

# 36th India Fellowship Webinar

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## Pension Professional

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## About the guide



Navin Vishwanath Iyer is a Consulting Actuary and Founder of Prime Actuarial Solutions. He is also a qualified Chartered Accountant. With over 18 years of experience in the actuarial space spanning across both Insurance and Employee Benefits, he brings diverse experience across multiple markets viz., India, Middle East, US, UK, Nepal, Sri Lanka, Australia.

The firm is engaged in multiple assignments ranging from reserve and solvency certifications, reporting, IFRS17 consulting, product development and pricing, peer review etc. across both Life and Non-Life businesses. The firm supports several Companies in India and overseas for Employee benefits valuations covering I-GAAP, IFRS, US GAAP and other prevalent standards.

Navin worked with several leading Insurers (PNB Metlife, Kotak Life, Canara HSBC Life) in leadership roles before starting his practice 6 years ago.

He is currently serving as a With-profits Actuary for leading insurers in the Indian market and is also working as a Certifying Actuary for a leading Life Reinsurer. He is also a Peer Reviewer to leading Indian insurers and serves as a Consulting Appointed Actuary to several Companies outside India.

# Case Study



- Pension Actuary practicing in Indian market as a sole practitioner
- Potential multi-national client with operations in various countries & headquartered in India
- Retirement schemes governed by local rules and regulations of respective countries
- Accounting liabilities are calculated in line with local accounting regulations (some are in line with IASB or FASB)
- Client needs a signed report for all 20 entities located in - India, UAE, UK, Italy, South Africa, USA, Canada, Brazil, Japan, China, South Korea , Indonesia, Sri Lanka, Poland, Russia, Romania, France, Germany, Spain and Portugal

# Case Study



- Assignment for 3 years with one annual computation for all these entities
- Needs first report within a week else would continue with existing vendors
- Client is willing to pay Rs 1 crore p.a.
- What should the actuary do?

# Considerations

- Professional
- Technical
- Operational
- Risk



# Section 1 - Professional Considerations

# Professional Considerations



- Pension actuary practicing in Indian market
- Governed by
  - The Actuaries Act, 2006
  - Professional Code of Conduct Version 4.0
  - Actuarial Practice Standard 27: Employee Benefits
  - Actuarial Practice Standard 34: General Actuarial Practice
  - Other Practice standards and guidance notes
- Holds at least Indian CoP

# Professional Considerations



## Applicable PCS - General

- 1.1 PCS provides guidance on professional conduct in addition to that provided under the Act and Rules & Regulations
- 1.2 Where professional guidance is in conflict with legal requirements, members must comply with those legal requirements
- 2.1 An obligation to serve the public interest within the context of building and promoting confidence in the work of actuaries and in the actuarial profession



# Professional Considerations



- *1.5.1 Members working outside India are strongly encouraged to join the local actuarial body when it is appropriate, having regard to the nature of their work, to do so.*

Check need and requirements for CoP in all countries where client entities are located

Check and comply with local legal and professional requirements in respective countries

- *1.5.2 A member of more than one actuarial body is subject to rules of all such bodies. If there are doubts or there appears to be a conflict between the two sets of rules, the member should normally seek advice from the professional body*

Check if there are any conflicts between the different bodies in all countries where client entities are located

# Professional Considerations



- Purpose of the signed report - statutory/accounting or internal such as M&A
- Although for some countries accounting regulations are in line with IASB or FASB - there may be some additional local requirements in each of the countries. More details covered in Technical section.
- Client needs a signed report for all 20 entities - requirement is for:
  - Standalone entities and / or
  - Consolidated report as client is headquartered in India - implications of any re-work

# Professional Considerations



- 1.3 A member must avoid arrangements which inhibit the member's ability to conform to the standards of behaviour, competence and professional judgement ...
- 4.2 In accepting an assignment and when performing an assignment , an actuary must ensure that he or she is qualified to do so as per the requirements of professional guidance and other guidance

Knowledge and Competence in valuing liabilities for all 20 entities

- 6.2 If there is or might appear to be a conflict of interest between two or more clients of an actuary ...., the actuary must consider the nature and extent of the conflict and whether it is such as to make it improper for the actuary to provide actuarial services to one or more of the clients involved in the conflict

