly Life Insurance and overall economy?

A I love to Read! I also take time out and meet people, attend seminars and interact with those who are working and contributing towards shaping the landscape of the insurance industry. Our regulator is also a source of great knowledge and I look forward to forums that have been created to support the development of the industry.

CALL FOR ARTICLES

Institute of Actuaries of India

We invite articles from the members and non members with subject area being issues related to actuarial field, developments in the field and other related topics which are beneficial for the students of the institute.
The font size of the article ought to be 9.5. Also request you **to mark one or two sentences that represents gist of the article**. We will place it as **'break-out' box** as it will improve readability. Also it will be great help if you can suggest some **pictures that can be used with the article, just to make it attractive.** Articles should be original and not previously published. All the articles published in the magazine are guided by **EDITORIAL POLICY of the Institute.** The guidelines and cut-off date for submitting the articles are available at

http://actuariesindia.org.in/subMenu.aspx?id=106&val=submit_article

Mr. DEREK CRIBB

IFoA Chief Executive

Mr. Derek Cribb is the Chief Executive of the Institute and Faculty of Actuaries (IFoA). Derek joined the actuarial profession in a consulting role in May 2010. He became Acting Chief Executive in September 2010 and was appointed to the role on a permanent basis in 2011. Derek has successfully steered the organisation through a period of rapid and substantial change, including a full review of its strategy and reshaping the organizational structure to deliver the strategy.

Derek has broad leadership experience across the public, private and not-for-profit sectors. His roles have ranged from Chief Operating Officer at the Pension Protection Fund and CFO of Barclays Bank UK Customers and Products to leading the business support function in a major UK record label. He has also held senior positions in the food, logistics, outsourcing and technology sectors.

Derek is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Royal Society of Medicine. He studied at Imperial College London, graduating with Honours in Chemistry in 1987, and undertook PhD research in Mechanical Engineering from 1987-1989

Q: Which books, or concepts or experiences have influenced you the most in your professional development?

A: It is less about any specific book or experience. I am a very positive person. One of the big things for me is to embrace change. The opportunity of embracing change as a concept is very important to me. I try things out as I believe that one never drive anything forward without trying something new and I am not afraid to get things wrong. Back in UK, I encourage my team to try something new. I tell them as long as you have properly assessed the risks associated with it and there is a good rationale reason for it, give it a go. If doesn't work then it doesn't work. Worst case is it a minor inconvenience but in best case it is a step change forward for the organization. For me the concept of change and trying things is the most important.

Q: You have been a COO, a CFO and a CEO and your career spans a variety of industries. What are the skills that helped you essay these roles?

A: I think learning. One of the key skills is about listening to people around you. Communication is not only about broadcasting, it is not only about communication outwards but is a two way process. It is about understanding what the other person wants. Learning is a key skill because if you do not listen to people it is very hard to progress because if you are not listening then you are not learning. If you are not learning then you won't be able to progress. Whether you are in an actuarial role or in a general management role, it is important to listen to people around. One needs to realize you are not an expert on everything so listen and learn.

Q: How is it different to work for the Institute of Actuaries from working in the banking or other industries that you have been a part of? What is the most difficult aspect in the field of actuarial science? Most rewarding?

A: It is a great question. In institute you are surrounded by people with similar focus. In banking industry, people are very driven by profit and by advancement. When you work in the institute, public interest element which is also in our charter is at the core of everything that we do. One needs to have a slightly different mindset. I enjoyed my time immensely working in banking industry, but coming to institute we have a charter to serve the public interest and to promote actuarial science and this drives a very different set of behavior as compared to banking industry which is driven by maximization of profits and dividends. It is much more of a community spirit. Institute has160 staff and over 3000 volunteers who are member actuaries devoting their time for free to help serve the profession. Everyone is working with a common goal and it help create a great community spirit. We work very closely with the Indian Institute and we support each other in any way possible as we have a common goal, which is to promote actuaries and actuarial skills. This gives a very close relationship between us and the Indian institute and also with all the other institutes that we work with. Most of them are public interest bodies and are not for profit bodies and have a common goal of promoting actuarial science. It is a fantastic atmosphere to work with.

