

# Institute of Actuaries of India

## Check List on Professional Compliance on APS 1

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**Subject of Compliance:** APS 1: Appointed Actuary and Life Insurance Business

**Version:**

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1.00	28 08 2004
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**Introduction:**

- **Duty to Public interest:** Professional guidance is issued by the professional bodies to guide the members of the profession in interpretation of the various legislative provisions in the interest of consumer protection in particular and in public interest in general. IAI requires its members to serve the cause of Public Interest vide para 2.1 of the Professional Conduct Standards (PCS) (ver. 2.00/27 05 2003) issued within in the meaning of rule 29 (f) of the rules of the Society. This duty to public interest is expected to have been served if the PCS and applicable APSs issued by IAI are fully complied with.
- **Nature of APS:** In Life Insurance the Appointed Actuaries are required to interpret the provisions of the Insurance Act, 1938, Insurance Rules, 1939 and the IRDA Regulations assisted by the Actuarial Practice Standards issued by the Institute of Actuaries of India. Some of these APSs are issued in “concurrence” with IRDA as required under some of the IRDA regulations and other APSs are issued in consultation with IRDA. The ones issued in concurrence with IRDA have the force of being a subordinate legislation and the other APSs are extension of PCS. All APSs are expected to be fully complied with and non-compliance of one or more aspect is expected to lead to disciplinary action which may mean cancellation of CoP and other penalties as per rules of the Society, besides the non-compliance of APSs issued in concurrence with IRDA may mean action by IRDA over and above action by IAI.
- **Objectives of this Checklist:** This checklist has been prepared so as to assist Appointed Actuaries and other Actuaries to whom such APSs are applicable, in self-evaluating for compliance and be of assistance to IAI to monitor compliance with the applicable APSs, through Life Insurance Board. The Appointed Actuary and other actuary such as Peer Reviewer may be required to file a compliance questionnaire with Life Insurance Board of IAI and the Appointed Actuary may also be required to produce evidence of its compliance to the Peer Reviewer. The implied interpretation of the APS to which this Checklist applies and the

*Illustrative examples (**in bold italics**) as to how various provisions of the applicable APS can be*

*complied with is that of the Life Insurance Board. It is emphasized that ultimate interpretation and the manner in which the applicable can be complied with shall in the nature of things rests with the Executive Committee and the judicial authority in India.*

### **Actuarial Practice Standard (APS) 1: Appointed Actuary and Life Insurance Business**

#### **A. The Appointed Actuary**

- 1 The Appointed Actuary as a member of the IAI has the responsibility to maintain the highest professional standards envisaged by the IAI. In case of any doubt, he is advised to seek help from the IAI. ***This may mean talking to or seeking informal/formal opinion from the President or of the Executive Committee.***
  - 2 Though the IRDA (Appointed Actuary) Regulations, 2000 do not stipulate, the IAI does expect a CEO who is a Fellow Member of IAI not to accept the appointment as an Appointed Actuary as well.
  - 3 The Appointed Actuary must satisfy himself/herself that all stipulations as specified under regulation 3 (2) of the AA Regulations are complied with as long as he continues as the Appointed Actuary. ***This would also mean holding a CoP on continuing basis and ensuring that adequate number and appropriate programmes qualifying for CPD credit are attended to on regular basis.***
  - 4 Where the Appointed Actuary's financial interests in the Insurance Company or the Group Companies, by their nature and size are or become such that material conflict of interest would in the normal course arise or seem to arise, he shall not continue as the Appointed Actuary. ***This should then be brought to the notice of the CEO, IRDA and IAI.***
  - 5 The Appointed Actuary must ensure that his responsibility to the employer is consistent with his responsibility to the profession and that this does not materially conflict with his statutory responsibility to the IRDA. If at any time the Appointed Actuary feels that an action initiated by the company materially threatens the company's solvency and even after his advice, the company does not take remedial action, he shall, after informing the company report the matter to the IRDA. ***In compliance to this provision the Appointed Actuary needs to be fully aware of happenings in his company at all times and should be careful to ensure that his/her position within the company is in conformity to this. The Appointed Actuary typically should be reporting to the CEO. This should also mean that the company facilitates his/her professional work within IAI, if so required by IAI.***
  - 6 The Appointed Actuary has a continuing responsibility to ensure that reasonable expectations of the company's policyholders are met and if any significant change is likely, he has to ensure that the company appreciates the implications of the change on its policyholders' reasonable expectations. ***This should imply compliance with current APS 5 and also careful interpretation of all marketing/sales material aimed at prospects/policyholders and then articulating the same in to PRE ultimately reflecting in to assumptions for valuation of policyholder liabilities.***
- This exercise however, is internal to the Appointed Actuary and he/she should be able to demonstrate this to the Peer Reviewer.***
- 7 The Appointed Actuary, while carrying out the statutory valuation of liabilities must ensure consistency with the methodology prescribed and the asset valuation done. ***This implies a written down document which should be available to the Peer Reviewer.***

