

# 40th India Fellowship Seminar

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## Pension Case Study Professional

Addressing Ethical Challenges in Actuarial Consulting



# Guide To The Group



G.N. Agarwal

- Former President of the Institute of Actuaries of India (2006-2010)
- Retired Executive Director & Appointed Actuary, LIC
- Former CEO & Whole Time Director of Future Generali India Life Insurance Company
- Independent Director of Acko Life Insurance and General Insurance Ltd.
- Consulting Actuary on Life, Non-life and Pension & other Employee Benefit matters

# Group 8

- **Brij Bhushan Sharma**
  - *Extensive experience of more than 3 decades with LIC*
  - *Held various roles in valuation department of the LIC, covering multiple aspects of actuarial responsibilities*
  - *Completed 10/ 13 papers*
- **Santosh Kumar Dumpa**
  - *4 years experience with LIC*
  - *Assist in the oversight of IEV and IRDAI reporting requirements to maintain compliance and ensure accuracy*
  - *Completed 12/ 13 papers*
- **Kevin Punmiya**
  - *3 years experience PWC AIMS/M&G*
  - *Provide support to risk modeling activities, aiding in the analysis and management of financial risks*
  - *Completed 12/ 13 papers*

# Pension Case Study Professional



- **Scenario:** As a practicing pension actuary in Indian market, you return from a week's vacation and find that one of your client, 'Company S' has approached another actuary, 'Madam Actuary' for their actuarial services
- **Background:** Last year, the CFO of Company S had discussions with you asking for reduction in liability of their gratuity fund
- **Development:** Probably due to adverse external economic environment, CFO suspected you to be more conservative this year resulting into further increase in liability which might have led Company S to approach another actuary
- **Ethical Issue:** Madam Actuary reaches out to you asking about any professional issues in accepting the assignment to comply with the requirement of 'Professional Code of Conduct'
- **Dilemma:** You face the choice of whether or not to respond to Madam Actuary's mail as more than a week's delay has occurred. Further, if to respond, then what to include in response, keeping all the professional issues in mind.

# Agenda



- *Environment in which a Pension Actuary works in India*
- *Issues involved in the case study*
- *Conclusion and Recommendations*

# Environment in which a pension actuary works in India

# Professional Code of Conduct



- **Professional standards**

- *The actuarial professional has an obligation to serve the public interest within the context of building and promoting confidence in the work of actuaries and actuarial profession (PCS 2.1)*
- *Members have a duty to the actuarial profession and clients and must always act honestly and with integrity (PCS 2.2)*

- **Standards of advice**

- *An actuary is expected to use best judgement in formulating advice and must have proper regard to relevant professional guidance (PCS 4.1)*

- **Impartiality**

- *Actuaries must ensure that professional judgement is not compromised, and is not seen to be compromised by any bias, conflict of interest or the undue influence of others (PCS 6.1)*

# Client choice and Actuary's conduct



- **Client Rights**

- *Clients are entitled to have absolute confidence in the skill , objectivity and integrity of any member (PCS 2.3)*
- *A client has indisputable right to choose and to change professional advisors, to take a second opinion and to retain separate advisors on different matters (PCS 7.1)*

- **Actuary Obligations**

- *An actuary should make no attempt to obstruct a client who wishes to change advisors (PCS 7.2)*
- *When the principal requests an additional calculation using an assumption set which the actuary does not judge to be reasonable for the purpose of actuarial services, the actuary should disclose in any report the source of those assumptions and actuary's opinion of their appropriateness (APS 34-2.8.3 & APS 27-8.5.1)*



# Professional Conduct/Misconduct

- **Knowledge of Relevant Circumstances (APS34-2.2)**

- *The Actuary should have or obtain sufficient knowledge and understanding of the data and other relevant information to perform the actuarial services required by the assignment*

- **Publicity (PCS 8.2)**

*The actuary must ensure*

- *Publicity is appropriate to the professional needs*
- *Objectivity of the contents in advertisement*
- *Publicity should not suggest any preference to obtain advice from one actuary*

