UNSMIS Provisions and Reserves

In 2021, in line with UNSMIS's policy on actuarial valuations, endorsed by the Executive Committee on 01 Oct 2020, UNSMIS instructed the actuaries of the United Nations to carry out a review of its reserves to assess the adequacy of each reserve.

The results of said study were presented and approved by the Executive Committee of UNSMIS at its meeting held on the 29th of November, 2021.

It is worth noting that the methodology of how the reserves are defined has been changed from the calculation being done in CHF and then converted to USD to the calculation being done directly in USD. This has been done in effort to simplify the process and avoid the need to carry out annual adjustments due to F/X fluctuations. It is also worth noting that all reserves have been rounded up/down to the closest USD 100,000.

With the support of the EY study, the Executive Committee has agreed to amend the Provisions and reserves, with effect 1 Jan 2022, as follows:

1. **IBNR – Incurred but Not Reported**

   EY proposed a more prudent approach than normal given the recent integration of ITU, the inflation of medical costs and as the average duration between a claim occurrence date and its payment date is about 3.5 months. To account for the fact that ITU only joined in 2020, the timeline for submitting claims has been increased from 12 to 24 months form the invoice date, and possible impact of medical inflation over the 24 month timeframe EY suggested a more conservative IBNR of 4.5 months based on forecasted claims for 2021.

   Following the above the executive committee has endorsed the proposal to increase this provision to USD 53.3 million.

2. **Employee Benefit Liabilities**

   This provision represents claims received but not yet paid. EY suggested in their report to use the average of 3 weeks' worth of claims based on a study of the claims which showed that 80.2% of claims are processed in 2 weeks and 94.4% in 4 weeks. This would allow a coverage of about 90% of the claims.

   Following the above the executive committee has endorsed the proposal to increase this provision to USD 6.4 million.

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

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Net assets are classified into 5 distinct reserves and the 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 a dedicated reserve is a more cost effective and flexible solution versus purchasing a risk transfer mechanism, namely quota share and/or excess of loss reinsurance coverage.

   Using USD 100,000 as the defined limit for a catastrophic claim, EY estimated that a reserve of USD 16.8 million is necessary. Reviewing all claims between 2017 and 2020, it was noted that the claims over USD 100,000 represent 0.014% of total claim numbers. This takes into account an adjustment of the claims from 2017 to 2019 that were not yet inclusive of the ITU claims.

   The executive committee has endorsed the proposal to increase this reserve to USD 16.8 million. The executive committee reserves its right to review this reserve and if necessary, increase the defined limit for a catastrophic claim to USD 200,000. Based on the EY report this would translate in the reserve needed being reduced to USD 7.7 million.

4. **The reserve for currency fluctuation** was established in the year 2000 following recommendations made by the actuaries. The report of EY found no need to amend said reserve from its current level.

   The executive committee has agreed to endorse the recommendation and keep the reserve unchanged at USD 4.6 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. This reserve was not within the scope of the study.

   The executive committee has agreed to keep this reserve unchanged at USD 1.5 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 study by EY proposes to leave the reserve unchanged at USD 58.8 million.

   The executive committee agrees to leave the reserve unchanged at USD 58.8 million.

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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. In 2021 the executive committee supported the creation of an ad hoc reserve for this group of insured to be used to fund years where claims exceed income and to absorb potential premium rate increases in the future.

EY reviewed this reserve and proposed increasing to USD 5.7 million.

The average net loss ratio over the last 5 years is 89%. Therefore, EY suggested building a reserve of 11% of the average annual net income over the last 5 years

The Executive committee endorsed the recommendation and increased the reserve to USD 5.7 million.

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.**

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

Mr Giovanni Pizzini

Executive Secretary, UNSMIS

Geneva, February 2022