

Beyond Compliance

A story of Fund Segregation

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Disclaimer

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Agenda

- Background
- Assets & Liabilities
- Methodology
- Par Fund Management
- Q&A

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BACKGROUND



Chapter VII Separation of Assets and Liabilities

Article 42

- (1) Assets and Liabilities related to the rights of the policyholder or the insured shall be separated from the other assets and liabilities of the Company.
- (2) The separation of assets and liabilities as referred to in paragraph (1) consists of **Insurance Fund** and **Company funds**.
- (3) The separation of assets and liabilities as referred in paragraph (2) must be disclosed in Company's financial statement.
- (4) Provisions regarding the disclosure of the separation of assets and liabilities in the Company's financial statements as referred to in paragraph (3) are regulated in the OJK circular letter.



Article 43

- (1) The company must maintain Admitted **Assets in the Insurance Fund** with a value of at least **equal to the Liability of the Insurance Fund**. Insurance.
- (2) The liability of the Insurance Fund as referred to in paragraph (1) consists of technical reserves, claims payable, co-insurance debt, reinsurance debt, and other liabilities to policyholders or the insured.

No detailed guidelines have been provided by the regulator

Why Fund Segregation?



- ☑ Secure the rights of Policy holders/ insured
- ☑ Ease monitoring
- ☑ Asset Liability Matching
- ☑ Different SAA for different fund
- ☑ Part of Risk Management
- ☑ Par business has different nature

SAA = Strategic Asset Allocation

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Assets & Liabilities

BALANCE SHEET

Start from Balance Sheet

GROUP

20...
\$'000
(restated)

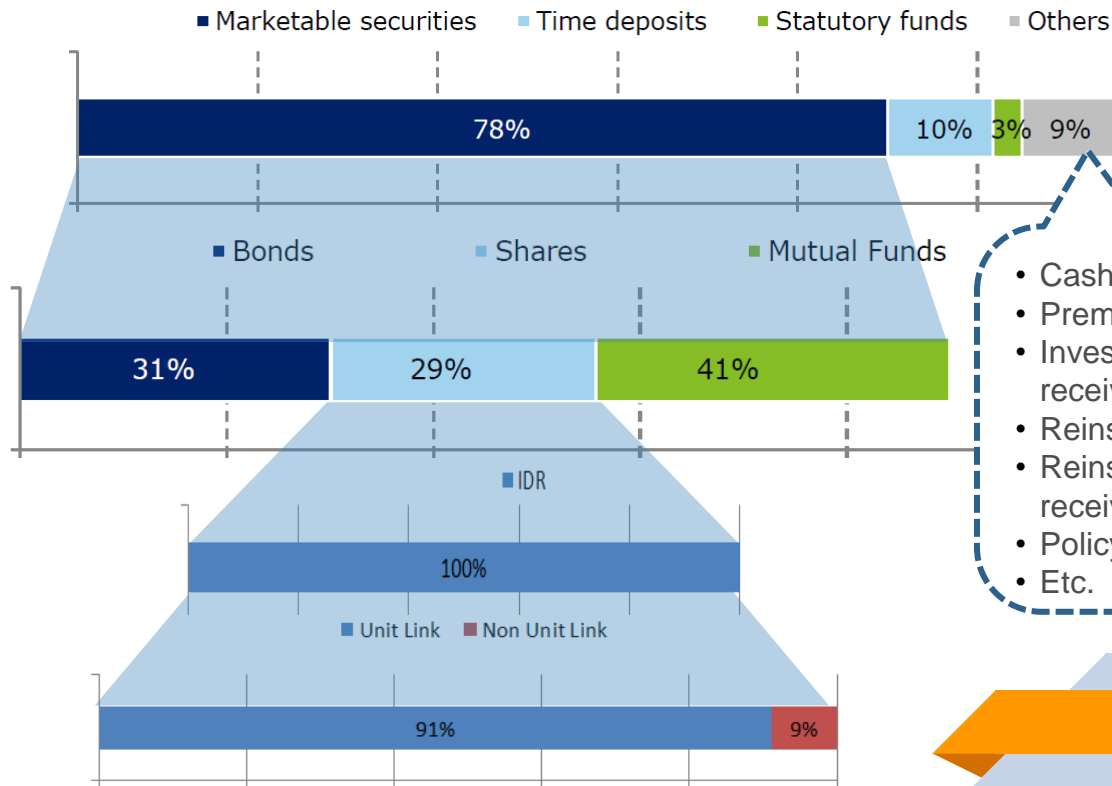
Non-current assets
Property, plant and equipment
Intangible assets

50,161	45,421
116	2,256
	7,344
	6,352
	12
	994
	61,379
75,777	61,805
27,790	10,489



Assets

- Composition
 - By instrument
 - By currency
 - Unit Link/ Traditional
 - Sharia
- Bonds duration
- Stocks by sector
- Mutual funds
- Statutory funds
- Non investment assets



- Cash
- Premium receivables
- Investment income receivables
- Reinsurance assets
- Reinsurance claim receivables
- Policy loans
- Etc.