- **Guilty of professional misconduct (Actuaries Act of 2006, Sec 31, part I)**

- *If accepts an assignment as Actuary previously held by another Actuary without first communicating with him in writing*
- *If fails to disclose a material fact known to him in a valuation report or a financial statement but disclosures of which is necessary to make the valuation report or the financial statement not misleading where he is concerned with such valuation report or the financial statement in a professional capacity*

# Professional Conduct/Misconduct



- **Communication with previous Actuary (PCS 7.2)**
  - *If an Actuary is invited to provide actuarial services to a client, he/she should communicate , in writing, with the other actuary at as early stage as possible*
- **Client consent (PCS 7.3)**
  - *If the client refuses to provide consent to contact the previous Actuary, then the appointment should be declined*
- **When in doubt (PCS 1.3)**
  - *A member who has any doubt with interpretation of the professional guidance or its application should normally seek advice from an actuary with relevant experience*
- **Acceptance of assignment (APS34-2.1.2)**
  - *The Actuary should be qualified to perform services,*
  - *Be satisfied that the assignment can be performed under the applicable code of PCS, relevant APSs and relevant GNs; and*
  - *Has reasonable assurance of time and resources*

# Professional Conduct/Misconduct



- **Communication** (PCS 7.2)
  - *Upon receiving an enquiry from the new consulting actuary, the other actuary may provide the required information as soon as possible, but no later than 10 days from receipt of communication*
- **Confidentiality** (PCS 3.1)
  - *The information acquired by an actuary in the course of professional work should not be normally disclosed unless consent has been obtained from the actuary's client*
- **Independent Professional Judgement** (PCS 2.4)
  - *Healthy debates and expressing different opinions on matters of professional interest are good for betterment of actuarial profession*
  - *Such debates and opinions must demonstrate due respect and must not bring disrepute to other members*

# Issues involved in the Case Study

## Issue that Company S has moved to another actuary



- *Company S has decided to move to another actuary, i.e. Madam Actuary for their gratuity valuations*
- *As per PCS 7.1, a client has the indisputable right to choose and change professional advisors*
- *It also requires the incoming actuary should communicate, in writing, with the outgoing actuary at the earliest to understand if there are any professional reasons to be considered before accepting the assignment (PCS 7.2)*
- *Accordingly, Company S has the right to move to another actuary for their gratuity valuations, and Madam Actuary is also in compliance with the Standards in communicating with us regarding any professional reasons surrounding the work*

## Issue with gratuity assumptions

- *CFO of Company S had asked us to ‘reduce’ some liability of their gratuity fund last year and he was of the view that we were conservative with our assumptions*
- *APS 27 (8.5.1) requires that assumptions used shall be appropriate for the purpose of calculations for which they are used*
- *It also mentions that if assumptions are not determined by the actuary but taken as an input, then it should be spelt out in the report to that order*
- *Accordingly, it would be inappropriate for us to reduce Company S’s gratuity liability by altering our assumptions, that may not be appropriate for the purpose*

## Issue of the adverse external economic environment



- *Decrease in interest rates would decrease the discount rate thereby increasing the liability*
- *However, decrease in interest rate would be coupled with a likely decrease in salary growth assumption/ inflation and hence, decrease the liability*
- *The net impact would not be a material change, depending upon the difference between the 2 rates*
- *This stems from the mutual compatibility of the assumptions in an actuarial valuation, as provided in **APS 34 & Accounting Standards***
- *Accordingly, the presumption that we would be conservative because of the adverse external economic environment does not directly imply that it would increase the liability*

## Issue around delay in response & Madam Actuary's work



- *It has been more than a week since we received the mail from Madam Actuary*
- *We haven't been able to respond since we were not reachable during our vacation*
- *If it hasn't been more than 10 days, we could respond and be in compliance with the PCS requirement*
- *In case it has been more than 10 days, we should still respond at the earliest regarding any professional reasons to not accept the assignment*
- *Madam Actuary may have started the work already as clients in EB valuations expect reports quickly and the prevailing practice followed by other actuaries operating in EB valuation area*
- *In case it hasn't been 10 days since her e-mail, if Madam Actuary has started the work without waiting for our response, it could be in contravention of the **PCS 7.2 and APS 34***



