UNSMIS Provisions and Reserves

In December 2018, following a request by UNSMIS, 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 UNSMIS'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 in the EY study.

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

   This is a provision for claims that are yet to be reported but already incurred. The EY study has determined, based on UNSMIS claims data of 2016, 2017 and 2018 years of account that the IBNR claims "tail" is equivalent to 4 months of claims. As such the provision needs to be increased from the **current CHF 24 million to CHF 35 million for the year ending 31.12.2018.**

   Using 31 December 2018 United Nations Operational Rates of Exchange this equates to USD 35.46 million (rounded up)

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. The provision stood at CHF 7.8 million and was last reviewed in 2016. Following their study EY has determined that this provision need not be equivalent to one months' worth of claims. The report concluded **that 95% of claims are paid in under 1 month. The provision can be reduced to two weeks' worth of claims. The provision for 2018 is thus estimated at CHF 4.2 million.**

   Using 31 December 2018 United Nations Operational Rates of Exchange this equates to USD 4.26 million (rounded up)

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

The remaining net assets are then classified into 4 distinct reserves and the so called "Reserve Fund" (Chapter VI , Article 7 of the statutes of UNSMIS).

3. **The reserve for catastrophic risks**, which stood at CHF 9.3 million as at 31 December 2016, 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.

   The amount of the reserve must not be less than 5% of the total claims (benefits) paid during the previous two calendar years. The level of the reserve at 31 December 2016 complied with this requirement.

   Following the study carried out by EY it has emerged that UNSMIS has been over allocating assets for this reserve. According to the study the level of reserve will naturally depend on the definition of a catastrophic claim.

   - If a catastrophic claim is defined as any claim over CHF 100,000 (0.015% of all claims paid during the period 2015-2018) then the reserve should be set at CHF 9.6 million.
   - If a catastrophic claim is defined as any claim over CHF 200,000 (0.003% of all claims paid during the period 2015-2018) then the reserve should be set at CHF 4.2 million.
   - If a catastrophic claim is defined as any claim over CHF 250,000 (0.001% of all claims paid during the period 2015-2018) then the reserve should be set at CHF 2.6 million.

   Given the maturity of the plan and its financial stability and the need to maintain a prudent approach, it is suggested that a catastrophic claim be defined as one more than CHF 200,000 and the reserve set at CHF 4.2 million for 2018.

   Using 31 December 2018 United Nations Operational Rates of Exchange this equates to USD 4.26 million (rounded up)

   The society should avoid using a percentage of claims to define the reserve as the underlying distribution of claims based on monetary impact can change throughout time.

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.

   The EY reported concluded, following a claims distribution analysis for the period 2016-2018, that over the last 3 years the currency distribution of the Society's reimbursements is as follows;

   - 75% CHF, 15% EUR, 5% USD and 5% other currencies.

   EY's report has 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 2018 United Nations Operational Rates of Exchange this equates to USD 3.55 million (rounded up)

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. This reserve considers accrued leave and repatriation grant that would be payable in the event the Society ceases to exist. After Service Health Insurance is not included as UNSMIS already pays a 3% ASHI payroll charge as all other XB operations in the UN Secretariat.

   Using 31 December 2018 United Nations Operational Rates of Exchange this equates to USD 1.32 million (rounded up)

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."

   This reserve has not been reviewed since 2004 and in current market conditions it is difficult to envisage how to generate significant investment income form this reserve. **Following EY's study the reserve should be set at CHF 35 million.**

   Using 31 December 2018 United Nations Operational Rates of Exchange this equates to USD 35.46 million (rounded up)

7. **The Reserve Fund**

The Reserve Fund is defined in **Chapter VI, Article 13** of 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.

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 VI, Article 13, Paragraph 3.**

The exact amount of the Accumulated Surplus is not yet known as the final accounts for 2018 are not yet available. Even considering the revision of the reserves all indicators point towards a healthy reserve fund.

The EY report was presented to the Executive Committee, on 24 January 2019. The changes in the levels of reserves do not entail a change to the Statutes nor to the Internal rules of UNSMIS and as such, in accordance with Chapter IV, article 8, Paragraph 4)a), 4)b) and 4)c the Executive Committee reviewed the report and agreed to modify the reserves as summarized in this document.

The Executive Secretary ad interim, Mr Giovanni Pizzini, attests that the information provided was thoroughly reviewed and deemed to be correct at the time.

UNDG TRMS/SP ★ FINANCE AUTHORIZATION ★

Mr Giovanni Pizzini
Executive Secretary, a.i., UNSMIS
Geneva, 29 January 2019