# Professional Considerations



- *2.2 Members have a duty to the actuarial profession and must always act honestly and with integrity*
- *2.3 Clients are entitled to have absolute confidence in the skill, objectivity and integrity of any member*

Possibility of sub-contracting within the timeframe of 1 week

Regulations governing the sub-contracting (if any) in respective countries

Inform client about sub-contracting (demonstrating honesty & integrity)

# Professional Considerations



- Seek advice from experienced actuary
- Peer review requirements in any of the countries where client entities are located
  - Availability of peer reviewer
  - Time required for peer review
  - Fee for peer reviewer
- Assignment subject to Actuarial Audit

# Professional Considerations



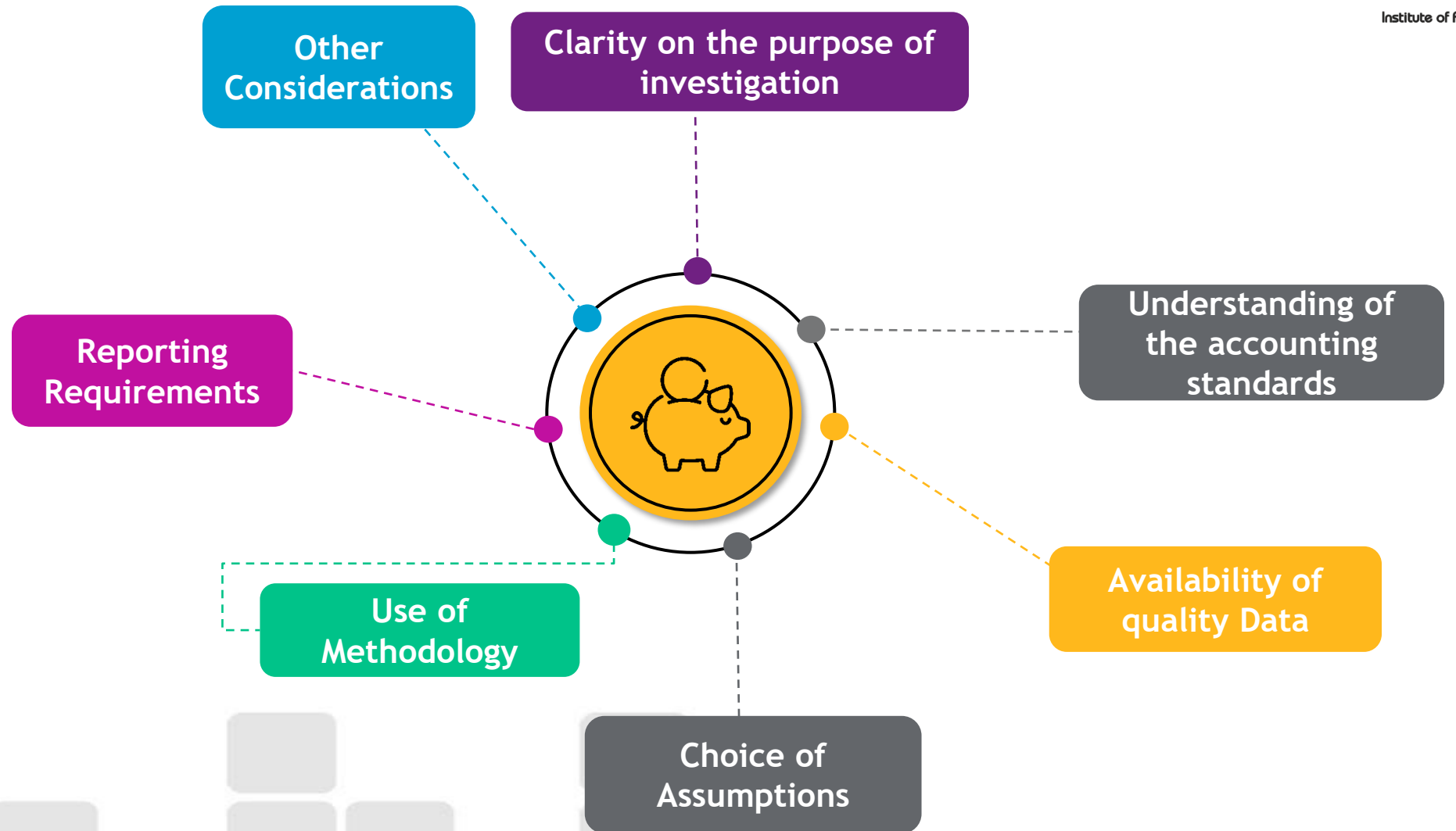
- *6.7 Financial rewards which are large in relation to time spent, including success related or contingency fees, can threaten objectivity and thus contravene the general requirements of the professional conduct. Accordingly, actuaries are advised to exercise extreme care in determining whether to accept such rewards or fees ...*