## Issue of the ethical dilemma

- *A dilemma whether or not to respond and if respond what should be our response*
- *The needs of CFO and actuary are different.*
- *This is due to an inherent difference in objectives between a CFO and a pension actuary*

**CFO**

# Conclusion and Recommendations

## Professional Conduct in responding to Madam Actuary's mail



- *Upon receiving an enquiry from the new consulting actuary, the former actuary may provide the required information as soon as possible, but no later than 10 days from receipt of communication (PCS 7.2)*
- *A member who has any doubt with interpretation of the professional guidance or its application should normally seek advice from an actuary with relevant experience (PCS 1.3)*
- *If an Actuary selects the party on whom to rely, the Actuary should consider the other party's qualifications, competence , integrity and objectivity\_(APS34-2.3.1)*
- *Any communication should be appropriate to the particular circumstances and take the skills, understanding, levels of relevant technical expertise, and needs of the intended user into consideration (APS34-3.1)*

# Response to Madam Actuary's mail



- *By responding to Madam Actuary's mail, we aim to uphold the principles of professional integrity and respect. Accordingly, it is our professional and ethical duty to respond to Madam Actuary's mail at the earliest and communicate any such knowledge of relevant circumstances to her irrespective of whether or not 10 days have elapsed*
- **Acknowledging the enquiry**
  - *Show gratitude for communicating with us*
  - *Explain the reason for delay in response*
- **Ensure confidentiality in the communication**
  - *Consent from client is needed before sharing any confidential information with the Madam Actuary*
  - *Limit the sharing of the information to the strict need to know basis by only replying to the queries raised by Madam Actuary*

# Response to Madam Actuary's mail



- **Addressing professional issues**
  - *Since we have not done any actuarial work of Company S this year, there are no professional issues pertaining to the assignment offered by the company to Madam Actuary*
  - *There were professional issues pertaining to valuation last year. However, if the CFO only had an informal discussion about reducing liability, then there may be no need to disclose this to Madam Actuary*
  - *In case of any formal discussion with CFO last year for which we may have certain records, we may communicate the same to Madam Actuary. However, the specifics can only be disclosed after obtaining consent from client*
  - *Once consent is granted by the client, include any references available to us*
- **Ensure Madam Actuary of smooth transition**
  - *Ensure that all required information and questions are responded*
- **Avoid any negative comments**
  - *Keep the communication professional*
  - *Show your willingness and openness for any future collaboration*

# Recommendations



- **Process control in communication**
  - *Company mail may be setup instead of using personal mail*
  - *Senior members with adequate experience should have access to it*
  - *Set up an automatic reply detailing key person's availability when he/she is on vacation and not able to check mails*
- **Good consultancy practice in client interactions**
  - *Ensure proper documentation of all the critical discussions, decisions and commitments for any future reference*
  - *Maintain records of correspondence and minutes of meeting*
- **Professional training of employees**
  - *Training programs enhance the knowledge of the staff, keeping them updated with the latest actuarial practices*
  - *Provide better quality services to clients (Emphasize the long term nature of actuarial assumptions instead of short term economic environment)*

# Conclusion



- 1. **Professional Integrity:** As an actuary, maintaining professional integrity is paramount. This includes ensuring that your assumptions and calculations are based on sound actuarial principles and not influenced by external pressures, such as a client's desire to reduce liabilities.*
- 2. **Communication with Madam Actuary:** It would be appropriate to respond to Madam Actuary's email, as ignoring it could be seen as unprofessional. Offer to discuss any issues if needed.*
- 3. **Addressing Client Concerns:** Explain to how your calculations are based on prudent, yet reasonable, assumptions in line with actuarial standards.*
- 4. **Adhering to Professional Codes:** Make sure that your response and actions align with the Professional Code of Conduct.*
- 5. **Confidentiality and Documentation:** Keep detailed records of all communications and decisions, and ensure that any client information remains confidential as per professional standards.*

Thank You