Assets

Assets	Conventional		Sharia	Total
	UL	Non-UL		
IDR Denominated				
Government Bonds				
Corporate Bonds				
Shares				
Mutual Funds				
Time Deposits				
Statutory Funds				
Direct Placement				
Sub Total				
USD Denominated				
Government Bonds				
Corporate Bonds				
Shares				
Mutual Funds				
Time Deposits				
Statutory Funds				
Direct Placement				
Sub Total				
Grand Total				

Table 2.2.4: Split of Time Deposits by Currency (IDR '000,000)

As at 30 June 2017	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
USD Denominated				
Grand Total¹				

Table 2.2.1: Split of Bonds by Time to Maturity (IDR '000,000)

As at 30 June 2017	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
0-5 years				
5-10 years				
10-15 years				
15-20 years				
20-25 years				
25-30 years				
Sub-Total¹				
USD Denominated				
0-5 years				
5-10 years				
10-15 years				
15-20 years				
20-25 years				
25-30 years				
Sub-Total¹				
Grand Total¹				

¹Numbers may not sum up exactly due to rounding.

Table 2.2.3: Split of Mutual Funds by Fund Type (IDR '000,000)

As at 30 June 2017	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
Bond Fund				
Equity Fund				
Index Fund				
Money Market Fund				
Protected Fund				
Sub-Total¹				
USD Denominated				
Bond Fund				
Equity Fund ²				
Index Fund				
Money Market Fund				
Protected Fund				
Sub-Total¹				
Grand Total¹				

¹Numbers may not sum up exactly due to rounding.

²Including Limited Participation Fund (RDPT)

Table 2.2.2: Split of Shares by Sector (IDR '000,000)

As at 30 June 2017	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
Agriculture				
Basic Industry and Chemicals				
Consumer Goods Industry				
Finance				
Infra, Utilities & Transportation				
Mining				
Miscellaneous Industry				
Property and Construction				
Trade Services Investment				
Sub-Total¹				
USD Denominated				
Agriculture				
Basic Industry and Chemicals				
Consumer Goods Industry				
Finance				
Infra, Utilities & Transportation				
Mining				
Miscellaneous Industry				
Property and Construction				
Trade Services Investment				
Sub-Total¹				
Grand Total¹				

¹Numbers may not sum up exactly due to rounding.

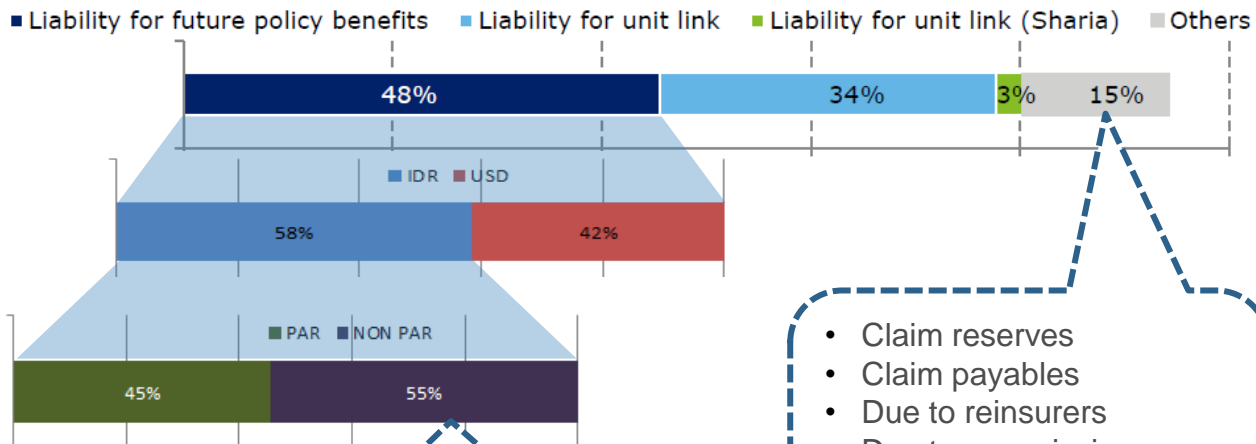
Table 2.2.6: Non-Investment Assets as at 30 June 2017 (IDR '000,000)

Items	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
Cash on hand and in banks				
Premium Receivables				
Investment Income Receivables				
Reinsurance Assets				
Reinsurance Claim Receivables				
Policy Loans				
Other UL Assets				
Sub-Total¹				
USD Denominated				
Cash on hand and in banks				
Premium Receivables				
Investment Income Receivables				
Reinsurance Assets				
Reinsurance Claim Receivables				
Policy Loans				
Other UL Assets				
Sub-Total¹				
Grand Total¹				



Liabilities

- ☑ Composition
 - Unit Link
 - Traditional
 - Other
- ☑ By Currency
- ☑ Par and Non Par
- ☑ By Product type



- Endowment / Whole life
- YRT
- Group (Life, Medical, PA)
- Credit life
- Specific assets backed up liabilities
- Etc.

