

UNSMIS Provisions and Reserves

On 1 January 2020 the International Telecommunications Union (ITU) joined UNSMIS. The year 2020 saw COVID have a significant impact in operations and reimbursements. During the period of lockdown many non-essential doctor visits and hospitalizations were cancelled in various countries around the world. This had the consequential effect of claim reimbursement going down when compared to the same months year on year. Once the lockdown was lifted UNSMIS saw, as one would expect, a higher than normal number of incoming claims, and higher overall weekly reimbursements than normal. Nonetheless despite this “post-lockdown” surge overall reimbursements for the year 2020 are less than projected.

Considering the above, it was deemed that the best methodology to review provisions and reserves was to rely, where possible, on the actuarial forecasts done, prior to ITU joining UNSMIS, comparing UNSMIS claim experience without ITU and forecasted with ITU, at end of the 2020 calendar year.

It is worth remembering that provisions are calculated in CHF, the main operational currency, and then converted into USD using the applicable United Nations Operational rate of exchange (UNORE)

1. IBNR – Incurred but Not Reported

The EY actuarial study of June 2019 projected that following ITU’s integration in UNSMIS the annual reimbursements would total USD 127.6 million for the year 2020 compared to USD 110.53 million without ITU. The executive committee proposes to increase the reserve, (CHF 35.1 million in 2019) on a pro-rata basis and to then account for UNORE CHF/USD exchange rate fluctuations.

Following the above the executive committee has deemed it prudent to increase this provision to USD 45.89 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.

Using the same methodology used for the IBNR provision, the executive committee agrees to increase the provision to USD 5.50 million.

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

Net assets are classified into 5 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 2018 study by EY the Executive Committee agreed to set a “catastrophic risk” threshold of CHF 200,000 per claim. According to the results of the December 2018 EY study the corresponding reserve for such a threshold was USD 4.2 million (at the time assuming CHF/USD parity) In 2019 this was increased to USD 4.31 million to consider exchange rate fluctuations.

The executive committee notes that at the end of 2020 actual reimbursements are lower than forecasted. The main drive is the fact that due to COVID-19 many people have pushed back non-essential care, either by personal choice or instructed by local health authorities. It is safe to assume these costs will be pushed towards the year 2021, along with potential additional claims related to the manifestation of illnesses that would normally have been detected through preventive screening.

As there was insufficient time to forecast the full monetary impact of the above, the executive committee deemed it prudent to revert to the most conservative forecast of the EY report where a catastrophic claims limit of CHF 100,000 required a reserve of CHF 9.6 million. This amount then needs to be proportionally increased with forecasted increase in claims following the integration of ITU and adjusted for UNORE changes at 31.12.2020

The executive committee has agreed to increase this reserve to USD 12.55 million following the described methodology.

4. **The reserve for currency fluctuation** was established in the year 2000 following recommendations made by the actuaries.

The executive committee has agreed to increase this reserve to USD 4.58 million to take into consideration proportional increase with the forecasted 2020 increase in claims following ITU joining UNSMIS as well as UNORE changes.

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 executive committee has agreed to keep this reserve unchanged; the minimal increase is to account for UNORE. The reserve is set at USD 1.47 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 and absorb any unforeseen costs

The reserve was increased to CHF 45 million at the end of 2019, which equated to USD 46.15 million. Underwriting surplus was directed towards this reserve following an increase in dependency benefits earlier in the year, as agreed on the executive committee

The executive committee agrees to increase this reserve proportionally to the forecasted increase in reimbursements with the integration of ITU. The reserve is set at USD 58.83 million to account also for the UNORE.

7. **The reserve for nondependent insured family members.**

UNSMIS classes nondependent family members a specially protected persons (SPP's) These are family members that can benefit from the insurance, but because they are not recognized as dependents by Human Resources (HR) they pay a flat monthly premium with no contribution from the organization. Because this category of insured is entirely self-funded, the UNSMIS secretariat reviews the loss ratio at the end of each year to ensure there is no cross subsidy with staff members and dependents whose premium is partially funded by the organization.

The executive committee believes that an ad hoc reserve should be created for this group of insured. This reserve would be used to fund years where claims exceed income and to absorb potential premium rate increases in the future.

To create this reserve, it was deemed that the most appropriate way would be to use existing statistics on premium income, operational costs and claims over the last 5 years for this specific category. It was agreed to use roughly 90% of the surplus premium over the observed period to establish the reserve.

The Executive committee agrees to set up this new reserve with an amount equivalent to USD 5 million, accounting for UNORE.

8. The Accumulated surplus

This represents the Reserve Fund as defined under the Statutes of the Society. According to the statutes the Accumulated surplus shall not be less than 25% or more than 50% of total claims (benefit) paid during two preceding calendar years.

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 Executive Committee will be asking external actuaries to review the adequacy of all reserves and provisions in Q1/Q2 of 2021 once in possession of claims data, inclusive of ITU, for the full 2020 calendar year and a few months of “tail”.

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

UNSMIS



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