

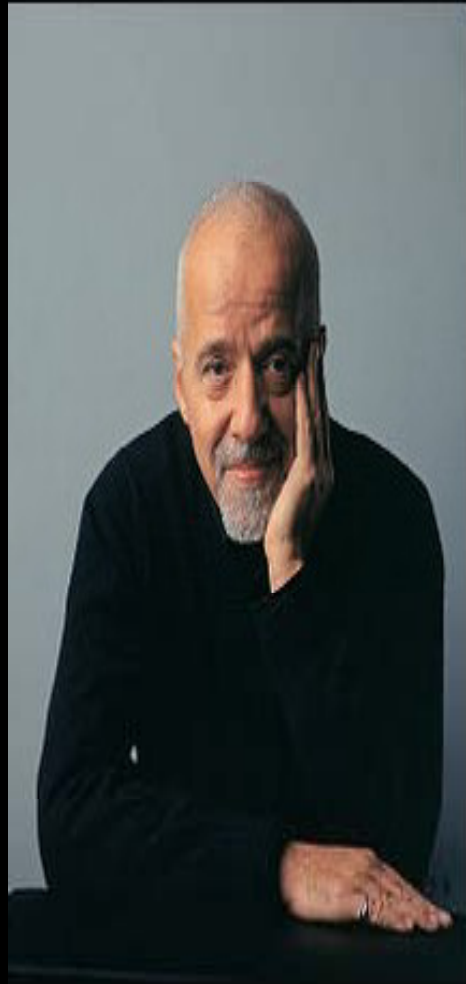
Dinesh Chandra Khansili
Actuarial Consultant- Mithras Consultants- An Actuarial Firm,
Aviva India, Country- India

Changing Risks, Expecting the Unexpected

17th Global Conference of Actuaries & 2015 AGFA

2nd & 3rd February, 2015 Mumbai - India

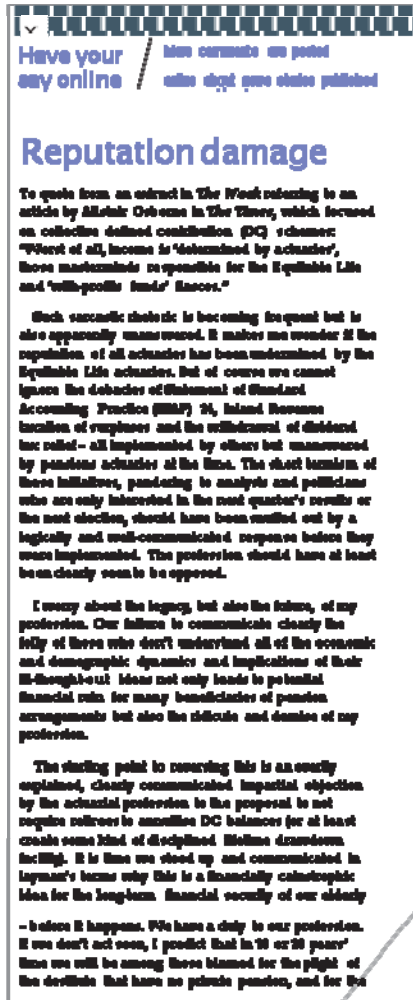
Introduction



You have to take risks. We will only understand
the miracle of life fully when we allow the
unexpected to happen.

(Paulo Coelho)

Introduction– Source of Inspiration to write paper



The Times and The Week – referring Alistair Osborne

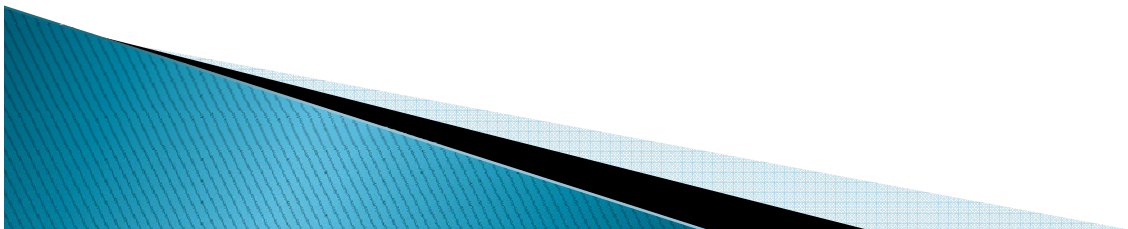
Worst of all income is determined by Actuaries, those masterminds responsible for the Equitable Life and with profits funds fiascos

Writer of the letter– Reputation damage

I worry about the legacy, but also the future, of my profession.