- Claim reserves
- Claim payables
- Due to reinsurers
- Due to commission
- Tax payable
- Accrued expenses
- Other liabilities



Liabilities

Table 2.3: Split of Liabilities by Par and Non-Par (IDR '000,000)

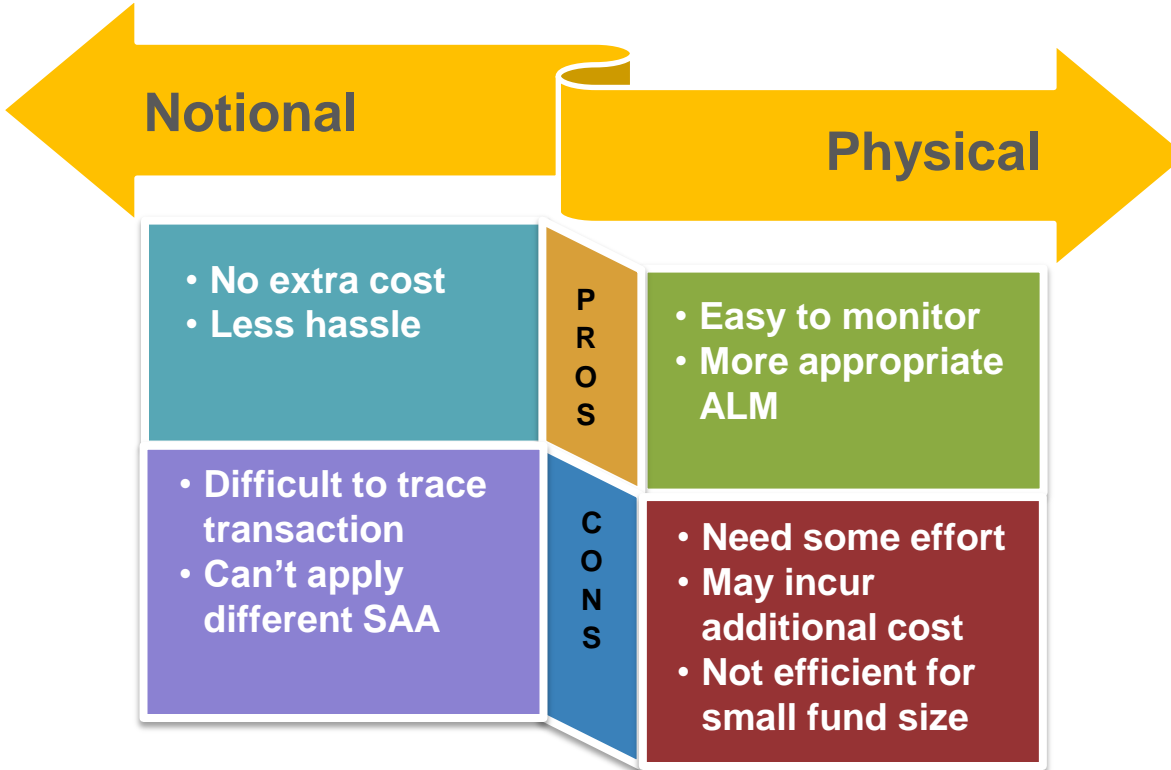
As at 30 June 2017	Life Insurance		Sharia	Total
	UL	Non-UL		
IDR Denominated				
Par				
Policyholder's Liabilities				
Estimated Claims Reserve				
Claims Payable				
Due to Reinsurers				
Due Commission				
Tax Payable				
Accrued Expenses				
Other Liabilities				
Non-Unit Reserve Portion of UL Liabilities				
Non-Par				
Policyholder's Liabilities				
Estimated Claims Reserve				
Claims Payable				
Due to Reinsurers				
Due Commission				
Tax Payable				
Accrued Expenses				
Other Liabilities				
Non-Unit Reserve Portion of UL Liabilities				
IDR Sub-Total¹				
USD Denominated				
Par				
Policyholder's Liabilities				
Estimated Claims Reserve				
Claims Payable				
Due to Reinsurers				
Due Commission				
Tax Payable				
Accrued Expenses				
Other Liabilities				
Non-Unit Reserve Portion of UL Liabilities				
Non-Par				
Policyholder's Liabilities				
Estimated Claims Reserve				
Claims Payable				
Due to Reinsurers				
Due Commission				
Tax Payable				
Accrued Expenses				
Other Liabilities				
Non-Unit Reserve Portion of UL Liabilities				
USD Sub-Total¹				
Grand Total¹				