Please share with us your experience of working with actuaries at the different stages of your career.

I have worked with actuaries before and I have always found them incredibly good to do business with because when you talk to an actuary you know that they have a certain level of technical skills and that they are honest and act with integrity. This is a big advantage as in lot of business you question the motive of the people you are dealing with but with actuaries that is never the case. When dealing with actuaries you always know that you will be getting the truth and I think that is an important part of their training (to be an actuary). I have always enjoyed working with them as they are highly intelligent and highly professional people and it makes the job of a senior executive a lot easier when you have such people working with you. The challenge now for me is to make businesses understand the value that actuaries can bring to the table.

What has been the most difficult and most rewarding aspect while working in the field of actuarial science?

One of the biggest challenge actuaries have is that they get pigeon holed into specific roles (in actuarial domain), particularly in an environment like emerging market like India, where there is so much demand for Appointed Actuaries both in life and general insurance. For a qualified actuary to use his/her skill sets in other domains of an organization like marketing or product development, becomes a hard sell to the organization as they tend to put you in that an actuarial role given the high technical skills and value that you bring to these roles. The biggest challenge that actuaries face, is that of breaking the silos and demonstrating to the organization skills and value that they can add to rest of the business.

Most rewarding is to see and share the joy on the faces of the students and on their families when they qualify. It is a really challenging career and it is very rewarding to see people who come to end of it (to qualify as an actuary). Be it qualified actuary, certified analyst or associate actuary, all of these are great qualification and as the CEO of the institute I love to see people succeed.

How do you see actuaries collaborating and contributing with other professionals at present and in the future?

Good questions. I think there is a massive opportunity. At present actuaries are mostly working in insurance and pension industry, and in my talk earlier I referred to the financial crisis and you can look at all these financial institutions and banks and they will benefit from an greater increase in qualified professional. Now whether that are actuaries or accountants or chartered insurance, all of these people have an ethical and professional back ground to them and I think sometimes going into a crisis there will be an opportunity for the people to sit back and reflect with their professional and ethical training which perhaps is not present for the people who have not gone through a professional qualification. This is one of the areas which I will like to see explore to see how we can work with other professions to up the increase in professional and ethical behavior in financial services. In few week time back in London we along with Lord Mayor of London are hosting an event were the other financial based professional bodies for a round table discussion on how do we live up to the challenges of regulation and professionalizing the industry. We have taken a lead role on that.

Besides the traditional forte of Actuarial, namely valuation and pricing, in your opinion what other domain the actuaries should explore, given their skill sets.

Risk management is an obvious option for actuaries as it is part of their training. In my talk i have stressed to students and qualified actuaries to think beyond pricing and valuation. Moving them away from valuation and pricing is a difficult task as these are the domains employer put them and these are the domains where employers want them as actuarial is a very difficult skills to source. Outside risk management the other obvious option is investments, investment banking and asset management. Most of the asset management has a liability backing against that asset. From an investment side, CFA is a good qualification but an actuary who has studied investments, he/she has an advantage as not only he/she understands the asset side (which a CFA also does) but he/she also understand the liability side which helps him/her look and understand the complete picture. I would like to see more actuaries going in investment domain and demonstrating their understanding of assets and liabilities while doing investment management. The biggest challenge is people exploring these areas.

What are the key changes that actuarial profession has gone through since your took office in 2010? How the profession will adapt to a fast changing and

a dynamic environment which is supplemented by advancement in technology? What are the future challenges for actuarial profession?

