

# 32nd India Fellowship Seminar

Orchid Hotel, Mumbai

5th & 6th December, 2019

## Life Insurance Case Study : 4 Independent Actuary

**Guide : Ashish Ranjan**

Speakers :  
Chintan Shah  
Sasha D'Mello  
Sourabh Bhuwania



# Background

- Indian life insurance company CLIC - writing With-profits business since more than 10 years
- AA recently stepped down & started his own consultancy
- While at CLIC, often came under pressure to allocate expenses to the With-profits fund
- Approached to be the Independent actuary for their WPC
- Current Independent actuary who stepped down is a friend
- What should he do?
  - Accept the offer?
  - Decline the offer?

# Considerations

- Relevant Regulations
- Actuarial Professional Standards & Guidance Note
- Roles and Responsibilities
- Company background & past practice
- Professional Conduct Standards
- Courses of Action

# Non-Linked Product Reg, 2019



- Meet the eligibility criteria
  - Shall have passed specialization subject in life insurance or equivalent.
  - Shall possess a valid Certificate of Practice in the area of Life insurance issued by the Institute of Actuaries of India
  - Shall have relevant post qualification experience of at least ten years in life insurance business
  - Shall not exceed 75 years of age .
  - For any financial year, the independent actuary shall not be part of more than three With Profit committees.

# Non-Linked Product Reg, 2019



- Review the WPC report which includes :
  - ✓ Appropriateness of the Methodology and basis used in calculation of asset shares, and justification for any change.
  - ✓ Bonus earning capacity including its calculation
  - ✓ Sensitivity analysis of bonus rates and basis as appropriate.
  - ✓ A brief note on how Policyholders' reasonable expectations (PRE) is met.
  - ✓ Treatment of Fund for Future Appropriation
  - ✓ The expenses debited to the With Profit fund and its appropriateness.
  - ✓ Any change in special surrender value with justification

# Expense of Management Reg, 2016



- The AA and the CFO shall be responsible to allocate and apportion the expenses of management in accordance with the Board approved policy
- As Appointed Actuary, he came under pressure to allocate expenses to the with-profits fund.

# APS 1

- Guidance to Independent Actuaries
  - ✓ From time to time, an actuary may be called upon to act in an independent capacity (for example, to function as an independent actuary).
  - ✓ Such an actuary should exercise an independent judgement in the matters he/she has been asked to work upon. He/she should discuss the matters, where appropriate, with the Appointed Actuary, bearing in mind that there is always a room for differences of opinion with regard to actuarial matters and judgement.
  - ✓ The independent actuary should provide advice which in his/her opinion is appropriate.

# APS 10



- 'Independent' for 'Independent Actuary' not defined for WPC in NLIP, 2019
- Definition of Independent as per APS 10

*“For an Actuary in a particular situation to describe the advice offered as ‘independent’, the Actuary must be free, and be seen to be free, of any influence which might affect and/or has the potential of affecting the advice or limit the Actuary’s scope of advice.”*



# Guidance Note 6

- Grouping of policies
- Uses of Asset Shares
- Calculation of components of Asset shares
- Determination of assumption of Asset shares
- Management of par funds
- Reinsurance
- Investment
- Cost of Guarantees
- Segregation and merging of funds

# Roles and Responsibilities



- Consider if he/she will be able to provide support within the set terms like
  - ✓ Attending regular meetings
  - ✓ Review/ comment on the recommended bonus rate
  - ✓ May be called upon by the regulator to explain the rationale of WPC report

# Roles and Responsibilities



- Resolve conflicts with other members of the WPC
  - ✓ Need to arrive at a suitable solution to ensure fairness to all policyholders
  - ✓ Independent actuary is the independent 'actuarial' voice on the WPC
  - ✓ Any conflicts that remain unresolved should be mentioned in the WPC report

# Company Background



- Profile and History
- Regulatory compliances
- Reasons for stepping down from AA role
  - Personal reasons
  - Professional reasons
    - Pressure to allocate expenses to WP Funds
    - Disagreement with management over other issues

# Company Background

- Reasons for the current Independent Actuary to step down
  - Personal reasons
  - Professional reasons
    - May no longer fulfil the eligibility criteria
    - Disagreement with management over certain issues
- Speak to the Independent actuary stepping down if there are any issues in accepting the role

# Professional Conduct



## PCS3: Standards for Advice

- 3.1 Satisfied of personal competence
  - Knowledge of relevant professional & other guidance, legislation & professional codes of practice
  - Possess relevant experience

# Professional Conduct



## PCS5: Conflict of Interest

- 5.2 Examine if any conflict of interest
  - Evaluate nature and extent of conflict
  - Does it make it improper for the actuary to give advice?
  - Notify the insurer

# Professional Conduct



- Conflicts of Interest could include
  - Financial interest in the outcomes which will be influenced by the advice given
  - Advisor to other clients who are competitors of CLIC - may introduce bias
- Conflicts must be **understood, identified & reconciled/eliminated**
  - Establish interests involved (CLIC - Customers/Stakeholders, Personal, Others)
  - Existing duty towards current/past clients - respect confidentiality
  - Assess if any differing interests - could compromise objectivity, professional responsibility/judgement
  - Reconcile/Eliminate conflicts
  - Need to obtain consent from CLIC on the remaining conflicts



# Professional Conduct



## PCS7: Appointment of new advisor

- 7.2 Contact the previous actuary & enquire for professional considerations to be borne in mind before accepting the offer
- 7.3 Can provisionally accept the offer - client must provide undertaking that advice will not be communicated/acted upon until other actuary has had sufficient opportunity to respond (within a period of 10 days)
- 7.4 If the insurer refuses to consent such contact then the actuary must decline the offer

# Professional Conduct



## PCS8: Relations with other members

- 8.1 Avoid any action that injures professional reputation of Appointed Actuary. Criticism acceptable if
  - Properly reasoned
  - Believed to be justified
- 8.2 Must wait for a reply from the AA/previous IA before making any statements
- 8.3 Actuaries are entitled to different professional opinions

**Accept Offer**

**Reject Offer**

Competent & eligible

Not eligible

Well-suited given past AA experience

Conflicts of Interest & Regulatory non Compliance

No Conflict of interest and independent

Time constraints

# Q&A