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Methodology



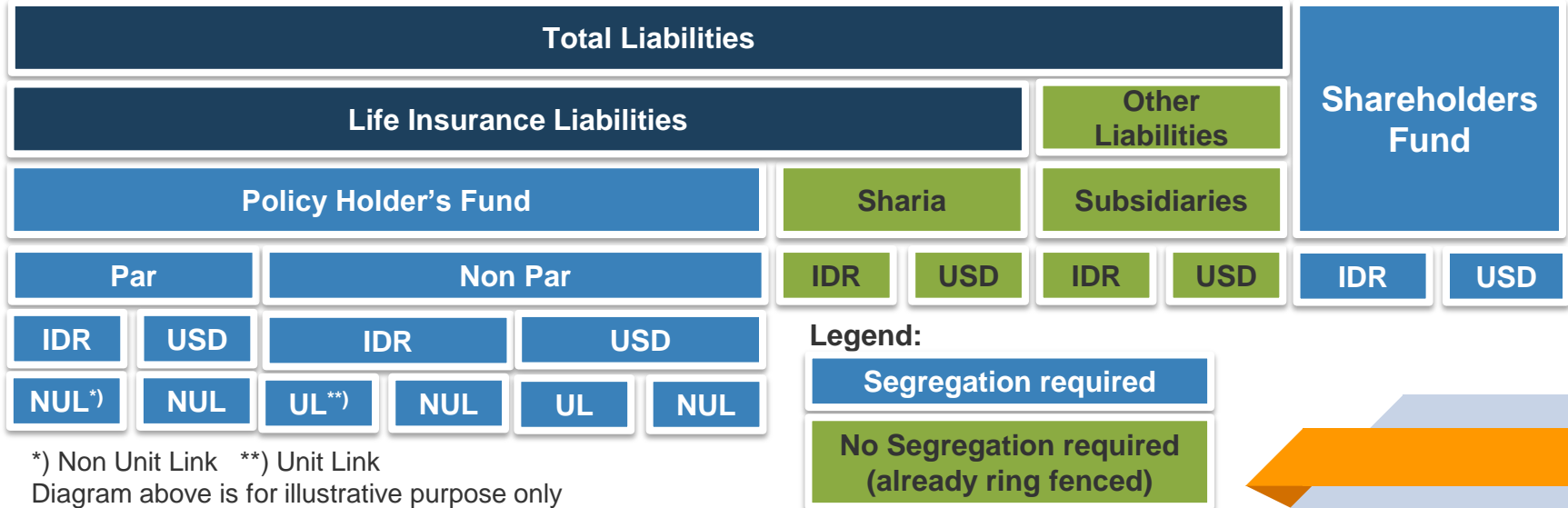
Methods of Asset Segregation





Overall Approach

1. Build the structure of individual funds based on the nature of products and mix of liabilities.



*) Non Unit Link **) Unit Link

Diagram above is for illustrative purpose only



Overall Approach (cont.)

2. Allocate all products into their respective segregated funds (as referred in #1).
3. Determine the value of policy holders liabilities in each fund.
4. Allocate other liabilities other than policy holders liabilities to each segregated fund based on their association with individual products. Other approach can be used for practical reason.
5. Allocate all assets to each segregated fund.



Fund Calculation Approaches

RETROSPECTIVE

- Computation of Asset Share for each product type.
- Use actual historical data

- Need to dig-out historical data
- More accurate to determine fund value

PROSPECTIVE

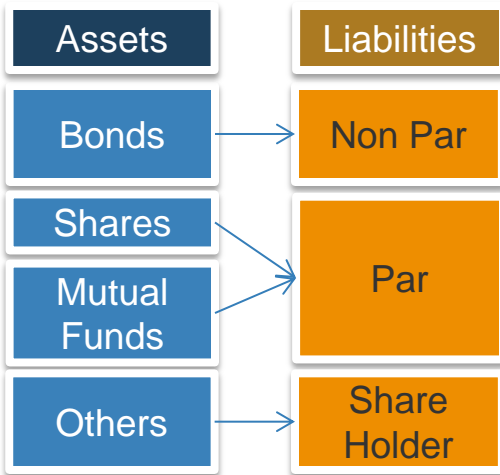
- Gross premium valuation
- Use best estimate assumptions + MfAD
- Include future bonuses