A You are absolutely right that we are in a very dynamic environment. We are going through a strategic review of which education is a big part. Likelihood is that we will be increasing the data analytics content of our examinations for both CAA and fellowship examination so we will be responding to the market on that. Another things that we are looking to do in future is whether can we do separate and shorter course certifications. In a dynamic environment the core qualification of CAA, associate or a fellow is pretty hard to change rapidly but what we can do rapidly is to provide shorter courses like 6 months course in data analytics which will add to the core skills of a CAA or of a qualified actuary. We are looking at these and other areas to be more responsive to the markets. Other changes, and there is bigger demand to publicize what actuaries can do. Over the last few years we have created a public affairs function, so our engagement with major stakeholders like government think tanks has increased, we are getting a lot more press coverage now to publicizes what actuaries do. Recently we have had letters from both President and myself published in Financial Times, promoting what we are dong as a profession. We are taking a more active role in some of the major public debates like the Scottish Referendum where we made a big effort to make sure that we are raising public awareness of the key issues. Another big event is the EU Referendum where we have positioned ourselves in the middle with some of the big questions on what is the potential impact of the vote on social security and insurance industry. Through these we are trying to publicize the actuarial profession. We are not doing this in UK alone but on a global level by partnering with some of our sister organization. Together with them we research and publish on big issues for e.g. affordability of pensions that we did last year along with UK and Australian association. The push is towards researching, publishing and raising the profile of actuaries as a whole. As the professional body one of our tasks to ensure that wider world understands the value an actuary can bring.

? What are IFOA plans on developing a basic practical and professional skills training program for new actuarial students?

A We have talked about the shorter course certification. Another focus area is for a qualified actuary or CAA one has to demonstrate one's business skills. We are looking at it again as part of the strategic review and we will not be making it any easier. People will have to demonstrate their business skills as CAA, Associate and Fellowship as all of these are business qualification and not academic qualification. Only examinations are the academic side of the profession. Business skill is the key as that is what makes you an actuary or a CAA.

? What message would you like to give to the students and senior actuarial community across the globe?

A The message I will like to give is that there is a bright future for actuarial profession. The demand of skills that actuary bring is increasing and if we can develop some of the business skills alongside the really strong technical skills then as a global body we will be at our best. We are a small profession and all the actuarial bodies around the world need to work as a group to promote the actuarial skills and demonstrate the value that actuaries bring to the business. If we are able to do that then I really believe that actuarial profession has really a great future and we will see them in business leading roles.

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"Thinking should become your capital asset, no matter whatever ups and downs you come across in your life. - A.P.J Abdul Kalam"

Volatility in Discount Rates

March Madness is something that all of us working as Financial Consultants in India are extremely familiar with. All of us are busy conducting valuations, closing our financial books and submitting the required reports to authorities. While going about this annually recurring busy period we tend to notice nuances that effect the valuations and analysis that we conduct.

These factors which inevitably catch our attention are:

- Ruling interest Rates
- Expected Liquidity Risk
- Repayment Risk
- Market Conditions
- Economic Prosperity
- Long Term perspective on inflation expectations
- Sudden shocks in short term factors like availability of liquidity (fund) to invest in bonds and the cost of such liquidity

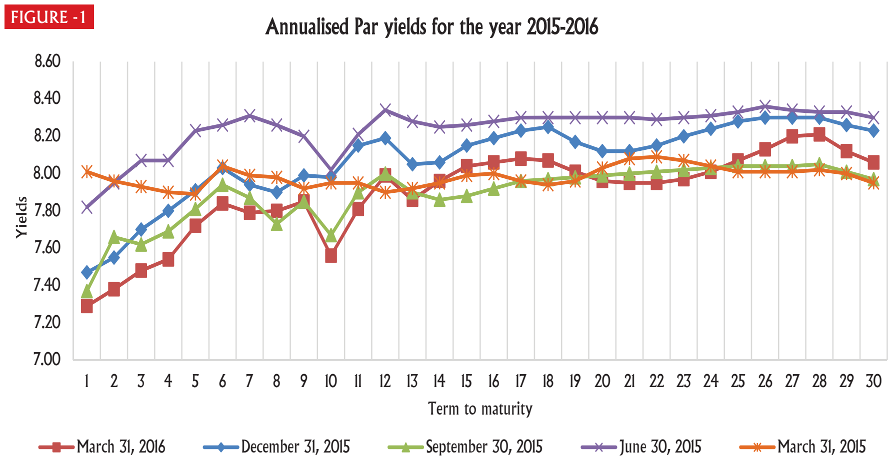
For us, actuaries working in employee benefits, the significant assumptions are:

Among these, some assumptions are chosen by the respective company based on its experience as they are specific to them whereas, some are driven by the economic factors prevailing in the market. The impact of salary and pension increases, employee turnover and cost inflation is broadly company specific, whereas the Rate of Discounting is purely market driven.