- 8 The Appointed Actuary must advise the company on allocation of surplus. He / She has also to ensure that the company does not make allocation of surplus before the Board of Directors of the company have considered his/her report containing observations and recommendations on the subject. **While doing so the Appointed Actuary should rely upon and quote written instructions if any from IRDA and his/her interpretation of the same and also specific provisions of IAI Actuarial Practice Standards.**
- 9 The Appointed Actuary must satisfy himself/herself that premium rates for new business are appropriate. If the new business is being written on inadequate terms, the Appointed Actuary should consider the company's ability in terms of capital requirement and inform the Board suitably in the matter. **It is not expected that the Appointed Actuary should take the responsibility for putting in place or withdrawing an existing product, such responsibility being that of the CEO/Board. The Appointed Actuary, however, should opine on the additional Solvency margin/Capital requirement.**
- 10 The Appointed Actuary must satisfy himself/herself that the company has adequate resources to meet the new business strain and should also indicate the volume of sales that may prudently be accepted or indicate the additional capital requirement for writing the sales numbers decided. **This means that a written opinion has been provided by the Appointed Actuary to the CEO/Board and if the Company has gone ahead with the introduction of the product/s without injecting the required capital, the same may amount to the company not functioning prudently. The Appointed Actuary should then discuss the matter with Member (Actuary) IRDA.**
- 11 The Appointed Actuary shall satisfy himself/herself that for linked business and unitized with profit all the discretionary elements of unit pricing and fund charges applied are consistent with policyholders' reasonable expectations. This will mean Appointed Actuary documenting as to how the PRE has been interpreted.
- 12 The Appointed actuary shall satisfy himself/herself that the prices at which units are allocate/de-allocated to policies, the prices at which units are created or cancelled or compensation in case of errors of a material size in unit pricing or in unit allocation/de-allocation to policies have taken place are equitable to policyholders affected either directly/indirectly. **The Appointed Actuary should be able to demonstrate to the Peer Reviewer the manner in which, this has been complied with.**
- 13 The Appointed Actuary shall as far as possible assess the capital requirements by using the cash flow approach.
- 14 While carrying out the actuarial investigation the Appointed Actuary shall:
- ensure that the data used is accurate;
  - ensure that the valuation method is appropriate for the policy contracts concerned;
  - have regard to the policyholders' reasonable expectations when determining the liabilities. ***This would mean that he/she should document as to how this has been interpreted and should be able to demonstrate to the Peer Reviewer.***
  - ensure that the assumed value for each valuation parameter is made up of expected level i.e. a "best estimate" and margin on it for adverse deviation (MAD) with the expected level based on insurer's experience or on industry data and the margin for adverse deviation reflecting the Appointed Actuary's confidence in the expected level and his perception about the extent of such deviation;
  - ensure that the margin for adverse deviation results in an increase in reserve;
  - ensure that in determining the value of liabilities appropriate provision is made for future expenses and this provision must at least be equal to that required if the company were too close to new business twelve months after the valuation date. ***The Appointed Actuary***