- Data already available
- Ignore historical data
- All variances in assumption (historically) are assumed to be absorbed by company

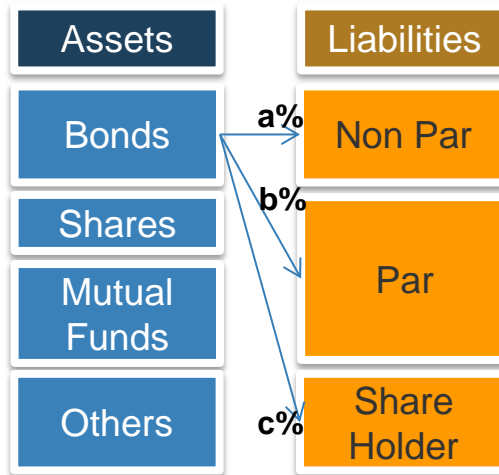


Asset Split Approaches

1 Asset Class Approach



2 Proportionate Approach



3 Combination 1 & 2

- Some individual assets are allocated entirely in particular fund
- Other assets are allocated proportionally

Above graphics are only for illustrative purpose only.



Considerations

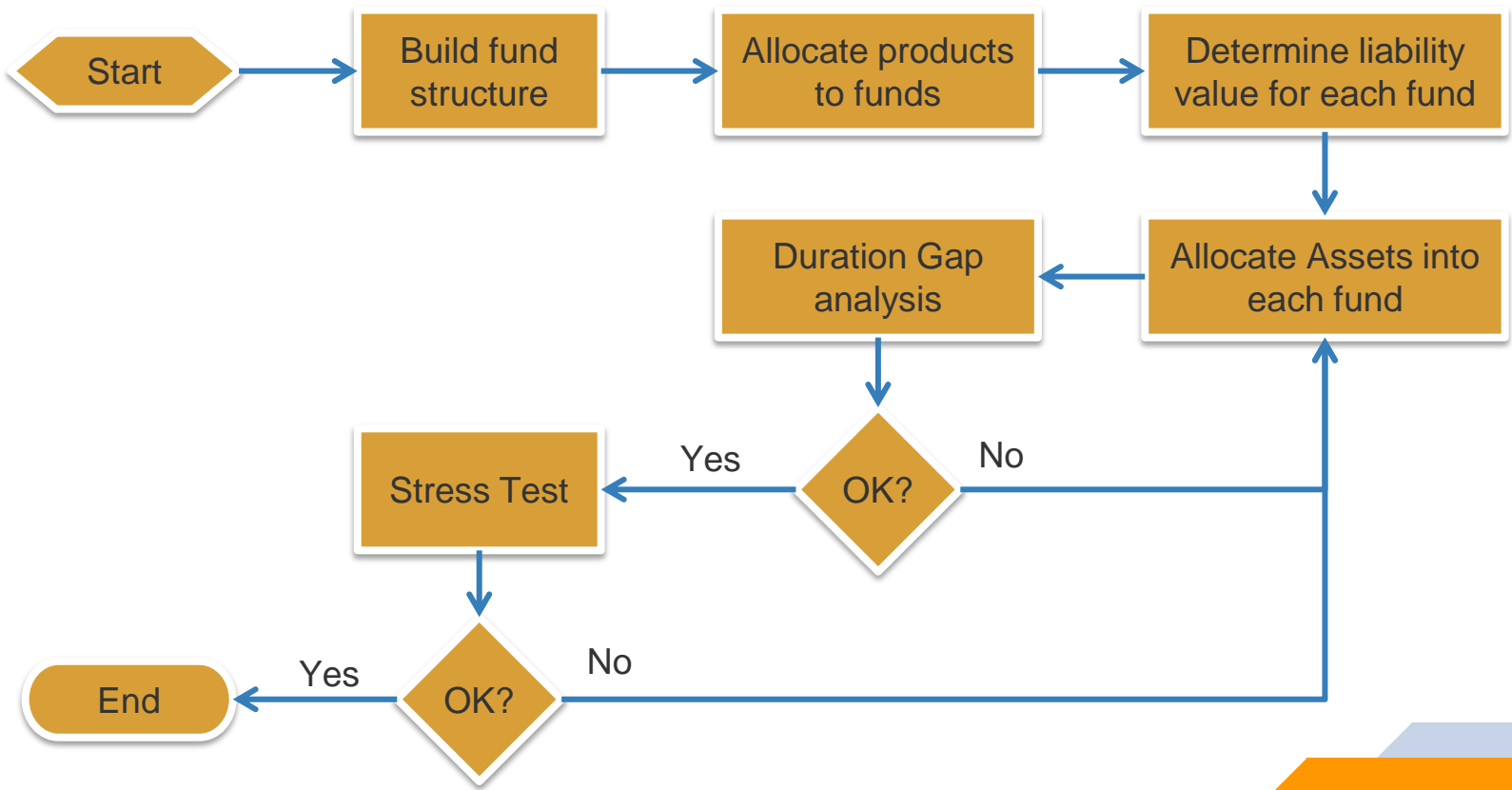
Assets allocation to each Fund should be based on the following considerations:

1. Assets \geq Liabilities
2. Assets allocation is driven by liability (e.g. currency, duration)
3. Assets allocation should reflect the original intention at purchase
4. Assets are allocated such that there is no unintended bias towards any fund in terms of the riskiness of the assets such as counter-party risk, industry sector of the security issuers, risk ratings and risk profile of the invested fund (aggressive/moderate/conservative).
5. Non investment assets also need to be split at a product level and allocated accordingly.



Considerations (cont.)

6. Maintain a reasonable duration gap between assets and liabilities in each individual fund.
7. Perform a sensitivity test or stress test both on liabilities and assets in order to obtain a higher confidence level on the sufficiency of assets to cover liabilities in each fund (e.g. mortality, lapse, valuation interest rates, asset value).



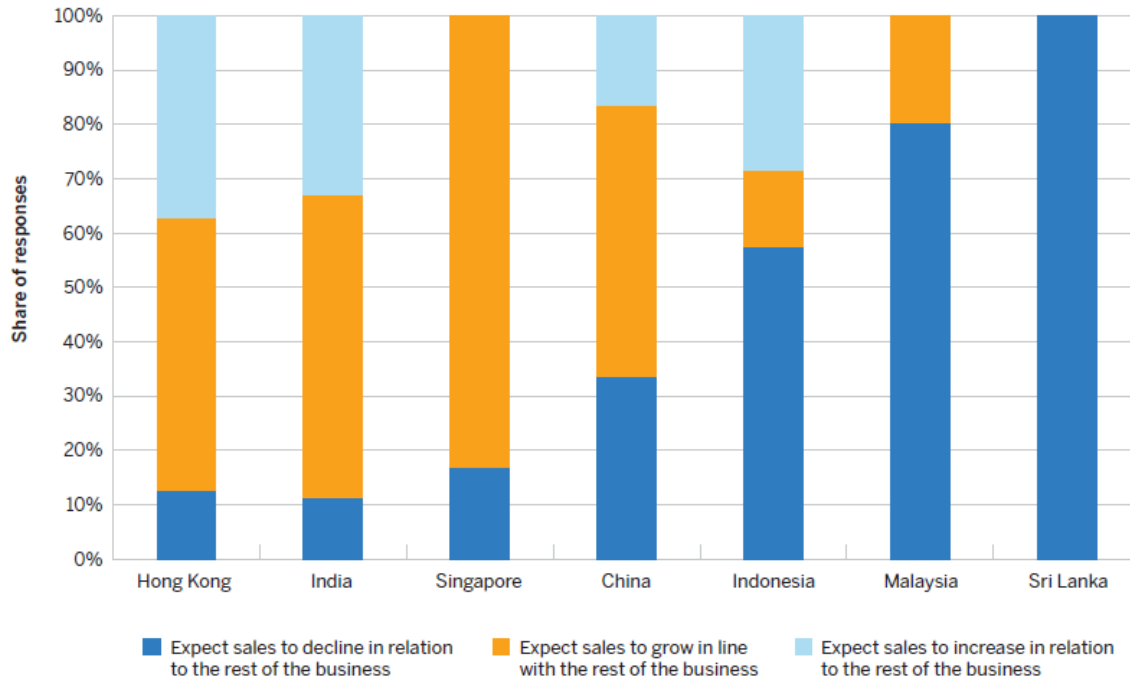
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Par Fund Management



Participating Business in Asia

FIGURE 3: 'WHAT IS THE OUTLOOK FOR PARTICIPATING BUSINESS AT YOUR COMPANY?'