Evaluate whether the fees of 1 crore will threaten the objectivity of the assignment

# Section 2 - Technical Consideration



# Technical Considerations





# Clarity on the purpose of the investigation



- **Understand the purpose of the exercise**
  - *The member should clearly bear in mind the purpose for which he/she has been asked to carry out an actuarial investigation. The member's choice of valuation method and assumptions will clearly be influenced by the purpose for which he/she is carrying out the investigation. Couple of examples could be*
    - *Accounting Valuation*
    - *Funding Valuation*
  - *As per Section 8.2 of the APS 27, “the member must ensure that his/her role in a particular assignment is clear and understood by the user. The member must state the capacity in which he/she is providing actuarial advice, the scope, its purpose, and for whom the actuarial work has been performed”.*
- **Clarity on the employee benefit schemes as part of this exercise**
  - *Clarity on the schemes to be part of the valuation including the accounting standards.*
  - *Assess the competence of carrying out valuations for all the schemes under scope of work including the knowledge of professional guidance or other guidance of each of the countries . Ex - **the cash balance plans in US are different from standard DB plans.***

## Understanding of the accounting standards

- The scope of work requires the actuary to provide accounting reports under local accounting standards wherever applicable.
- *As per section 3.1 of the PCS, An actuary is expected to use best judgment in formulating advice, whilst paying proper regard to any relevant professional guidance or other guidance. . . . . Many assignments offered to actuaries **require considerable knowledge and experience** for proper completion. Requisite knowledge includes **methodology, relevant legislation and, in respect of work outside India local conditions and any professional code of practice in the country concerned**. Actuaries must not give advice, unless*
  - *satisfied of personal competence in the relevant matters*
  - *acting in co-operation with, or with the guidance of, someone (not necessarily an actuary) with the requisite knowledge and experience*

# Availability of quality data set

Assess the Availability of scheme documents relating to current and past operation of the schemes such as - *Policy documents, Trust Deeds including amendments, announcements, discretionary benefits etc.*

Data Related to current position of the scheme *i.e., accounting data, asset data, membership data etc.*

Need information related to future operation of the schemes such as - *Views on future discretionary practices, Possible future changes to benefit entitlements, Future investment strategy etc.*

Discuss the quality of the data available and format in which the data will be shared and assess the need of any thorough data checks to be carried out

Explore the possibility of the summarized data set in absence of the quality information for the valuation (if required)

*As per Section 3.4 of PCS, An actuary must consider the extent to which it is appropriate to carry out investigations to assess the accuracy and reasonableness of any data being used. The advice should normally include an explanation or qualification if the actuary has any reservations about the reliability of the data.*

# Choice of Assumptions

## Discount Rate

- Usually, prescriptive in accounting standards
- Assess the accessibility of yield curves for all the countries
- Knowledge of market practice in case yield curves are not available
- Dealing with situations like hyperinflation or non-availability of deep bond market

## Investment Return Assumption

- Understanding of the asset classes and investment types
- Understanding of the investment risk in particular the risk of default, marketability and liquidity of the securities
- Understanding of the investment regulations in each of the countries.