- should be able to demonstrate to the Peer Reviewer as to how this has been done.***
- have an assessment of the nature of the company's investments and consideration of the rate of return in terms of both capital and income over the future life of the liabilities keeping in view the term of the assets and of the corresponding liabilities;
  - make due allowance for tax, taking into account the current and future taxation position of the company and this shall be consistent with any allowance for tax relief;
  - judge whether the investment policy pursued by the company is appropriate for the nature and term of the liabilities and, if not, provide for additional reserves as may be necessary;
  - ensure that suitable guidelines have been given to the investment managers in regard to use of derivatives and monitoring procedure is in place to monitor the companies exposure to loss through their use;
  - review the reinsurance arrangement of the company and advise the company about the inadequacies, if any, in it and in that case the remedial measures necessary; and
  - be satisfied in the public interest that the margins in the valuation are in total adequate taking into account the risk profile of the company's business, if the results of the valuation of liabilities, other than for statutory purposes, are to be published.
- 15 The Appointed Actuary, in his/her report to the Board of Directors in respect of actuarial investigations, shall give enough information to judge the appropriateness of the allocations of surplus between the policyholders and shareholders, give views on the sustainability of the bonuses, including the terminal bonuses, in future and confirm that the Policyholders' Reasonable Expectations have been met.
- 16 The Appointed actuary shall also ensure that before any allocation of surplus, the company has considered his/her advice and that the allocation is in compliance with the provisions of section 49 of the Insurance Act, 1938 and the relevant IRDA Regulations and written instructions if any.
- 17 The Appointed Actuary shall apply much more rigorous standards if there exist any doubt about the company solvency. He / She shall also ensure that the ratio of available solvency margin to the required solvency margin meets the IRDA guidelines in this behalf.
- 18 If insolvency, or intervention on the part of the IRDA, arises from factors within the company's control the Appointed Actuary shall suitably advise the company to remedy the situation or if it arises from the factors beyond the company's control the Appointed Actuary shall take such steps as are considered necessary and communicate the position to the IRDA in consultation with the CEO/Board of Directors of the Company.
- 19 The Appointed Actuary shall report in writing to the CEO/Board of Directors on the results and implications of the statutorily required actuarial investigations before a report is given to the IRDA.
- B. Guidance to Actuaries (other than Appointed Actuaries) who are Directors and Employees of a Life Insurance Company.**
- 1 An actuary before and after joining the Board of Directors of a life insurance company shall make suitable enquiries so as to satisfy himself about the affairs of the company and the way the company is being managed. ***This implies an onus on the member of IAI and expectation that he/she will not accept the appointment irrespective of the compensation expected and/or any other considerations.***
- 2 When the Appointed Actuary is also a member of the Board of Directors, he/she shall make it known to the other directors the capacity in which he is expressing any views. ***Though there is no bar on a Member who is an Appointed Actuary to accept the Directorship on the Board of the Company, it is expected that in case any matter comes up for deliberation in the Board which is likely to be in conflict with interest of policyholders, the Appointed Actuary shall abstain from participating in the deliberation.***

- 3 Any other actuary who is on the Board of Directors shall take care to respect the status of the Appointed Actuary. ***The IAI however does not imply in this context that such a member will refrain from making a demand on the Appointed Actuary to perform in accordance with what is expected of him/her. This also does not imply that the Appointed Actuary shall not be challenged on any of the views held by him/her.***
- 4 Any external actuary engaged by the company shall, bearing in mind that there is always a room for differences of opinion with regard to the matters central to the roles and responsibilities of the Appointed Actuary, ensure that while discharging his/her assignment care shall be taken to respect the status of the Appointed Actuary.

#### C. Guidance to Independent Actuaries

- 1 Any actuary engaged by the company or any other entity such as IRDA to act in an independent capacity shall discuss the matters with the Appointed Actuary bearing in mind that there is always a room for differences of opinion with regard to the actuarial matters and judgment.
- 2 ***The Appointed Actuary shall ensure that such an independent actuary is a member of IAI and has not been an employee of or advisor to or in any other manner connected with the insurance company of the Appointed Actuary or with the other insurer/s in respect of whom the independent actuary has to carry out his/her functions, for at least five years immediately preceding his/her appointment.***