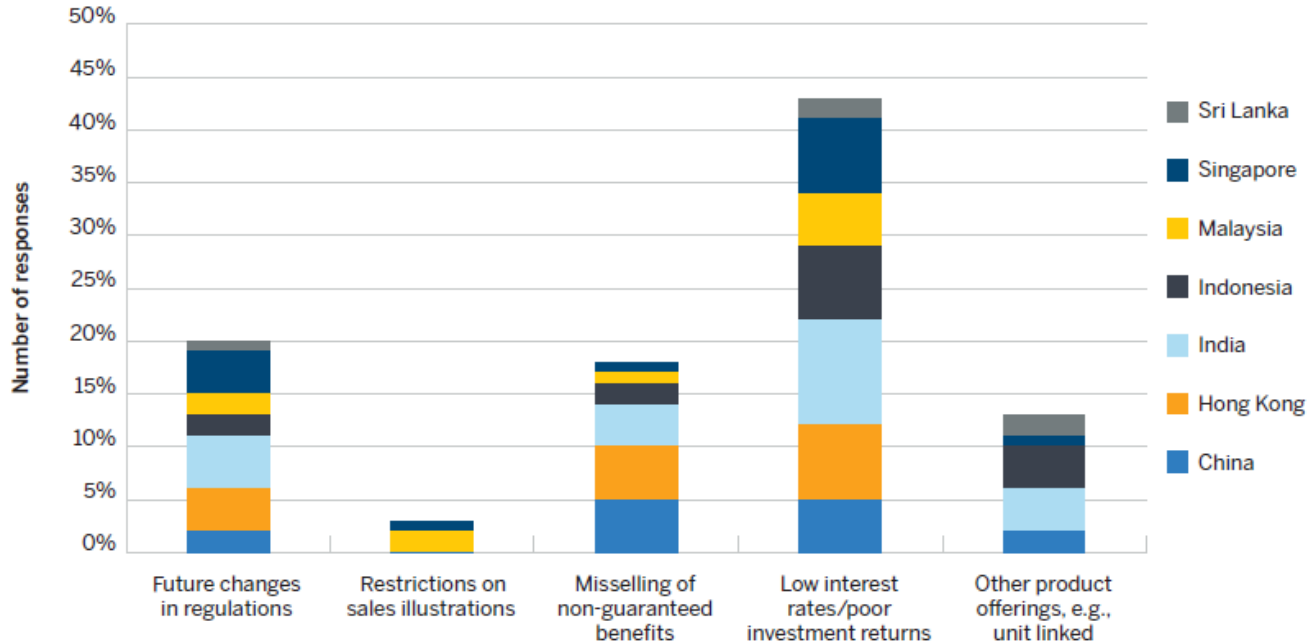


Source:
Milliman Research
Report "Participating
Business in Asia" 2016
Edition



Participating Business in Asia

FIGURE 5: 'WHAT DO YOU SEE AS THE BIGGEST THREATS TO YOUR COMPANY'S SUCCESSFUL PAR PRODUCT OFFERING?'

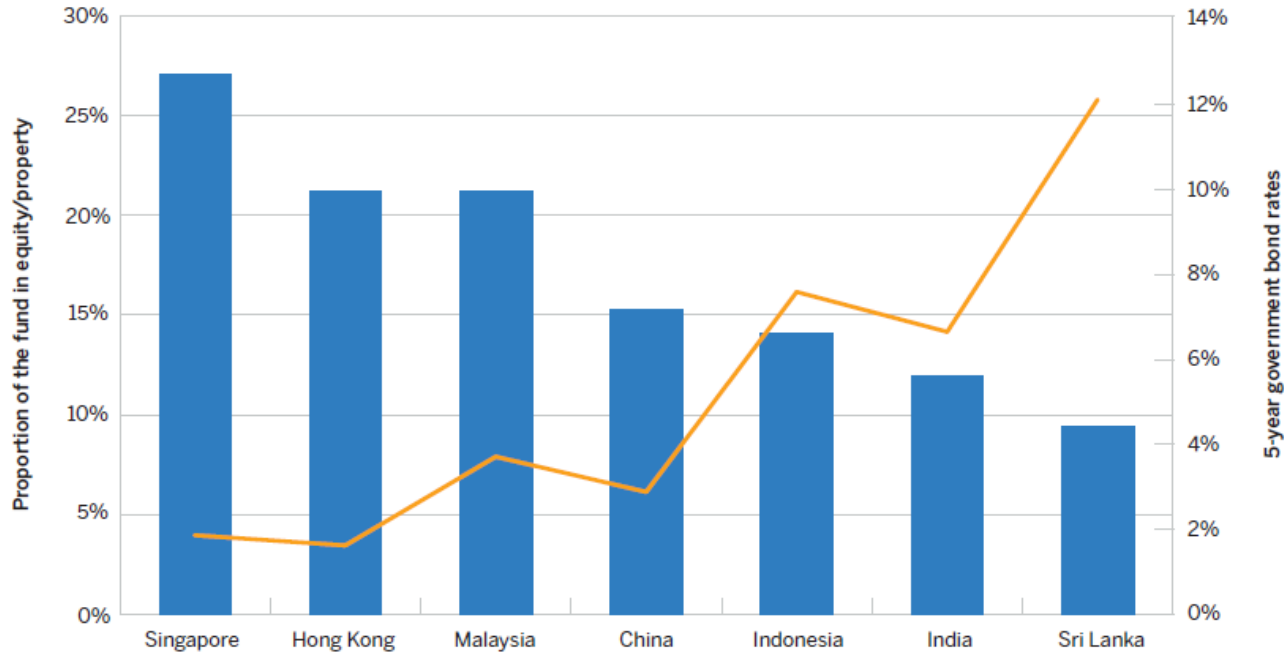


Source:
Milliman Research
Report "Participating
Business in Asia" 2016
Edition



Participating Business in Asia

FIGURE 6: 'APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PAR POLICIES ARE IN EQUITY, PROPERTY, OR OTHER HIGHER-RISK INVESTMENTS?'