Section 2–Is threat real?

- ▶ Echoes of the 1980s when so many members of good final salary schemes were persuaded to transfer to inferior personal pensions;
- ▶ Actuaries' traditional areas –Life Insurance, General Insurance and Pensions made impeccable impact.
- ▶ Prospective Actuaries were examined at fellowship level in these three subjects along with fourth subject as investments.
- ▶ Very few Actuaries practiced in investment area.
- ▶ Some events like equitable life debacle and shrinking pension business in light of continued low interest rates thus increasing employers' cost, flexibility to members awarded in new emerging jobs like soft- ware industries, bid to reduce complexities in increasing mergers and acquisitions, etc. led employers to shift to defined contribution (DC) schemes from defined benefit (DB) schemes.

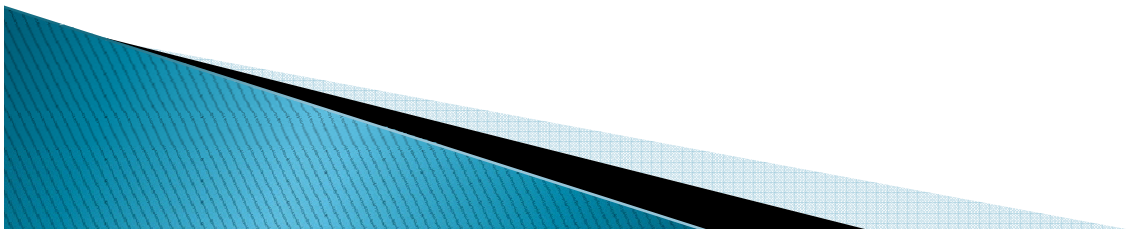


Section 2– Actuaries have started criticising themselves

- ▶ Such events and saturation decreased the employment opportunities for Actuaries. Events also invited heavy criticism of Actuarial Profession for which Actuaries were traditionally not accustomed to.
- ▶ The employment opportunities in Pensions would further gravitate in UK as the budget announcement made in the month of March would altogether change the pension landscape.
- ▶ W.e.f April 2015, retirees in DC schemes may draw from the pension pot as much as they can, whenever they want with no obligation to purchase life time annuity.
- ▶ Such flexibility may lead to the demand of having full access to retirement funds in other parts of the world including India.
- ▶ The annuity business is down by 50% in UK and with such provisions, the annuity business may further dip
- ▶ An excerpt from the Actuary UK– I am not going to pull any punches here. I am disappointed by the role the actuarial profession has played this so far. Immediately, people gravitated to thinking we need to tell customers what their life expectancy is. I think of life expectancy as roughly the point where 50% are still alive. If people manage to their life expectancy, then 50% will run out of money. Politicians have said we will inform investors about their life expectancies so they can manage to this point. The actuarial profession should be standing up and saying that does not work. The role of a professional should be to look after the public interest and I think the actuarial profession need to do much more.”

Section 3–Analogy of current apprehensions of the existence of profession

- ▶ ULIP V/S MF
- ▶ What would happen to Life Insurance Industry?
- ▶ Initial discomfort to the life insurance players but ultimately it is proving to be good for the existence of both the industries
- ▶ The current review, criticism of actuarial profession and apprehensions about existence of actuarial profession giving entire actuarial profession an opportunity to introspection, to justify the work they are performing, how they are performing, what are the professional and legal bindings on them while performing their duties and how the society is getting benefitted by their act. This may not stop here and may extend to zeal to improve further and be ready to face the challenges.

