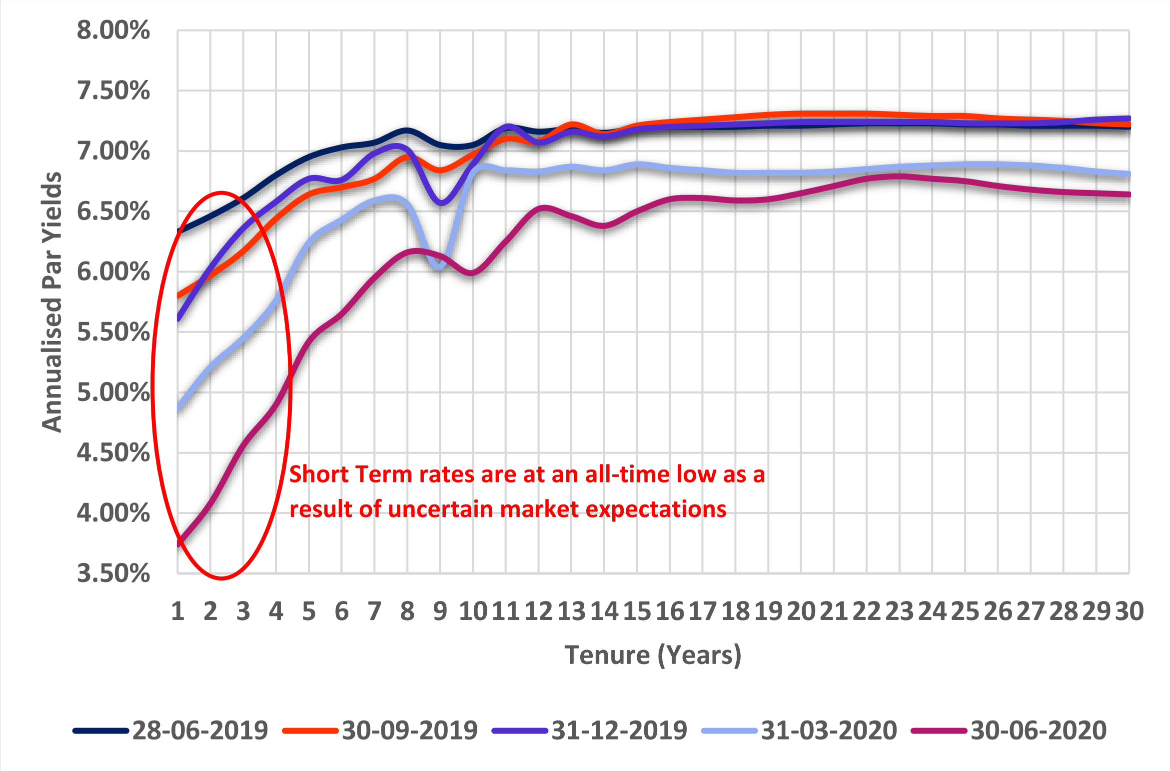
Interest Rates Updates as on 30-06-2020

Tenure	Yield 30th June 2020	Yield 31st March 2020
1	3.74%	4.87%
2	4.08%	5.21%
3	4.56%	5.45%
4	4.90%	5.76%
5	5.42%	6.24%
6	5.65%	6.43%
7	5.95%	6.59%
8	6.16%	6.56%
9	6.13%	6.04%
10	5.99%	6.82%
11	6.25%	6.84%
12	6.52%	6.83%
13	6.46%	6.87%
14	6.38%	6.84%
15	6.50%	6.89%
16	6.60%	6.86%
17	6.61%	6.84%
18	6.59%	6.82%
19	6.60%	6.82%
20	6.65%	6.82%
21	6.71%	6.83%
22	6.77%	6.85%
23	6.79%	6.87%
24	6.77%	6.88%
25	6.75%	6.89%
26	6.71%	6.89%
27	6.68%	6.88%
28	6.66%	6.86%
29	6.65%	6.83%
30	6.64%	6.81%

“Pandemic effect has made the Discount Rate volatile with downward bias. The expected buoyancy in the economic activity post pandemic may see a rising tail”

Volatility in rates continue, as seen in our comparison of Annualised Par Yields on Government Securities (G-Sec)/Discount Rates. We have comments and insights for the year and immediate past quarter:



Source: www.fimmda.org with prices/yields published by FBIL

COMMENTS AND *INSIGHTS*

- Economic factors have rendered the G-Sec rates very volatile and a significant decrease is seen in the rates over the last year. G-sec rates have reduced by 40 basis points approximately when compared to March 2020 rates, except for 9 year bond where rates have slightly increased by 9 basis points. For a short and medium term period up to 7 years, there are huge decrements in the interest rates of approximately 90 basis points. *Such decreases will contribute to an increase in the employee benefits obligation.*

- The volatility has been heightened during the last few months due to the uncertainty of the economic impact of the pandemic in the medium and long term. A reduction in the rates will give rise to Actuarial Losses. *We have seen some of these losses be balanced with a dampening of salary increase expectations by companies. The net impact on obligation calculations is largely determined by the gap between the salary growth rate and the discount rate. However, even a small change when deciding assumptions should be done with careful consideration of the entity’s expectations and after discussion with the Actuary and Auditor so that they reflect the best long term estimates.*

- Funding ratios of the company have been impacted considerably due to the decrease in the discount rate. *It is now seen that companies would have to contribute more towards their Plan Fund to enable the Funding Ratio to reach acceptable level, which could be a drain on liquidity and may need robust Asset – Liability Management during these difficult times.*

COVID SURVEY

M/s. K. A. Pandit, Actuaries and Consultants conducted a short dipstick survey as India entered a new financial year amongst the uncertainty and volatility around us due to the lockdown and COVID-19 situation. In particular, we have asked how companies may incorporate their short term business plans with respect to their workforce, into the assumption setting for the year-end actuarial valuations.

There is no doubt the opinion is that current events are going to have a significant impact on business and many say it will last for up to 12 months. In that light, a majority feel that short term modification of assumptions surrounding salary growth and attrition should be considered. A Summary of the results of the same is illustrated here ->

Business Outlook

*~ 52% say business impact will be **HIGH***

~ 37% say it will be MODERATE

*~ 39% felt it will **last 6 to 12 months** whilst*

*~33% felt it will be **3 to 6 months***

Salary Growth Assumption

>55% feel assumption should be relooked at

*~70% feel a **lower assumption for 1 to 2 years** followed by reverting to longer term assumption may be suitable.*

Highest number of responses said 2% to 5% p.a. for a short term assumption was reasonable.

Dataset Details:

46 Companies responded over a period of 2.5 months and the results herewith are based on the updates as on 30th June 2020.

Attrition Rate Assumption

Split view whether attrition assumption

*~57% feel it should be **modified, and a lower rate may be suitable in the short term***

*~42% chose an attrition assumption **more than "5% to 10%" in the short term***

Some Important links:-

Indian Accounting Standard 19 - https://indasaccess.icai.org/download/2019/asb0719/272/272asb-cias-2019-20-vol2-24.pdf

Accounting Standard 15 (R) - https://www.mca.gov.in/Ministry/notification/pdf/AS_15.pdf

Initial Results of the Dipstick Survey - http://www.ka-pandit.com/assets/newsletter/Initial_Results_of_Dipstick_Survey-April_2020.pdf

Volatility in the Interest Rate – March 2020 - http://www.ka-pandit.com/assets/newsletter/KAP_Update_Volatility_in_the_Interest_Rate-March_2020.pdf

WAY FORWARD AND ASSUMPTION SETTING

The world is facing unprecedented circumstances amid a pandemic whose complete financial impact is yet to be gauged. Hence, to survive through this time some companies have decided to temporarily pause salary increments or to provide deferred salary increments when times improve, whilst others have had to resort to pay-cuts and lay-offs.

Whilst setting assumptions, as they are the long-term best estimated of the company, it is important that we take into consideration the future outlook and business plan of a company.

Hence it is seen that many companies are adopting staggered assumptions that reflect shorter term rates for 1-2 years and then reverting to a longer term assumption. It is our recommendation to conduct an "Experience Analysis/Study" to understand past longer term trends of assumptions to set a future outlook so that it can build a basis for selecting new assumptions while simultaneously serve as a documentation for Auditors during the audit exercise.

Should you wish to revisit the assumptions considered when conducting an Actuarial valuation for your company, please feel free to contact us.

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