

Actuarial Practice Standards (APS) and Guidance Notes (GN)

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Professional Conduct Standards (PCS)

PCS: Main provisions (1)

- Not comprehensive or exhaustive – reliance placed on individual and collective conscience of members
- If in doubt, seek advice
- Profession regulates members, not members' firms
 - Member must avoid employment arrangements which inhibit member's ability to conform to the standards of behavior, integrity, competence and professional judgment
- Members working outside India are encouraged to join local professional bodies
- Member has a duty to the profession. Responsibility to the client must be consistent with this duty.
 - This does not preclude criticism of the profession which forms part of a justifiable debate in the public interest.
- If work an actuary considers necessary is precluded by cost or time constraints → decline to act or qualify the advice given
- Confidentiality important
- Standards of advice – no advice should be given unless:
 - Satisfied of personal competence
 - Acting in co-operation with or with the guidance of someone with the requisite knowledge
- Breach of professional guidance
 - Material breach of PCS or APS (or of the Act or Rules or Regulations) → ground for complaint under disciplinary procedures
 - Failure to comply with GN → not a ground for complaint. However, determination of complaint would take into account any such failure

PCS: Main provisions (2)

- Actions to be taken on breach of guidance by another member
- Conflict of interest
- Financial interest – disclose
- Appointment of new advisors
 - To contact previous actuary to ask if there are any professional reasons not to accept the assignment
 - Decline the assignment if the client refuses consent to contact previous actuary
- Relationship with other members
 - Avoid action that would unfairly injure professional reputation of any other member
- Publicity
 - Any publicity that gives unjustified or unfair professional advantage is prohibited

Discussion: Case Study 1

- You work as a consulting actuary and have been requested by an insurer to provide assistance on a mergers and acquisitions (M&A) transaction by providing actuarial due diligence support in respect of another life insurance company (Target).
- As part of the due diligence process, you have been provided access to the various documents / information pertaining to the Target life insurance company. You have also been provided with an embedded valuation report prepared by another consulting actuary, who works in the same firm as you do.
- What considerations would you adopt in:
 - Deciding on accepting the assignment
 - Whilst working on the assignment
 - Critiquing the information provided by the Target (which may have been prepared by other actuaries) and the EV report (prepared by your own colleague)
 - Reporting to your client

GNs and APSs applicable to life insurance actuaries

APS1 - AA and Life Insurance Business

A. The Appointed Actuary (AA)

- Responsibility to maintain the highest professional standards
- Considerations affecting the position of AA
- Extent of AA's responsibility
 - Responsibility to the employer is consistent with responsibility to the profession
 - Continuing responsibility to look after PRE
- Duties of AA
 - Solvency of the company at all times
 - No allocation of surplus before the Board considers a written report
- Premium rates and policy conditions
 - Appropriateness of premium rates to meet liabilities
- Capital requirements
 - Advice Board on capital requirements associated with projected business volumes
- Actuarial investigations
- Allocation of surplus
- Insolvency
- Written reports

B. Guidance to Actuaries who are Directors / Employees of a Life Insurance Company

- Suitable enquiries on management before joining the company
- Clarify on the capacity in which an actuary advises
- Special responsibility to the AA
- Room for difference of opinion → but ensure status of AA is respected

C. Guidance to Independent Actuaries

- Discuss with AA, wherever appropriate → always a room for difference of opinion
- Room for difference of opinion → but ensure status of AA is respected

APS2 - Additional guidance for AAs and other actuaries in Life Insurance

- Provides further guidance / clarifications on certain matters pertaining to the actuarial valuation of liabilities / solvency margins as specified in APS1.
- Covers:
 - Methodology
 - Assumptions

APS3 - Financial Condition Report (FCR)

- FCR pertains to the current solvency position of the business and its possible future developments
- Need for a written report to be provided to the Board
- APS3 provides the factors to be considered whilst developing the FCR

APS4 - Peer review of AA's work in life insurance

- The objective of the peer review is to lead to an opinion by the reviewing actuary (the peer reviewer) that the work of the AA is in conformity with generally accepted actuarial practice.
- External peer review
- Considerations for choice of peer reviewer
- Given peer reviewer for a maximum of three years
- Method of peer review – high level, but should cover all aspects including data checks, methodology, assumptions, calculations, results and conclusions
- Written report to be provided
- AA retains responsibility for his work