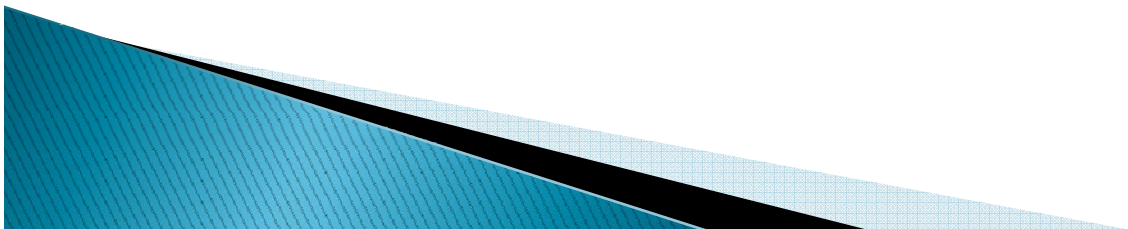


Section 4– Accept the truth

- ▶ Very few actuarial professionals come forward to serve the profession;
- ▶ President IFoA correctly state– world is getting smaller and international collaborations can also help associations learn from each other
- ▶ In current developments in UK Pension arena which allows 100% commutation, it may learn from Indian experience
- ▶ In some organization, such choice was given to the employees to opt to take 100% of accumulated provident fund,
- ▶ Investment savvy argued for flexibility
- ▶ Hard realities– Money spent on owning car or bigger car, extra spending on leisure, go for higher sophisticated medical care etc.
- ▶ The individuals also learnt hard realities of economies of scales, non-availability of funds to invest in by individuals due to minimum volume condition, senses getting weakened with advancement of age and so losing track of smart investment strategy
- ▶ Union representatives stepped into, pressure created and paternistic approach of employer prevailed. Balance money was deposited back and regular income made former employees happy

Section 4– Accept the truth– Contd..

- ▶ At times Actuaries become too cautious;
- ▶ A ship may be safe in harbor but that is not what the ships are for;
- ▶ Pension product but no annuity products
- ▶ Just one or two annuity products in initial period
- ▶ Risk cover as low as 101% of Single premium
- ▶ But situation changed. Term Products made available to the public at cheaper rates,
- ▶ Annuity rates revised upwardly
- ▶ For long standing organisations and professions, there exist written and un-written policies.
- ▶ Life Insurers are expected to come to rescue of families in case of death, similarly pension providers expected to pay regular income;
- ▶ High time for actuaries in UK to collect the data across globe and vehemently oppose the government stand to allow 100% commutation with the help of data



Section 4– Accept the truth– Contd..

Criticism and fear among the actuarial professionals relating to profession existence provide ample opportunities to Actuarial professionals to explain more to the general public, clients and policy makers, what Actuaries do. One off event should not impede the pace of profession and younger actuarial professionals should not have second thought about the continuity of the actuarial profession. This happens in fellow professions also;

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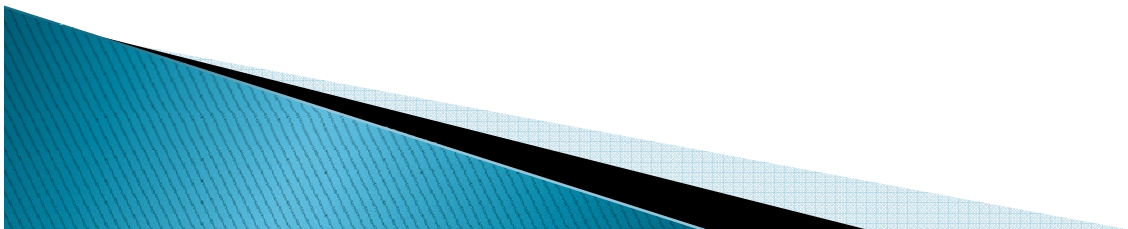
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Section 5–Need of the moment to combat criticism

- ▶ Actuarial professionals have to re-look to their profession activities intensely, provide guidance to fellow actuarial professionals by senior actuaries, accept and honour the work done by the fellow professionals, treat the student actuary as professional from day 1 and overall effective communication with non-actuarial personnel and take more time to write Executive Summary.
- ▶ Former Indian Insurance Regulator in his last working days in IRDA – I should have interacted more with the Actuaries. Can't such one time policy makers be not approached to write their experiences about actuarial profession and actuarial professionals and make them the ambassador of the actuarial profession.