A Discount rate is the rate at which we discount future liabilities so that we can make provisions for them today. It is calculated in India as the rate of return offered by a government security/ bond for the term which matches the term required to extinguish all employee benefit obligations faced by the said Company. These rates are derived from traded securities/ bonds in the market and the same for the last year on significant quarterly valuation dates have been illustrated in Figure 1.

As can be seen in Figure 1, the rates fluctuate significantly for a given duration this effects the valuations such that the liabilities tend to rise because of the fall in the discounting. Also based on the provisions made throughout the year the discount

FIGURE - 1



Financial Assumptions

- Rate of Discounting
- Rate of Salary Increase
- Rate of Pension Escalation
- Medical Cost Inflation
- Future Benefit Cost Inflation

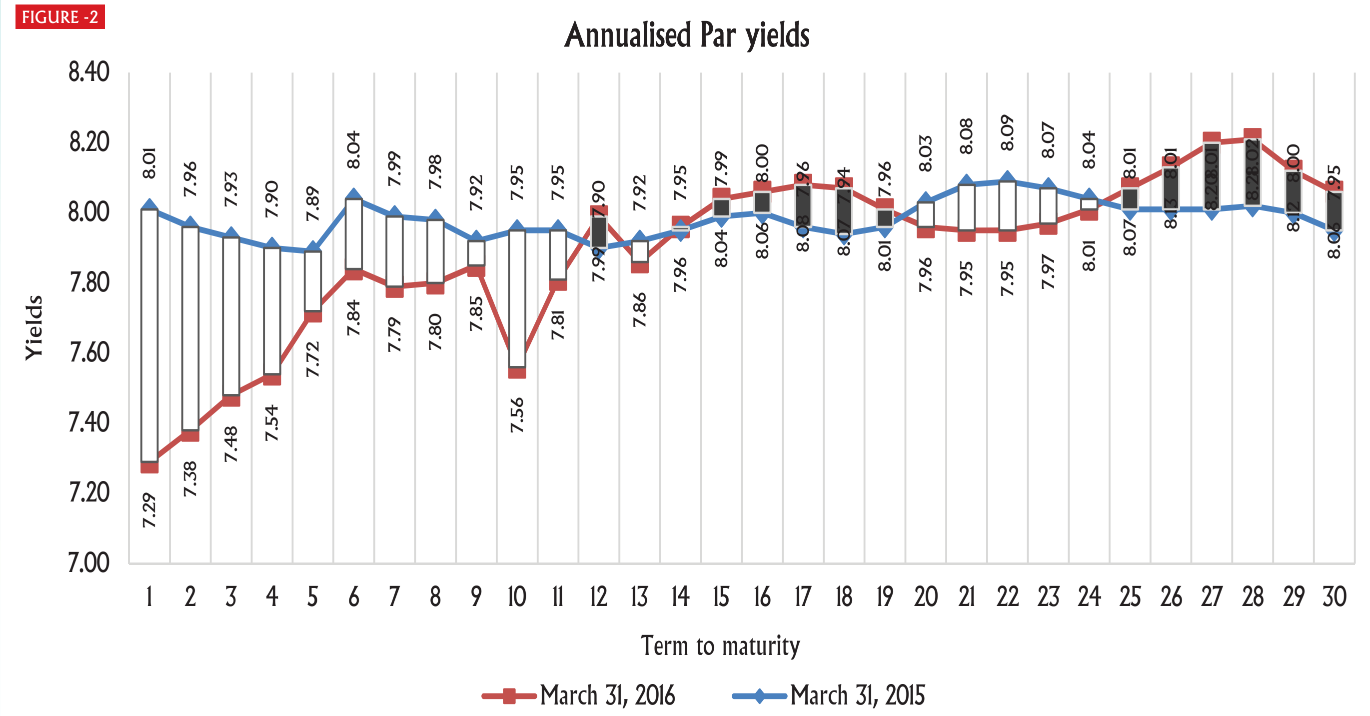
Demographic Assumptions

- Mortality Rates during and after Employment
- Rate of Employee Turnover

rates in June, September and December are higher and thereby incremental provisions reflect those results. Hence when the final entries are passed to close the books as on 31-03-2016, it is generally seen that provision expectations are lower (anticipation of what happened during the year) than the actual result as the discount rate has fallen and the liability has risen.

