UNSMIS Provisions and Reserves

In December 2018, following a request by USNMIS, EY delivered a report looking at the adequacy of the various provisions and reserves of UNSMIS. This study was needed to review the capital adequacy of certain reserves as well as the provisions set aside for Incurred but Not Reported Claims (IBNR's) and other liabilities that arise from USNMIS's self-insured and self-administered operations.

This document does not seek to review and discuss the methodologies used to assess each provision and reserve; this is available in the report by EY. This document acts as a formal approval by the Executive Committee to adopt the revised levels of provision and reserves as suggested by the EY study.

For the year ending 31 December 2019 it was not deemed necessary to have an entire review of all UNSMIS's provisions and reserves. Some reserves and provisions were merely amended on a pro-rata basis and others changed slightly mainly due to foreign exchange fluctuations. The increase in income and the unrealized gains had an overall positive impact on the accumulated surplus.

1. IBNR – Incurred but Not Reported

This is a provision for claims that are yet to be reported but already incurred. The 2018 EY study determined, based on UNSMIS claims data of 2016, 2017 and 2018 years of account that the IBNR claims "tail" is equivalent to 4 months' worth of claims.

Using 31 December 2019 United Nations Operational Rates of Exchange this reserve has been increased to USD 36 million.

2. Employee Benefit Liabilities

This provision represents claims received but not yet paid and were defined to be equivalent to one month of claims reimbursement. Following a study by EY the provision was reduced from four weeks to two weeks' worth of claims reimbursed.

In 2019 this reserve was proportionally increased to CHF 4.21 million.

Using 31 December 2019 United Nations Operational Rates of Exchange this provision stands at USD 4.32 million

The above Provisions are treated as current liabilities and thus reduce the net asset position of UNSMIS.

Net assets are classified into 4 distinct reserves and the so called “Accumulated Surplus”

3. **The reserve for catastrophic risks** was established in 1993 to protect the Society against “peak files”. These are single cases that have a large monetary impact on the Society’s cash flow. Given the maturity of the plan and the large volume of participants it has been decided that having an own reserve is a more cost effective and flexible solution versus purchases some form of risk transfer mechanism, namely quota share and/or excess of loss reinsurance coverage.

   Following a study by EY the Executive Committee agreed to set a “catastrophic risk” threshold of CHF 200,000 per claims.

   Using 31 December 2019 United Nations Operational Rates of Exchange this reserve stand at USD 4.31 million

4. **The reserve for currency fluctuation** was established in the year 2000 following recommendations made by the actuaries and is constantly kept at CHF 5.0 million. Most expenses of the Society are in Swiss Francs, but accounts and financial reports are in United States Dollars.

   EY’s report concluded that the reserve **should be set at CHF 3.5 million to cover possible exchange rate fluctuation impact over a year if necessary.**

   Using 31 December 2019 United Nations Operational Rates of Exchange this equates to USD 3.59 million

5. **The reserve for terminal indemnities** was established to cover indemnities due to staff working for the Society in case the Society is wound up. The reserve was set at CHF 1.8 million at end 2016.
   Following a review by EY the reserve should be set at CHF 1.3 million for 2018.

   Using 31 December 2019 United Nations Operational Rates of Exchange this equates to USD 1.33 million

6. **The actuarial reserve for long-term risks** was established in 1995 to cover the continuous increase in health-care costs and the progressive increase in the average age of members. Investment income from this reserve for long-term risks should make it possible to limit the rise in premiums. This reserve was increased to CHF 25 million in 2004 and has been held at this level to cover in part dependency benefits."

   Following EY’s study the reserve should was set at CHF 35 million. In 2019 this reserve was proportionally increased to CHF 35.1 million.

   Following the increase in long term benefits, meeting of 25 July 2020, the Executive Committee was in favor to increase the reserve to USD 46.15 million. The Executive Committee acknowledges that with the integration of ITU and the increase in long term care benefits this figure is to be reviewed by actuaries in 2021, after at least 12 months of claims experience of ITU is available.

7. The Accumulated surplus

This represents the Reserve Fund as defined under the Statutes of the Society. According to the statues the Accumulated surplus shall not be less than 25% or more than 50% of total claims (benefit) paid during two preceding calendar years. Provisions and accruals should be included in this amount.

Any adjustments emanating from the revision of the reserves should be accounted for from the Accumulated Surplus. Similarly, any surplus/deficit generated in any given year should be accounted for from the Accumulated Surplus, so long as this remains within the statutory limits.

Should the reserve fund exceed the 50% threshold the Executive Committee will deliberate on how to allocate any excess funds. Should the reserve fund fall below the 25% threshold the Executive Committee is tasked with taking all necessary corrective actions. The procedure to follow should the reserve fund fall below or exceed the statutory levels is defined in **Chapter V, Article 13, Paragraph 3.**

The Accumulated Surplus for the year ending at 31 December 2019 stands at USD 109.12 million. Based on the definition defined in the above paragraphs the accumulated surplus/reserve fund stands slightly over the maximum threshold at 50.52%.

UNSMIS's Executive Committee has agreed to leave this amount unchanged, even if slightly above the statutory 50%, for the time being. The reasoning behind the Executive Committee's decision is based upon the fact that a significant of amount of the increase in assets stems from unrealized financial gains. The situation is a snapshot at a fixed date, strong fluctuations in unrealized gains or losses as well as currency exchange (most claims are encountered in Swiss francs, but the reporting is in USD) could easily yield a different result. The Executive Committee deemed it more prudent to re assess the situation in 2021 once the financial results of 2020 are available.

The Executive Secretary attests that the information provided was thoroughly reviewed and deemed to be correct at the time.

Mr Giovanni Pizzini

Executive Secretary, UNSMIS