



**Liyaquat Khan**  
**President**

30<sup>th</sup> June, 2011

## **Submission to IRDA**

**Note on Exposure draft Regulations on IRDA (Issue of Capital and Disclosure Requirements for Life Insurance Companies) Regulations, 2011, as notified on 21<sup>st</sup> June, 2011 for “comments/suggestions of all stake holders (including insurers, policyholders, academics, analysts etc.)”.**

This note provides the comments in consultation with the Chair, Advisory Group on Life Insurance of the Institute. However, it does not constitute formal opinion of the Council of the Institute, the same not having been passed through due process for adoption by the Council, for want of time.

**We generally welcome** the draft regulations as they will lend transparency to public issues and thus serve to further the cause of public interest by protecting the investing public. We also appreciate that IRDA being repository of responsibility to protect the Policyholders’ interests, this initiative is particularly of importance.

**We restrict ourselves** to commenting only on those aspects of the draft Regulations which in our opinion are relevant from Institute perspective.

**We set out our comments** below;

**1) We note the following paragraph in the draft regulations Section III.**  
**Eligibility Criteria;**

“The applicant company shall submit its application in Form „A” accompanied by the Embedded Value calculation prepared by two independent auditing/actuarial experts [For the purposes of this clause, the calculation of Embedded Value is to be done in the manner prescribed in IRDA Circular No. \_\_\_\_\_, dated \_\_\_\_\_].”

**IAI submission;**

The Embedded Value (EV) calculation is proposed to be, “prepared by two independent auditing/actuarial experts”. The draft regulations thus permit the EV to be calculated by Auditing or Actuarial experts. We submit that;



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- a) The demand on (and resultant professional exclusivity for) under any law or regulations is always unique to person/s belonging to and regulated by a relevant profession. Such a profession holds the responsibility for educating, accrediting and regulating persons within laid down framework. Such a framework is always unique to the profession and such uniqueness does not rest in more than one profession. In the context of the proposed regulations the “Auditing” as a profession is ring fenced by provisions of the Institute of Chartered Accountants of India, Act 1949 (ICAI) and the “Actuarial” as a profession is ring fenced by provisions of the Actuaries Act, 2006 (IAI).
- b) The relevant professions in the context of the proposed regulations are the ICAI for any audit or attest functions and IAI for any actuarial functions.
- c) The proposed report on Embedded Value is an actuarial function for the following reasons;

The computation of an embedded value is core actuarial work requiring the framing of actuarial assumptions for the future experience, including assumptions such as mortality/morbidity and lapse rates amongst others and resultant modeling. In many ways this work employs very similar techniques to product pricing and statutory valuation work, the „reserved roles” that actuaries currently perform and demands depth of actuarial experience and maturity of judgment. The Embedded Value concepts and techniques are typically actuarial globally as well as in India.

It is important to our mind that this work, therefore, falls under the purview of the actuarial profession (as is the practice globally) to ensure that the public interest is safeguarded and that public can have the requisite confidence in the values stated in any offer document.

We recommend that the Embedded Value Report be required to be prepared by a fully qualified actuary regulated by the Institute of Actuaries of India which actuary would then carry out the relevant functions within framework of the Actuarial Practice Standard/s (earlier called Guidance Note/s) issued by the Institute of Actuaries of India with the “concurrence” of the IRDA. Just to clarify that such “concurrence” is enabled by the IRDA (Appointed Actuary), Regulations. If these recommendations are accepted, then IRDA may examine if two reports by two actuaries would really be desirable.

**We recommend** that in the light of the above the relevant text in **Section III. Eligibility Criteria** is redrafted as under;

“The applicant company shall submit its application in Form „A” accompanied by the Embedded Value ~~calculation-report~~ prepared by ~~two independent auditing/actuarial~~



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experts a fully qualified member of the Institute of Actuaries of India (IAI) [For the purposes of this clause, the ~~calculation report of on~~ Embedded Value is to be done in the manner prescribed by Actuarial Practice Standard or Standards issued by the IAI for the purpose in “concurrency” with the Authority in IRDA Circular No. \_\_\_\_\_, dated \_\_\_\_\_].and the ”

**Note:** the “independent” aspect of the earlier text will be covered under the Actuarial Practice Standard/s to be issued by the IAI in “concurrency” with the IRDA.

## 2) Section III of the draft framing eligibility criteria for certain issuances:

**We note** that Section III of the draft frames eligibility criteria for certain issuances. We suggest that IRDA explicitly retain the right to waive any or all of these criteria, as there may be conditions (not known earlier) where it would be in the best interests of the policyholders for the company to raise capital, even though it did not meet these criteria.

## 3) Risk factors listed in Annexure I:

**We suggest** that the risk factors listed in Annexure I be brought into line with those listed in Section IV Disclosure Requirements for Insurance Companies. We also suggest that the Glossary in Annexure III be updated when the EV Actuarial Practice Standards are finalized.

**We also submit** that the Institute of Actuaries of India offers its all possible cooperation and assistance to IRDA as deemed fit by the IRDA.

**The undersigned is happy** to appear in person as and when found convenient by the Authority.

Yours faithfully,

**Liyaquat Khan**



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## **About the Institute of Actuaries of India (IAI) ([www.actuariesindia.org](http://www.actuariesindia.org))**

The IAI created under the Institute of Actuaries of India Act 2006 (the Actuaries Act) replaced the then Actuarial Society of India. IAI now a body of some 11,500+ members accredits and regulates members of the Indian Actuarial Profession.

The IAI is a member of the International Actuarial Association (IAA) ([www.actuaries.org](http://www.actuaries.org)), the global body of the Actuarial Profession.