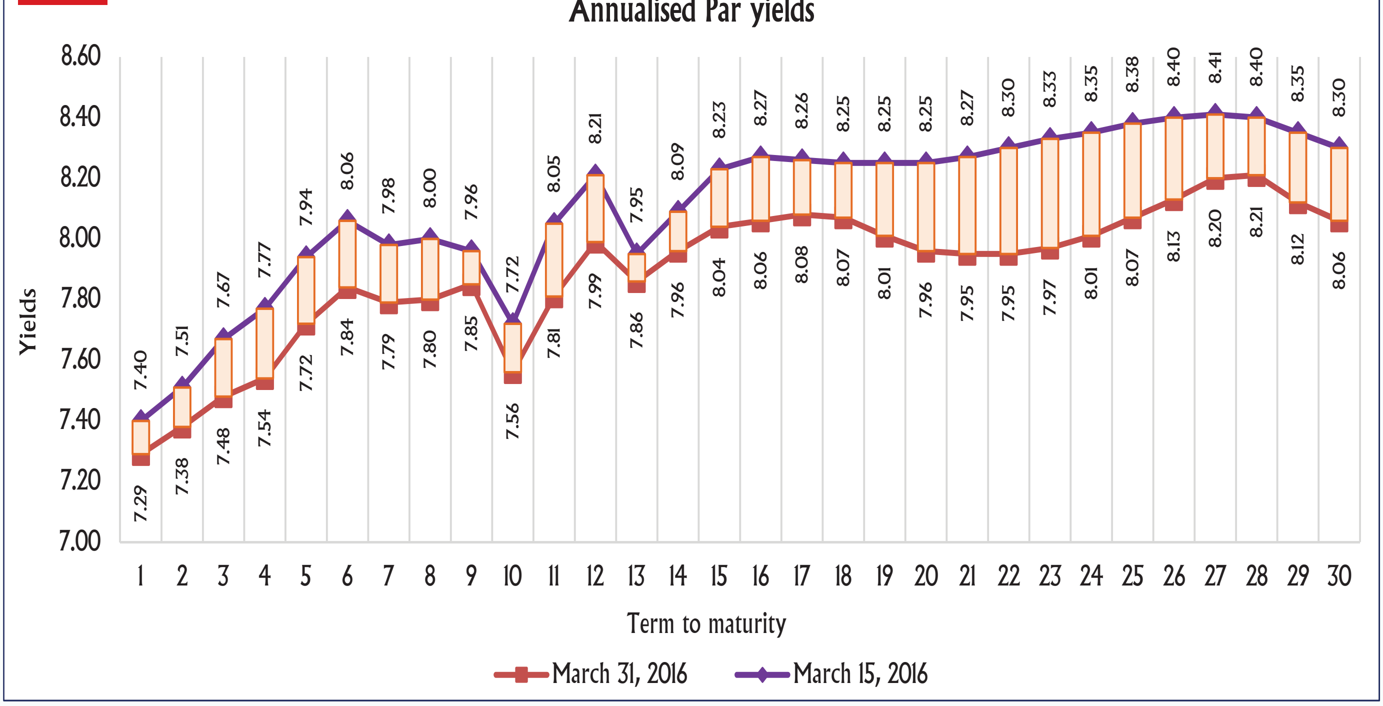
Also, for valuations that are done yearly, the liability will show likely increases as the discount rates have fallen in more places than risen as on 31-03-2016 as is illustrated by Figure 2 comparing with the Discount Rate as on 31-03-15.

