

Institute of Actuaries of India

Check List on Professional Compliance on APS 3

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Version:

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1.00	28 08 2004
1.01	01 07 2011

Subject of Compliance: APS 3 Financial Condition Report

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 APSs: 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 APSs (APSs) issued by the Institute of Actuaries of India (IAI). Some of these APSs are issued in “concurrency” 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) 3: Financial Condition Report

1. Introduction

- 1.1 Section 13 of the Act requires that every insurer carrying on life insurance business shall, in respect of the life insurance business transacted by him, every year, cause an investigation to be made by an actuary who shall be the Appointed Actuary of the life insurer into the financial condition of the life insurance business carried on by him in terms of the provisions of the section and IRDA (Actuarial Report and Abstract) Regulations, 2000. In addition to this obligation, it is advisable for the Appointed Actuary to provide to the Board of Directors of the life office with a more extensive written report into the current solvency position of the life office and its possible future development.
- 1.2 While the statutory report shall be in the format prescribed by the IRDA (Actuarial Report and Abstract) Regulations, 2000, the purpose of this APS is to suggest a possible format and contents for a Financial Condition Report to the Board of Directors of a life office.
- 1.3 The Financial Condition Report should be addressed to the Board of Directors of the life office. It is essential that the report is expressed in a form which is accessible to its readers and does not conceal important issues because of any reason such as undue length or complexity of the report. An Appointed Actuarial shall also provide an executive summary drawing attention to important issues in the report.
- 1.4 In this report, the Appointed Actuary shall assess the ability of the life office to withstand changes in both the external economic environment and the particular experience of the life office. The combined effect of a change in two or more related assumptions will in many cases be more important than a change in any one of them in isolation.
- 1.5 The Appointed Actuary should use whatever techniques he or she considers appropriate to the business written by their office to assess the ability of an office to withstand changes in both the external economic environment and the particular

experience of the life office.

- 1.6 The Appointed Actuary should address the issue of what actions are open to the life office for dealing with the particular circumstances and, where appropriate, make suitable recommendations.
- 1.7 It is not essential to have a single report covering all the items in this APS, where the Appointed Actuary has already reported to the Board on some aspects previously.

The FCR should be comprehensive and should be based on hard facts and should ensure that it does have sweeping generalizations. In case this aspect is within the purview of the Peer Review, the draft form should be discussed with the Peer Reviewer.