UNSMIS Provisions and Reserves

UNSMIS carried out its last actuarial and solvency study in 2021. In line with UNSMIS's policy on actuarial valuations, endorsed by the Executive Committee on 01 Oct 2020, there was no actuarial and solvency study done in 2022. The next one is forecasted to be done in 2023.

No significant changes have occurred internally or externally since the actuarial analyses of EY in 2021, such as product services and conditions, rules and legislation, periods of significant changes in quantity or value of claims and changes in the settlement process. Therefore, we conclude that the assumptions used in the model do not differ from prior years and we can continue using the same calculation method. It should be noted that the actuarial study is done once every two years and IBNR's are forecasted using the chain ladder methodology. The years in between the actuarial studies the forecast is done applying the IBNR months assumption in a purely arithmetic manner on the previous years' claims reimbursed.

The Executive Committee approves the following provisions and reserves, with effect 1 Jan 2023:

1. IBNR – Incurred but Not Reported

In 2021 the Executive Committee supported the proposal to increase the IBNR to 4.5 months' worth of claims using the last 3 years of claims observations. Overall IBNR provision is reduced in monetary terms given the lower 2022 claim reimbursements vs 2021. The reason for this strong reduction in claims reimbursed is predominantly driven by F/X rates. The majority of UNSMIS claims are reimbursed in CHF, yet for accounting purposes, all data is reported in USD. The appreciation of the USD vs the CHF in 2022 results in lower claims reimbursements registered in 2022 when reported in USD.

Following the above the executive committee has endorsed the proposal to decrease this provision to USD 52.0 million

2. Employee Benefit Liabilities

In 2021 the Executive Committee supported the proposal to increase the basis of calculation for this provision to an average of 3 weeks' worth of claims. At the time EY used 2020 data; the extent of the impact of COVID and, to a lesser extent, the integration of ITU within UNSMIS, was not yet clear. As a result of this, it is the belief of the Executive Secretary of UNSMIS, based on data collected thereafter that this reserve was slightly understated. Using the average of 3 weeks' worth of claims in 2022 results in a higher provision.

Following the above the executive committee has endorsed the proposal to increase this provision to USD 7.5 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 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.

   The executive committee agrees to leave this reserve unchanged at USD 16.8 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 agrees to leave this 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 executive committee agrees to leave the reserve unchanged at USD 58.8 million.

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

   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.

   The executive committee agrees to leave the reserve unchanged at USD 5.7 million.

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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, January 2023

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