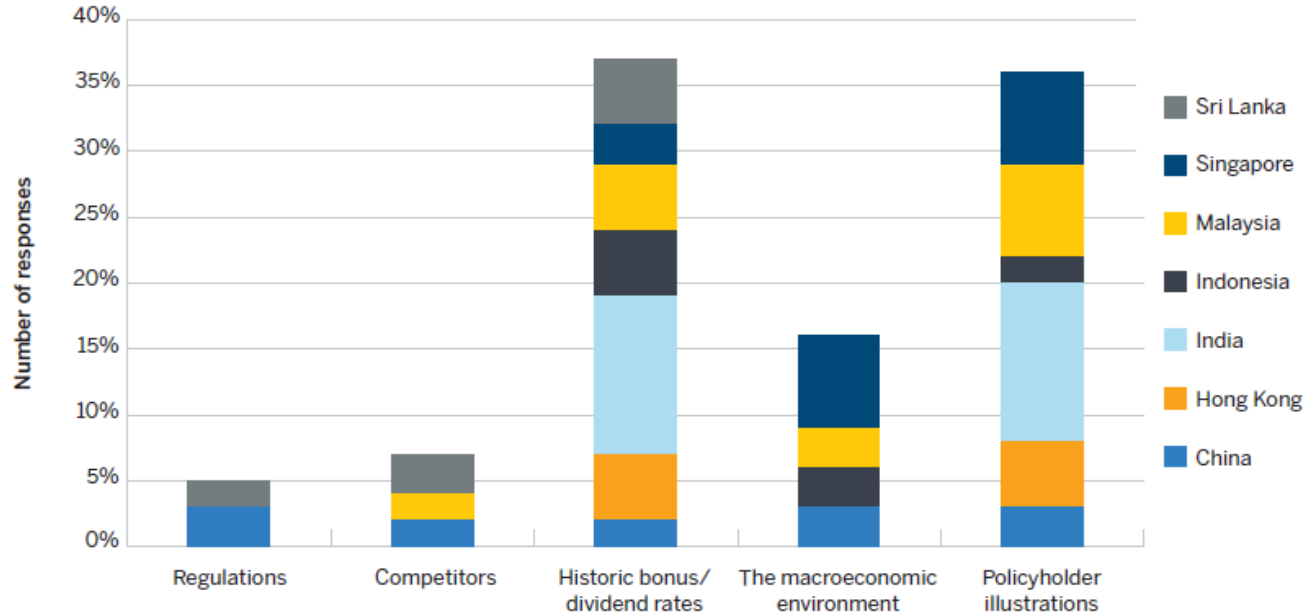


Source:
Milliman Research
Report "Participating
Business in Asia" 2016
Edition



Participating Business in Asia

FIGURE 8: 'WHAT ARE THE MOST IMPORTANT INFLUENCES ON PRE?'



Source:
Milliman Research
Report "Participating
Business in Asia" 2016
Edition

PRE = Policyholders' Reasonable Expectation



Surplus Distribution

Country	Fund Segregation	Shareholder transfers
Singapore	separate fund	90:10 split*
India	separate fund	90:10 split
Malaysia	separate fund	90:10 split
Hong Kong	no explicit regulation	not mandatory to disclose profit-sharing ratios
China	separate fund	70:30 split
Indonesia	POJK 71	not prescribe in POJK 71
Sri Lanka	Vary amongst insurers	90:10 split

Summarized from:

Milliman Research Report “Participating Business in Asia” 2016 Edition



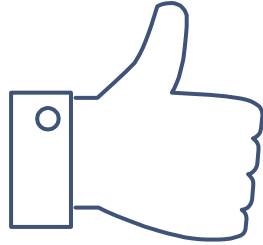
What's Next?

- Bonus Philosophy
- Illustration review [2 or 3 scenarios]
- Internal Governance Framework
- Strategic Asset Allocation for Each Fund
- Risk Management Policy

“*Risk comes from not knowing what you are doing.*”

Warren Buffett





THANKS!

Any questions?

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