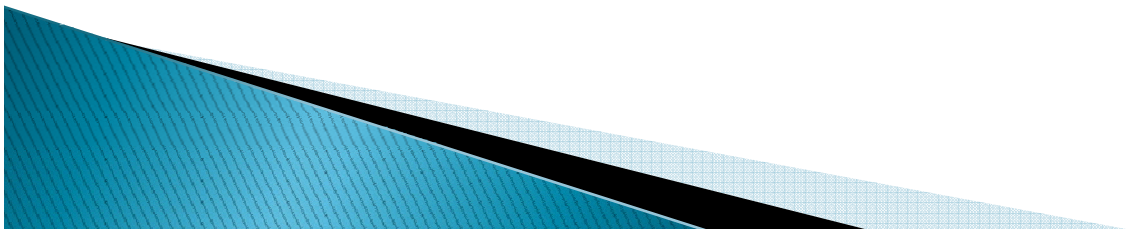
- ▶ Liberal Democrat Politician about Actuaries–

You should not be afraid of being technical. Not every MEP wants to or is capable of being highly technical, but there are some and you should share that knowledge. There is often a problem when the technical work goes to lawyers and the public affairs people, and by the time it emerges you are presenting a 'this is a truth, this is how it must be' and you have lost all the reasoning. If something is not understood then it would not succeed. If you have genuinely good case then it is usually listened to, especially when it affect real people and the real economy. That is where the European Parliament resides– asking 'What is the end effect on our constituents?'.



Section 6–Reasons for being not worried about the existence of Actuarial Profession

- ▶ Actuarial Profession derives its inspiration from Bacon's quote– “ I hold every man 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
- ▶ The profession strong hold in traditional areas– financial life cycle, risks and volatility in the life cycle, products– long term and other than long term, product risks, marketing strategies, application to financial services, assessing risk, product design, modelling– deterministic and stochastic, assumption setting and their sensitivities, assessing the capital need and different risks associated e.g. market and life risks, valuing liabilities, Pricing, investments, constructing investment portfolios, monitoring investment portfolios, solvency, profits and appraisal value, monitoring experience and applying the Actuarial Control cycle to business, etc.
- ▶ Profession adopting to new changes.
- ▶ The fellowship level exams have moved further. Currently having six subjects. Demand in ERM
- ▶ Actuarial profession belief in – serve the public and public interest

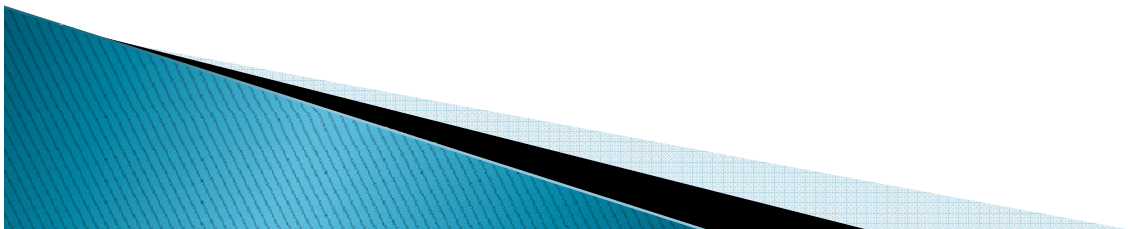


Section 6–Reasons for being not worried about the existence of Actuarial Profession– Contd.

- ▶ The profession understanding that research and thought leadership are crucial to the long term sustainability of the actuarial profession;
- ▶ IAI seeking ways and means to widen the scope for actuarial professionals in non –traditional areas. For this purpose a task force has been constituted which shall submit their report on time bound basis;
- ▶ IAI views being heard on insurance bill by Honourable Members of the Parliament;
- ▶ Existing senior actuarial professionals in India capable of generation of employment for younger actuaries in their or other organization. For this purpose the actuarial professionals should shed the tag that they are too pricey;
- ▶ General Insurance Companies, Agriculture Insurance Company, Postal Life Insurance are on the way
- ▶ Example: Metro Project or Bullet Train Project. The unique quality of actuarial professionals they combine rate of interest/discount rate, probabilities assigned to the cash flows together with emerging cash flows and apply that in business area along with specifying the risk, identifying the risk, developing the solutions and monitoring the risk under commercial and general economic scenario;

