

# 30<sup>th</sup> India Fellowship Seminar

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### Life Insurance Case study: Mentor Actuary



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# Case study



- You are an independent actuary, appointed as a mentor (as per IRDAI requirements) to the Appointed Actuary (AA) of an Indian life insurance company, given the limited experience the AA has.
- What considerations would you adopt?
  - Before accepting the assignment
  - If there are any disagreements with the AA on any aspects of the work
  - In reporting to the Board and to the IRDAI

# Agenda



Before accepting assignment

Disagreements with AA

Reporting to Board and IRDAI

International markets

# Before accepting assignment



# Considerations



- Role and Responsibility
- Eligibility criteria
- Company background
- Professional conduct:
  - Conflict of interest
  - Financial interest
  - Appointment of new advisor
- Course of action

# Role and responsibility



- Support young Appointed Actuary
- Jointly responsible for all actuarial activities
- Comply with duties and responsibilities prescribed in:
  - IRDAI (Appointed Actuary) regulations
  - Other guidelines, regulations and circulars
  - Actuarial practice standards issued by IAI

Source: IRDAI guidelines on Transitory Provisions on AA Reg., 2017

# Eligibility criteria



- Fellow member of:
  - Institute of Actuaries of India (IAI), or
  - Any other institute wherein IAI has mutual recognition agreement
- Certificate of Practice (CoP) from IAI
  - In absence of CoP, obtain within one year
- Maximum age of 75 years
- Minimum tenure of one year
- At least 15 years of post qualification experience

Source: IRDAI guidelines on Transitory Provisions on AA Reg., 2017

# Eligibility criteria



- Act as mentor to maximum 3 insurers / re-insurers at a time provided no other assignment during mentorship period
- No conflict of interest with regards to:
  - Duties of mentor
  - Any other position held by him/her
- Not an employee of any insurer
- Not an Appointed Actuary of any insurer
- Not committed any breach of professional or any misconduct

Source: IRDAI guidelines on Transitory Provisions on AA Reg., 2017



# Company background



- Profile and history
- Policies and procedures
- Regulatory compliances
- Appointed Actuary & actuarial team
- Reasons for appointment as mentor
  - Existing AA:
    - Retirement
    - Resignation, or
    - Removal
  - Replacement to previous Mentor

# Professional conduct



## PCS 5: Conflict of interest

- Insurers are entitled to assume no conflict of interest
- Conflict of interest can arise between:
  - Two or more insurer/re-insurer, or
  - Insurer and mentor actuary
- Evaluate nature and extent of conflict
- Notify insurer or re-insurer of conflict

# Professional conduct



## PCS 6: Financial interest

- Disclose any financial interest mentor may have in insurer/re-insurer
- Consider associations with other insurers/re-insurers
- While accepting rewards or fees, ensure appropriateness as per role & responsibility

# Professional conduct



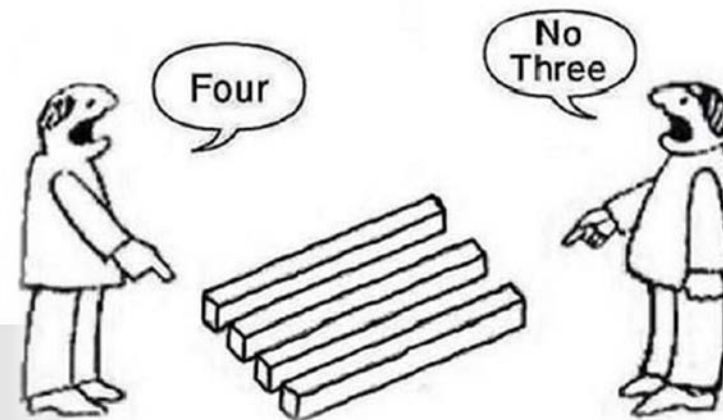
## PCS 7: Appointment of new advisor

- Insurer has right to choose and to change professional advisors
- Check if any other actuary was previously appointed as AA or mentor
- Before accepting role:
  - Mentor must contact other actuary, and
  - Seek information on professional reasons and particular considerations

# Course of action

- Defer acceptance of role to:
  - Evaluate professional considerations
- Decline role of mentor due to:
  - Conflict of interest arising out of other assignments
  - Financial interest in said company or any other company
  - Any time or cost constraints
  - Any other reason deemed appropriate