FIGURE -2



It is also been seen that many companies close their books considering the liabilities arrived at by applying discount rates as on 15th March 2016. They do so because they need their financials ready by 31-03-2016 so that they can be published consequently. Hence, a comparison of the same with 31st March 2016 is illustrated via Figure 3.

FIGURE -3



As can be conferred from Figure 3, this drop in discount rates at each duration in just 15 days would mean that the companies who have finalised their books with the rates as on 15th March 2016 would ideally need to recalculate their obligations as the difference would be material when considering the volatility in the rates over only 15 days. This has been illustrated below by calculating the Projected Benefit Obligations with consistent salary escalation and attrition rates for a dummy data:

Duration	Rates as on 15-03-2016	Rates as on 31-03-2016	Difference (Basis Points)	Projected Benefit Obligation as on 15-03-2016	Projected Benefit Obligation as on 31-03-2016	% Increase in Liability due to Discount Rate volatility seen in 15 days
5	7.94	7.72	22	121,601,902	123,543,658	1.60%
10	7.72	7.56	16	123,543,658	124,990,353	1.17%
15	8.23	8.04	19	119,123,240	120,736,976	1.35%
20	8.25	7.96	29	118,955,594	121,428,044	2.08%
25	8.38	8.07	31	117,876,010	120,479,614	2.21%
30	8.30	8.06	24	118,538,301	120,565,293	1.71%

The volatility for the last 12 years for some maturities are tabulated herewith:

Duration	Volatility	Comments
5	**0.7116977**	All rates are covered within 2 standard deviations from the mean
10	**0.6314584**	All rates are covered within 2 standard deviations from the mean
15	**0.5763358**	All rates are covered within 2 standard deviations from the mean
20	**0.5459385**	All rates are covered within 3 standard deviations from the mean
25	**0.5481962**	All rates are covered within 3 standard deviations from the mean
30	**0.5584262**	All rates are covered within 2 standard deviations from the mean

As can be inferred from all illustrations above, volatility as a material assumption is making provision expectations akin a roller coaster ride. We now do not know what exactly to expect from the financial markets as expectations are crushed more often than not. Is it fair that the Company have their Profit/ Loss hit due to this volatility?

Well, the ICAI have helped us answer the same by changing the recognition of the Actuarial Gains and Losses for post-employment benefits which arise from the remeasurement of the liabilities. Hence effects of the changes in the data and the assumptions including the discount rate will be routed through **Other Comprehensive Income** instead of the Profit and Loss Account while finally impacting the Changes in Equity.

Note: The Par yields have been sourced from www.fimmda.org

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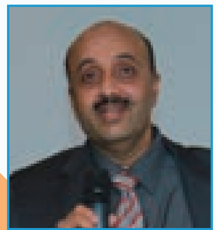

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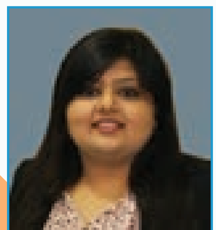

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AG UPDATE

ADVISORY GROUP ON PENSION, OTHER EMPLOYEE BENEFITS & SOCIAL SECURITY (AGPEBSS)

The Advisory group during the last quarter had two members – K.K. Wadhwa and D.K. Pandit. Both of them were inducted into the group to share their knowledge and experience in re-drafting the new Actuarial Practice Standards / Guidance Notes in the area of employee benefits and social security.

As on date (7th May 2016), the members of the Advisory group are:

1. A D Gupta (Chairperson)
2. Khushwant Pahwa (Secretary)
3. K.K. Wadhwa
4. D.K. Pandit
5. Chitra Jayasimha
6. Kulin Patel
7. Preeti Chandrasekar

Major Activities of AGPEBSS over last one year

• A Comprehensive Standard on Employee Benefits

The current set of Actuarial Practice Standards and Guidance Notes (APS/GNs) in the area of employee benefits have been written spanning over more than a decade. While they have been updated to reflect changes that have been happening over time, there are a few overlaps and there is a mix of principles and certain rules for specific purpose of actuarial advice.