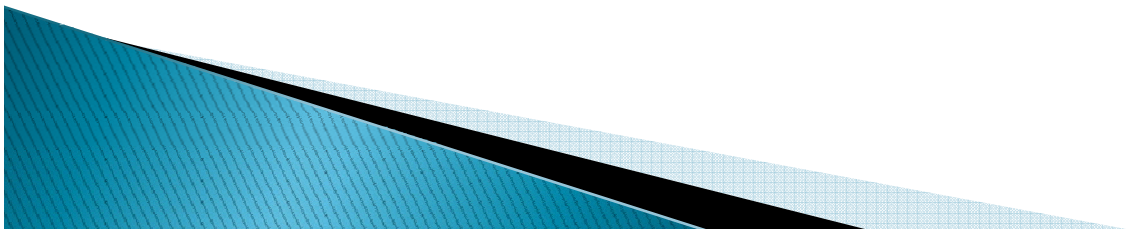
Section 6–Reasons for being not worried about the existence of Actuarial Profession– Contd.

- ▶ In line of IRDA, PFRDA may recruit Actuarial personnel;
- ▶ Profession requires peer review of the valuation results and compliance to its guidance notes in life and health, general insurance and pension area;
- ▶ Under Solvency regime National Competent Authorities (NCAs) are required to ensure that AMSB (The Administration, Management and Supervisory Body) would be responsible for effectiveness of risk management system, setting risk appetite, risk tolerance limits and approving the risk management strategies and policies.
- ▶ Some of existing and former actuaries would have excelled in non traditional areas e.g Cement Industry, GAIL etc.
- ▶ Tradition in LIC of India to train the prospective actuaries and actuaries in different areas of Life Insurance other than core Actuarial, e.g. Underwriting, Claims, Sales, Marketing, HR, IT, etc.
- ▶ UK Study–42% of members live or work outside the UK and this number continues to grow. So world is getting smaller. Actuaries encouraged to work more cross–practice research–like examination of the social care cap



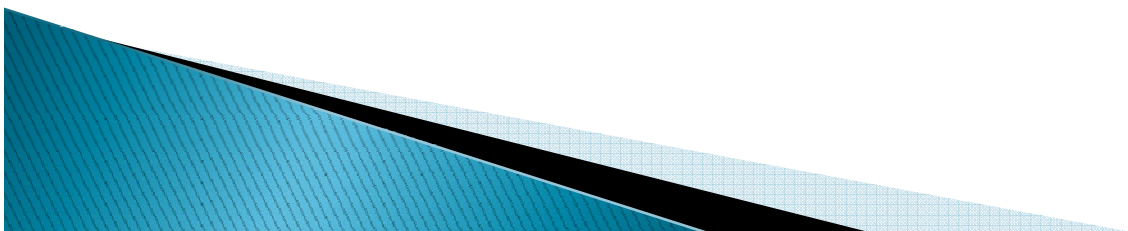
Section 7– Conclusion

- ▶ Actuarial profession has already engaged in introspection and it is taking criticism in healthier way. The profession would jump back to old glory with its members' dedication to the profession and effective communication. This would result into by not ignoring the alarming bells sounding in western countries. In India, Profession has not been criticized in public media yet it has engaged in introspection about IRDA stand that led to issuance of several regulations. Till the profession act in public interest and refrain from projecting extreme as projected threat of AIDS that would have sent fear waves in the society, there is no threat to the continuity of the profession. However the time has come for the profession to be relevant afresh and additionally explain the relevance of the figures quoted to the clients using common sense.



Conclusion– Final

- ▶ With this I am confident that,
- ▶ Actuarial Profession is not going to prove Paulo Coelho quote and fear reflected in letter titled Reputation damage published in the Actuary, Aug 2014– true .
- ▶ BUT profession would withstand preparing in advance with GCA theme – **Changing Risks, expecting the unexpected?**



CAN WE CLAP FOR THE PROFESSION



A BIG THANK YOU