# Disagreements with AA

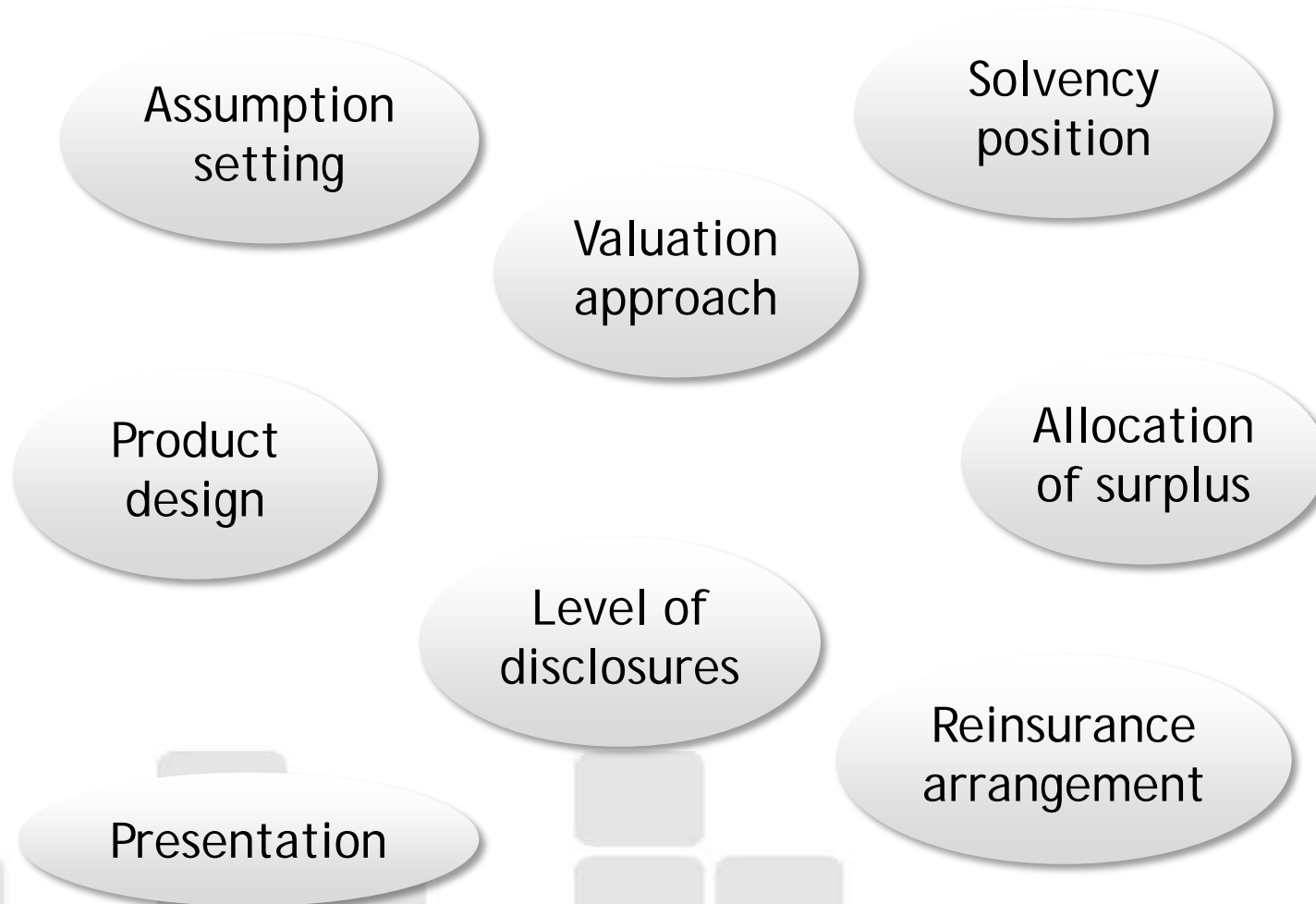


# Considerations



- Areas of disagreement
- Implications
- Comparison with Peer Review
- Professional conduct:
  - Relation with other members
- Course of action

# Areas of disagreement





# Implications



- Robust outcomes due to healthy debates
- Delays in:
  - Submission of valuation results
  - Publishing financial statements
  - Filing of new products
- Regulatory intervention in form of:
  - Penalties, or
  - Audits

# Comparison with Peer Review



	Peer Review	Mentor
Scope	Annual statutory valuation	All actuarial activities
Method of operation	High level	Not defined, person specific
Responsibility	Retained by AA	Jointly with AA
Difference in view points	Expected to resolve, unresolved matters to be mentioned in report	No guidance available

# Professional conduct



## PCS 8: Relations with other members

- Avoid any action that injure professional reputation of Appointed Actuary
- Criticism of AA's work acceptable if:
  - Properly reasoned
  - Believed to be justified
- Acknowledge that AA may quite properly hold different professional opinions

# Course of action



- Mentor must resolve differences with AA before submitting any report to Board or Regulator
- In order to resolve matter, one of following alternatives may be adopted:
  - Refer to past practices of company
  - Refer to industry practice
  - Request independent actuary to review work
  - Seek advice from professional body or regulator

# Reporting to Board and IRDAI



# Considerations



- General information
- Potential issues
- Professional conduct:
  - Confidentiality
  - Standards for advice
  - Conflict of interest
- Course of action