## Other Financial Assumptions

- Should reflect an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits
- Availability of data to comment on the financial assumptions recommended by the reporting entity
- Understanding of the methodology to arrive at a specific assumption

## Demographic Assumptions

- Accessibility of Mortality tables and understanding of any improvements applicable in each of the countries
- Accessibility of market data to comment on the usefulness of other demographic assumptions

## Use of Methodology

- Accounting Standards usually prescribe the type of actuarial method to be applied. The most prevalent methodology applied is the Projected Unit Credit (“PUC”) Method
- Some specific nuances on applying the PUC method for calculation of defined benefit obligations/liabilities for typical plans needs to be considered
- The methodology used must reflect the situation of the particular plan and the company as no specific guidance may be available in the accounting standards for DC plans with DB underpin. The member must be able to demonstrate that the method applied is scientific and appropriate for the exercise and must describe the method used in his/her actuarial work report.
- Some of the plans under US-GAAP may require valuation as per the Traditional Unit Cost method (“TUC”) e.g., the cash balance plans.

### Note:

*Under the PUC method a "projected accrued benefit" is calculated at the beginning of the year and again at the end of the year for each benefit that will accrue for all active members of the Plan. The "projected accrued benefit" is based on the Plan's accrual formula and upon service as of the beginning or end of the year, but using a member's final compensation, projected to the age at which the employee is assumed to leave active service. The Plan liability is the actuarial present value of the "projected accrued benefits" as of the beginning of the year for active members.*

# Reporting Requirements



- Different accounting standards will have different reporting requirements such as -
  - Sensitivity Analysis
  - Recognition of profit and loss
  - Commentary on the investment risk
  - Description of the plan Characteristics and the associated risk
  - Projection details for future such as expected payouts
- The requirements and the formats of local accounting standards wherever applicable may be different from the standard requirement of IAS 19 and US GAAP

# Other Considerations

1

Significant deviation of results from previously reported numbers

2

Consensus on methodology for the valuation of options and guarantees offered

3

Understanding the investment risk as some of the accounting standards requires a disclosure

# Section 3 - Operational Consideration





# Operational Considerations

Operational Aspects need to be considered whenever a new project is taken or when new models are constructed. Otherwise, there is a risk of loss arising due to following elements:

Inadequate or Failed Internal Processes

Inadequate IT/Data Infrastructure

Human Resources

External Events

# Operational Considerations



- **Prior Actuary's Letter as per PCS v4\*:**
  - Inform the client that you will intimate the previous actuary. If he disagrees, then decline the assignment.
  - What is the Starting Timeline for First Report - Does it start once the response is received?
  - Write to the Previous Actuary asking for Appropriate Information about the Client and associated operations
  - What if the response is not provided by Previous Actuary within the mentioned timelines?
  - Prior Actuary's Letter requirement can also vary by Country
- **NDA and Contracting:**
  - What is the full On-Boarding Process
  - Level of Due-Diligence Performed before entering into a new relationship
  - Contract with all relevant terms should be signed off

# Operational Considerations



- **Process Management, Internal & Peer Review\***
  - Process Controls: To what extent, if any, the procedures used to carry out this work should be controlled, and if so, how
  - Internal Review: To ensure the quality of the work and final report. Consider whether the standard process of Doer, Checker and Reviewer can be followed considering the tight timelines
  - Peer Review: To what extent, if at all, it is appropriate for the report to be independently reviewed, in totality or by component, before the final report is submitted to the intended user. If it is deemed appropriate, then:
    - Actuary should select a reviewer who is independent of involvement with the specific components reviewed. Is knowledgeable and experienced in the practice area
    - Should comply with the appropriate applicable guidelines
  - Treatment of any Subsequent Events: Actuary should consider any subsequent events that has the potential of materially changing the final results and disclose such an event in the final report

\*Note - As per Actuarial Practice Standard 34: General Actuarial Practice - Sections 2.11, 2.12 and 2.13

# Operational Considerations



- **Appropriateness of Internal IT Infrastructure / Systems**
  - Overall improved operational efficiency by controlling/managing Data for all the tasks/reports/countries through one, single Integrated Data System
  - Data Protection Legislation needs to be adhered to and it also varies by Country like Data Protection Act in the UK, Personal Information Protection and Electronics Documents Act in Canada etc. Policy to cover - availability, usability, integrity and security of data.
  - Credibility of the data - As the errors in the data relating to beneficiaries or error in data used to determine parameters for a model - could lead to Operational Risk - Can lead to inappropriate advice which in turn can threaten the security of a particular scheme

# Operational Considerations



- **Budgeting:**
  - Resource Hiring and Planning:
    - Existing Resources appropriate to perform this new task
    - In case of additional hiring, cost should be incorporated in the Budget
    - Actuary should try to avoid Dominance Risk i.e. Dominance of a single individual for the full task - This is a part of Operational Risk
  
  - What is the exact Payment Schedule of this Proposal?
  
