**Professional Compliance Questionnaire (PCQ) – APS7 Actuarial Practice Standard 7 (APS7) - Appointed Actuary (AA) and Principles for determining Margins for Adverse Deviation (MAD) in Life Insurance liabilities**

The Council in terms of the powers vested in it Section 19(2)(i) and Section 19(2)(r) of the Institute of Actuaries of India has put in place the above APS which is classified as Practice Standard, meaning thereby that a material breach of its provisions would by itself be a ground for complaint under disciplinary powers and would amount to a strong prima facie evidence of unprofessional conduct or professionally objectionable conduct. Such evidence could normally be set aside only if the member could show that in an actuarial advice given, any departure considered appropriate from the strict compliance with any aspect of the APS had been disclosed and justified.

The Council would want to satisfy itself, to the extent that it is possible to do so, that the Appointed Actuaries are in strict compliance with this APS at all times and that to the extent it is not so, the same is made part of the actuarial report and justified. The Council would also want to satisfy itself as to the manner in which such compliance is actualized so as to ensure that the APS is strengthened if need be on continuing basis.

It is clarified that the Compliance Questionnaire is a means for the Council to have a higher level of satisfaction of compliance by the Appointed Actuaries and does not amount to certification that the Appointed Actuary has complied with all the provisions of the APS fully as in the nature of things such a judgmental process should rest with the Council and the judicial authority in India.

It is also clarified that this Compliance Questionnaire contains those elements of the APS which are currently considered by Council as key aspects to be monitored and there could be other aspects as well which the Appointed Actuary needs to comply.

**Confidentiality**

The contents of this Compliance Questionnaire are confidential between Council or any committee constituted by Council and the Appointed Actuary and shall under no circumstances be used against him/her without his/her knowledge and due processes as prescribed within rules of the Institute of Actuaries of India

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| **Question No** | **Questions** | **Reply** |
| 1. | 1. **First Considerations:**
	1. Have you first assessed the best estimate assumptions and then added MADs?
2. Are the best estimate assumptions based on the insurer’s actual and expected experience?
3. Do the MADs applied on the assumptions reflect the degree of confidence you have in the best estimate assumptions?
4. In setting the MADs, have you considered the past experience of the Company?
5. Which assumptions are based on this approach? (for example interest rate)
	1. Alternatively, have you first established net of MAD assumptions or provided an overall contingency reserve?
6. Have you exercised appropriate professional judgment in determining the appropriate level of the net of MAD assumption? Have you considered past experience of the Company?
7. Which assumptions are based on this approach?
	1. Have you quantified the MADs used? In this respect:
8. Have you ensured that the MADs are not too low so as to lead to policyholder loss in a plausible adverse scenario?
9. Have you ensured that the MADs are not too high so as to provide greater security than necessary but require greater capital and hence depress policyholders’ and shareholders’ returns?
	1. Have you tested the impact of adverse experience by running a series of projections to demonstrate the sufficiency of reserve in various adverse scenarios?

In this context, have you:1. Relied on the overall MADs but taken into consideration the risk of coincident occurrence of adverse experience in several parameters?
2. Considered the extent to which increases in liabilities may be offset by compensating increases in asset values?
3. Considered the ability of Management to react to adverse experience for instance by changing asset mix, reducing, eliminating bonus (subject to PRE), increase mortality and other charges or closing new business?
4. Considered the protection provided by Reinsurance arrangements?
5. Considered the additional protection provided by Actual Solvency Margin, subject to the limit of 10% of free assets for the participating fund? If yes, which scenarios were tested that required the support of actual solvency margin?
	1. In constructing adverse scenarios, have you:
6. Avoided being unduly influenced by personal opinion?
7. Identified conditions or combinations of conditions which are the greatest threat to policyholder’s interests?
8. Considered the impact of falling or rising interest rates?
9. Considered the impact of dynamic policyholder behavior (for example take up of options)?
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| 2 | 1. **Other considerations:**
	1. Investment guarantees:
2. While providing for the future reinvestment risk on long-term contracts, have you considered the relevant experience from jurisdictions other than India?
3. Have you considered all explicit as well as implicit investment guarantees?
	1. Mortality/Morbidity:
4. Have you considered the risks of both deteriorating and improving mortality/morbidity experience?
5. For annuities, have you tested that the MADs are sufficient in improving mortality scenarios?
6. Have you considered the risk of anti-selection related to exercise of options?
7. Have you considered the effect of selective withdrawals on the emerging mortality experience?
8. Have you considered whether the overall MADs appropriately allow for the risk of HIV/AIDS?
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| 3 | 1. **Minimum Adverse Scenarios:**
	1. Please confirm that the adverse scenarios considered by you comply with/exceed the following minimum adverse scenarios:

* + **Interest Rate-**

Immediate rise or fall of 10%/20% of the current 10 year G-Sec yield, for the next 5/10 years, as given in para 7 of APS7.* + **Mortality Rate-**

For Assurances, experience is 10% worse than the best estimate For Annuities, experience is 10% better than the best estimate and improves at around 0.5% p.a.* + **Morbidity Rate-**

For Assurances, experience is 10% worse than the best estimate* + **Withdrawals / Lapses-**

Increase / decrease of 20% of the best estimate, whichever is more adverseHave you performed a test to check if increase or decrease of best estimate gives the required level of prudence? If not, how the same is determined? * + **Expenses and expense inflation-**

Management Expenses are 10% more than the best estimate and increase at a rate consistent with the assumed interest rate on new money* + **Bonus Rate-**

Adjusted to allow for experience and PRE |  |
| 4 | 1. **Overall Objectives-**
	1. Overall, have you fully complied with the APS7? If not, have you suitably qualified your approach in the Actuarial Report and Abstract?
	2. Notwithstanding the requirements of the APS7 being predicated on deterministic methods of enhancing overall policyholder protection, have you developed stochastic methods and techniques to arrive at a desired level of provisioning adequate at any level of probability? Please discuss if any steps have been taken in this regard since the previous year.
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**Name of the Appointed Actuary:**

**Name of the Company**

**Signature:**

**Date:**