They also do not cover all possible scenarios that one comes across in the profession with reference to employee benefits. Further, profession is faced with many changes in accounting standards, given the introduction of Ind ASs.

Given this, and the fact that the actuarial profession in India should aim at aligning itself to other global bodies, it was felt that AGPEBSS should do a major revamp of APSs / GNs to ensure the standards serve the changing needs as well as form comprehensive guidance to the members.

The AGPEBSS thus initiated the process of revamping the existing APS/GNs to move towards a more "principles based" approach. The objective was to provide the members with a comprehensive standard that is applicable across all type of actuarial advice in the area of employee benefits.

In line with above, AGPEBSS has prepared a comprehensive APS, which, if enacted in the current shape, shall replace about 6 to 7 of the existing Actuarial Practice Standards / Guidance Notes and shall constitute a single comprehensive guidance for actuaries working in the area of employee benefits.

The draft standard has sent the same to Advisory Group on Professional Affairs and Standards (AGPAS) on 7th May 2016.

• Seminars / Sessions conducted in last one year

○ 3rd Capacity Building Seminar on Ind AS 19 (4th March 2016, Gurgaon)

Financial reporting in India is undergoing a momentous transformation owing to the adoption of Indian Accounting Standards (Ind AS) that are converged with IFRSs. Ind ASs are mandatory for certain organisations from period beginning 1st April 2016, with the comparatives for the periods ending on 31st March, 2016.

Implementation of Ind AS is a significant change for actuarial profession in India and a lot of discussion and exchange of thoughts is required to cope up with the requirements of the change.

Keeping in line with the above requirement, the Advisory Group on PEBSS organized the first Capacity Building Seminar on Ind AS 19, which focuses on some of the areas of actuarial reporting that are likely to be impacted by the transition.

The Seminar focused on the following topics and had good participation / discussions from the attendees:

1. Modeling limit on gratuity benefit, in accordance with example 5 to Para 73 of Ind AS 19
2. Qualitative disclosures under Ind AS19
3. Provident Fund valuation under Ind AS19
4. Post-Retirement Medical Benefit Scheme (PRMBS) valuations – issues and challenges (including impact of Ind AS19)
5. Panel discussion on Actuarial Valuations (including discussion on transitioning from AS15 to Ind AS19)

○ 11th Current Issues in Pension (21 August 2016, Mumbai)

This annual seminar was this time conducted with a focus on Ind AS 19. The speakers and panelists included a mix of actuarial and non-actuarial professionals with vast experience in Pension and Employee Benefits domain. The Seminar would focused on the following topics:

1. IND AS 19 –ICAI perspective
2. IND AS 19 – Technical Aspects - What is it all about?
3. IND AS 19 – Implications for the companies with live examples.
4. Retirement Adequacy Overview and impact of NPS
5. Pension Updates – India
6. "IND AS 102 –Share-based Payments"?

SRI LANKA:

Sri Lankan RBC Goes Live!

In this article an update is provided on the implementation of RBC, formally effective from 1st January 2016 with the initial regulatory submission due in respect of the 31st March 2016 valuation date.

Background

The urgent need for an RBC framework arose in 1Q11 when the valuation basis of assets was adjusted to a market value basis. In conjunction with net premium liabilities and highly volatile interest rates, this placed the industry in a tenuous position with respect to overall solvency.

With the support of the World Bank, development of an RBC framework began in 2011, involving parallel production from 2013-15.

The final RBC gazette was published with a date of 15th December 2015 and an effective date of 1st January 2016.

Enforcement Strategy

In 1Q16 the regulator released an enforcement strategy to be initiated along with the RBC framework. The enforcement strategy effectively outlines the basis by which the regulator will review the returns of insurers and take remedial actions.

The main criteria being evaluated are the solvency ratio, the explanation of results over the prior period, the volatility of results over successive periods and the quality of data underlying the RBC results. The scope of the regulator's review and intervention increases based on a risk rating of a given company, this depending on the above criteria. Data quality is presented as independent of the solvency ratio, meaning that companies experiencing data quality issues will find themselves under a high level of scrutiny regardless of their solvency ratio.