Discussion: Case Study 2

- You work as a consulting actuary and have been asked to provide peer review support as envisaged under APS4. The Appointed Actuary of the life insurance company is your friend.
- During the course of your peer review, you have identified certain 'gaps' / 'issues' in the work performed by the Appointed Actuary. The Appointed Actuary, however, has a different view on the 'gaps' / 'issues' as you have identified.
- Discuss the various aspects you would consider in:
 - Accepting the work as the peer reviewer
 - Discussing the gaps / issues with the Appointed Actuary
 - Finalising your work and preparing the report

APS5 - AA and principles of life insurance policy illustrations

- Life insurers are required to provide benefit illustrations to customers in consultation with the Appointed Actuary and authorized for use by the management.
- This APS provides guidance to the AA in this regard

A. Role of Appointed Actuary

- AA to ensure that new policyholders are not misled with regard to their expectations
- AA to ensure that illustrations issued by the management are after taking into account his/her advice.

B: Guiding Principles

- Main objective of illustrations should be to educate the potential customer about the insurance product on sale.
- Illustrations to be consistent with the T&Cs filed with the IRDA.
- To ensure that the content of the illustration are clear and the key messages are not lost.
- Document all the assumptions underlying the calculations and should ensure the accuracy of the calculations.
- Review and revision of the assumed bases for illustrations for all types of plans whenever Life Council revises the investment returns

GN6 - Management of participating life insurance business with reference to distribution of surplus

- Purpose is to provide guidance to AAs on the declaration of bonus rates on participating business.
- Covers several aspects of management of participating business including
 - Grouping of policies
 - Definition and uses of asset shares
 - Assumption setting in the calculation of asset shares
 - Operation of smoothing
 - Treatment of over- or under- distribution (relative to reserves)
 - Surrender value scales
 - Riders and any non-participating business written in the participating fund
 - Policyholders' reasonable expectations (PRE)
 - Expense allocations
 - Reinsurance
 - Investments
 - Documentation requirements

APS7 - AA and principles for determining margins for adverse deviations (MADs) in life Insurance liabilities

- Provides guidance on how MADs to be set in the valuation bases
- AA to quantify and justify the overall MADs used in the valuation as providing an appropriate level of prudence
- Reserves to be tested under a number of plausible adverse scenarios
- The overall objective of setting MADs should be to enhance the protection provided to policyholder benefits.
- Minimum scenarios specified

APS10 - Determination of the Embedded Value (EV) of life insurance companies for the purpose of Initial Public Offering (IPO)

- IRDA Regulations require the Embedded Value Report to be prepared by “an Independent Actuarial Expert” (“Reporting Actuary”), whose report should be included in the IPO prospectus.
- APS10 provides guidance on the development of EV for this purposes.
- The APS covers a number of areas including
 - Considerations affecting the appointment of an Actuary
 - Methodology
 - Assumptions
 - Report and disclosures
 - Working with other advisors
 - Other considerations
- An EV calculated in compliance with APS10 is known as Indian Embedded Value (IEV). The Reporting Actuary may depart from APS10 only where the effect is not considered “material”.
- The criteria for deciding on materiality should be set by the Board and must be disclosed.

Discussion: Case Study 3

- You work as an Appointed Actuary of a life insurance company. Your company is planning to launch its IPO. The company is planning to engage an external consultant to act as the 'Reporting Actuary' and has requested you to provide support in this.
- Once engaged, you would be also required to provide the relevant information to the external consultant and work with him to develop the EV results.
- The Reporting Actuary is expected to review the methodology / assumptions that the company adopts in the EV and also check the models used to develop the results.
- Discuss the various areas that you should be considering whilst providing the information to the external consultant and developing the results.

GN22 - Reserving for guarantees in life assurance business

- Provides guidance to AA to use suitable methods to be used to reserve for embedded derivatives in life insurance policies.
- Recommends stochastic models
- Deterministic models are acceptable under certain circumstances

**GNs and APSs applicable to
other actuaries**

GNs / APSs applicable to other actuaries

GN / APS	Description
APS9	Continuing Professional Development (CPD) and the Actuary
APS15	Pension fund terminology
APS20	Actuarial practice for social security programmes
APS21	Appointed Actuary and general insurance business
APS27	Employee benefits
GN28	Other employee benefits
GN29	Valuation of interest rate guarantees on Exempt Provident Funds
GN31	Financial condition assessment report for general insurance companies
APS33	Peer review of Appointed Actuary's work in - general and health insurance / reinsurance

- With the issuance of APS27, the other applicable APSs / GNs for employee benefits (GN11, APS12, APS13, APS14, APS18, APS26 and GN28 stand withdrawn w.e.f. 1 January 2018)



Thank you

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