  - Proportion of the Risk Premium in the overall quotation - which will be based on the all the risks involved as mentioned in the coming slides, number of different accounting standards to be adhered.

# Operational Considerations



- **Risk Mitigation Strategies:**

- Does the Actuary have Cyber Insurance in place to protect against the tangible/intangible losses from Hacking attack
- Professional Indemnity Insurance?

- **Documentation and Reporting:**

- Whether documentation is sufficient - Contains enough detail for the user / another Actuary in the same practice area to understand the work and assess the judgements made
- Final Report should be compliant with APS 34 (Sections 2.14, 3.1 and 3.2)\*

\*Note - Actuarial Practice Standard 34: General Actuarial Practice

# Section 4 - Risk Consideration



## Project Acceptance Risk (1/2)

- Actuary should ascertain from the company prior to accepting the task as to why they want to change the current Actuary.
- Actuary should reach out to the previous Actuary to ascertain if there are any Professional risk in accepting the assignment (including any particular considerations that ought to be borne in mind) - in adherence with part of PCS v4 para number 7.2
- Actuary could reach out to previous Actuary as to whether information was provided accurately / appropriately.
- Actuary should have a robust due diligence process, in making an acceptance/rejection decision
- Actuaries privacy, data protection policies should be in line with data laws in countries valuation is considered



## Project Acceptance Risk (2/2)

- Actuary should convey concerns to the client if the timeline provided and urgency poses a risk to the Actuary in executing the task in a professionally sound manner.
- Actuary must be able to define the scope of the work clearly to ascertain the effort required to perform a detailed cost benefit analysis to facilitate in evaluating profitability, covered more in the previous section.
- Actuary should get in writing, respective obligations (not limited to information requirement) to ensure timelines are met and does not end up costing Actuary his/her compensation or reputation.
- Actuary should confirm and agree with the open ended requirement if ‘first report within 7 days...’ means one or ALL countries valuation report.

## Professional Risk (1/2)

- Actuary must ensure relevant professional standards such as ISAP 1, APS34, TAS (UK), ASOP (US) are adhered within the areas of Judgement, responsibilities, data, methodology, assumptions, communication and reporting
- Actuary should check if an Indian qualified Actuary can perform valuation in all of the local country or additional qualification standards need to met, to ensure compliance, reiterating point made in Section1.
- The assignment is given as a bundle, the Actuary should ensure he/she is competent in performing the valuation function for all the listed countries
- If Actuary lacks competence in any of the country valuation, should be upfront with the client if work can be bifurcated to other qualified Actuary or sub-contracted else be prepared to forego the assignment.

## Professional Risk (2/2)

- As per PCS V4 para no. 7.2, the Actuary should wait for a response from the previous Actuary up to 10 days prior to commencement of work, however the client expects the first report to be provided within 7 days
- Even though the previous Actuary as per PCS is not making any attempt to obstruct the client but in effect the outcome could be unfavorable for the Actuary if response is not received immediately to meet deadline

## Firm Level Risk

- The scope of the assignment involves multiple entity and any mis-step in the process can lead to costly litigations in various jurisdiction which can have costly penalties
- It poses an opportunity cost, as time taken in this assignment would mean turning down other regular clients or in performing client acquisition activities, which could assist in growing the practice. Actuary need to evaluate if the client is strategically right (new markets) for the company?
- Since this is a new relationship and the client is imposing steep conditions from outset, they could easily change providers at the slightest of negotiation for a fair price or working relationship,
- Any shortfall in performing the valuation overall could lead to damaged reputation, which can lead to new / existing client perception of the firm being tarnished, careful evaluation prior to project acceptance needed
- Need to understand what benefit does the client bring to the table in terms of enhancing the financial / market position of the firm whether it is an one off assignment or a repeat exercise envisaged

# Thank You