# General information



- Role of mentor in reporting
- Consideration of company's past and current practice
- Consideration of industry practice
- Various actuarial work carried out:
  - Statutory valuation
  - Pricing / re-pricing of products
  - Filing product with regulator
  - Assumption setting

# Potential issues



- Compliance to:
  - IRDAI regulations
  - Other circulars and guidelines
  - Actuarial practice standards, and
  - Guidance notes issued by IAI
- Interpretations of regulations
- Extent of involvement in internal decision making
- Responses to IRDAI queries
- Implementation of new regulations



# Potential issues



- Meeting internal objectives
- Access to data
- System failures
- Errors and omissions in submissions
- Level of disclosure
- Presentation style
- Differences in judgment calls

# Professional conduct



## PCS 2: Confidentiality

- Mentor must not disclose confidential information without consent
- Not withstanding above, mentor may:
  - Disclose if:
    - Obligated to do so by virtue of statutory or judicial authority
    - It is in public interest or for own protection
  - Seek legal advice before invoking this provision

# Professional conduct



## PCS 3: Standards for advice

- Consider appropriateness of extent to which investigations to be carried out
- Provide explanation or qualification if mentor has any reservations about reliability of data
- Communication of advice to include sufficient information to help understand:
  - Appropriateness of recommendations
  - Implications of accepting them

# Professional conduct



## PCS 3: Standards for advice

- Show clearly that he/she is responsible for their professional findings
- Indicate extent of supplementary information available
- Specify intended use of advice
- Communications should clearly identify insurer for whom findings made and in what capacity

# Professional conduct



## PCS 5: Conflict of interest

- Disclose where any advice given influenced by conflict of interest
- Not communicate any information that can harm interest of insurer

# Course of action



- Validate results using high level computation and jointly report to IRDAI and Board
- Consult with IRDAI on:
  - Issues with interpretation of regulations
  - Clarifications regarding joint responsibility
- Consult IAI to seek clarifications on:
  - Actuarial professional standards
  - Professional conduct

# International markets



# Overview



- Regulatory framework regarding AA and mentor actuary explored in other south-east Asian countries
- Focus mainly on Hong Kong, Singapore, Malaysia, Indonesia and Philippines
- In most of countries, AA regulations not very detailed and explicit as in India
- No regulation or guidelines on mentor actuary found in these countries
- In some countries, AA can seek external /independent assistance when required



# Hong Kong



- Guidelines related to AA covered in Professional Standard 1
- No explicit mention of mentor actuary
- Implicit mention of consideration affecting acceptance of appointment
- Relevant experience is required
- In exceptional circumstance, appropriate arrangements must be made to have recourse on a professional and formal basis to an actuary who has such experience
- AA can formally consult his/her immediate predecessor

# Singapore



- Guidelines related to AA are covered in:
  - Insurance Act (Chapter 42)
  - Insurance (Actuaries) Regulations, 2013
- Requirements broadly same as Hong Kong
- An actuary must consider in light of previous experience whether acceptance of role would be in line with professional behavior and standards
- No actuary can act as AA without necessary practical experience and updated knowledge of the external environment
- Outgoing Appointed Actuaries to make themselves available to incoming Appointed Actuary as part of transition arrangement

# Malaysia



- Appointed Actuaries: Appointment & Duties (28th April 2014) lay down the regulations related to AA
- Governed by Bank Negara Malaysia (BNM)
- The main requirements for an AA are:
  - Qualification from the list of professional bodies
  - At least 3 years of post qualification experience
  - Meet relevant CPD requirements
  - Meet fit and proper requirement
- BNM may decline the application if it feels that the person doesn't have relevant experience
- In absence of AA, company is free to appoint some external consultants to sign the reports

# Indonesia



- Appointment of Corporate Actuary / Appointed Actuary needs approval from OJK (Regulator)
- Need to meet fit & proper criteria:
  - Integrity
  - Financial Reputation
  - Competence
- AA cannot hold concurrent positions such as Board of Directors, Board of Commissioners, etc.
- No explicit regulation governing role of mentor actuary
- In absence of AA, OJK has discretion to appoint mentor with no set rule governing appointment

# Philippines



- Appointment of Appointed Actuary covered in “Republic Act no. 10607, 23rd July 2012”
- AA needs to fulfill some of the general qualification requirements including fit & proper criteria
- Duties and responsibilities similar to other countries
- No explicit mention of a mentor actuary
- In a scenario where the AA designate doesn't fulfil the required criteria, it is at the discretion of the regulator to appoint a mentor with no set rule governing the appointment

# Take-away



- In most of South-East Asian countries, general requirements for AA is similar
- In some markets, regulations are more open-ended giving regulator discretion in appointment of AA
- In absence of relevant experience, regulator or AA can seek advice elsewhere
- Indian regulations goes step further to define role of mentor for AA
- Further guidance from IAI would be useful

# Questions?

# Thank you