Target Capital

The regulator has urged the industry participants to develop internal target capital policies, effectively setting a target solvency ratio level above the regulatory minimum based on the development of a risk appetite.

Aside from this, the enforcement strategy implicitly sets a floor for the solvency ratio at 160% (as per the "low" risk level definition).

Surplus Transfers

For the majority of insurers the implementation of RBC will capitalize future profits and lead to substantial releases of liabilities into free surplus, even after allowing for the increased risk capital requirements.

Bearing this in mind, the regulator has informally noted that it may restrict the distribution of such surpluses for an initial period until comfort regarding the volatility of the RBC basis and the companies' ability to manage the future solvency position is obtained.

Valuation Interest Rate

Although the regulations stipulate that the regulator will furnish a yield curve for the use of the industry at each valuation date, the actual situation is somewhat complicated.

In 4Q15 the regulator requested through the Insurance Association of Sri Lanka that the finance and actuarial sub-committees convene to propose a methodology for deriving the yield curves. This was carried out, resulting in a proposal being submitted to and approved by the regulator. The approved methodology involves the use of bootstrapping in conjunction with the yields published by the Central Bank.

The latest update is that the regulator is considering whether the industry participants should rotate the responsibility of deriving and sharing the yield curve at each valuation date, or whether the Central Bank should be involved more directly.

Universal Life Plans

At present universal life plans are reserved via a technical provision arising from gross premium valuations in the same way as traditional plans. However, the regulator has informally noted that going forwards the reserving basis for universal life business may be adjusted in view of the treatment of participating business, where the earnings and discount rates are equal and are based on the actuary's judgment of long-term fund returns.

Summary

Although the RBC framework has now been developed and is legally effective, the road to comprehensive risk and solvency management is effectively just beginning for the industry in terms of implementation and management of the conclusions derived from the results of the RBC computations. Significant analysis and work remains to be done by the industry participants to ensure that the framework achieves the desired outcome, which is essentially scientific risk management of the insurance industry.

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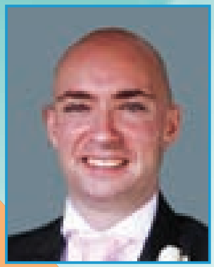

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The Actuary India – Editorial Policy

Version 2.00/23rd Jan 2011

A: "The Actuary India" published monthly as a magazine since October, 2002, aims to be a forum for members of the Institute of Actuaries of India (the Institute) for;

a. Disseminating information,
b. Communicating developments affecting the Institute members in particular and the actuarial profession in general,
c. Articulating issues of contemporary concern to the members of the profession.
d. Cementing and developing relationships across membership by promoting discussion and dialogue on professional issues.
e. Discussing and debating issues particularly of public interest, which could be served by the actuarial profession,
f. Student members of the profession to share their views on matters of professional interest by way of articles and write-ups.

B: The Institute recognizes the fact that;

a. there is a growing emphasis on the globalization of the actuarial profession;
b. there is an imminent need to position the profession in a business context which transcends the traditional and specific actuarial applications.
c. The Institute members increasingly will work across the globe and in global context.

C: Given this background the Institute strongly encourages contributions from the following groups of professionals:

a. Members of other international actuarial associations across the globe
b. Regulators and government officials
c. Professionals from allied professions such as banking and other financial services
d. Academia
e. Professionals from other disciplines whose views are of interest to the actuarial profession
f. Business leaders in financial services.

D: The magazine also seeks to keep members updated on the activities of the Institute including events on the various practice areas and the various professional development programs on the anvil.

E: The Institute while encouraging stakeholders as in section C to contribute to the Magazine, it makes it clear that responsibility for authenticity of the content or opinions expressed in any material published in the Magazine is solely of its author and the Institute, any of its editors, the staff working on it or "the Actuary India" is in no way holds responsibility there for. In respect of the advertisements, the advertisers are solely responsible for contents of such advertisements and implications of the same.

F: Finally and most importantly the Institute strongly believes that the magazine must play its part in motivating students to grow fast as actuaries of tomorrow to be capable of serving the financial services within ever demanding customer expectations.

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