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Addressing concerns related to past year's valuation, during current year's valuation

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Our Guide - An Introduction



Mr. Ashok Kumar Garg is a Fellow Member of Institute of Actuaries of India. He is a Practicing Actuary in Employee Benefits domain since 2008. He has worked for LIC for 28 years. He has also worked as an Appointed Actuary for GIC Re and Bhutan Reinsurance Company. He is a member of the with-profits committee of Aviva Life Insurance Company. He is an Associate of Insurance Institute of India.

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Overview of the topic

For ease of understanding

- Client - Denoted as “*ABC*”
- Our actuarial firm - Denoted as “*XYZ*”
- Actuarial Firm which performed Valuation Last Year - Denoted as “*MNO*”

Overview of the topic



- Client ABC has approached and appointed the actuarial firm XYZ for valuation of employee benefits.
- XYZ's Management asked its Junior actuary to do the valuation of employee benefits of ABC which has 20,000 employees.
- ABC has facilitated with relevant details for the calculation of employee benefits; however, data is observed with multiple inconsistencies and errors.
- The gap in expertise of the concerned contact person, has resulted in inadequate available information. She recommended a visit to office and meet with IT department.
- Contact person of ABC also claimed that Actuary of "MNO" did not raise any issue about data quality last year.

Overview of the topic

- The data was cleaned and then re-valued the current year's (CY) liability position.
- Based on valuation workings conducted by XYZ, it was observed that liabilities have increased by 20%.
- Possible reasons can be data errors/inconsistencies and many employee movements during inter-valuation period
- Junior Actuary of XYZ also thinks that last year liability would also increase by similar amount, assuming similar data errors/inconsistencies existed last year.
- However he is not sure about data quality and understatement of liability last year.

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Key Questions

- A. Responsibility w.r.t providing actuarial services to the client
- B. Course of action regarding liability of last year on account of inconsistencies in data observed in current year
- C. What professional standards and guidance to refer - before coming to any conclusion?

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Relevant Act and Actuarial Practice Standards (APS)/ Guidance Notes(GN)



- The Actuaries Act 2006 - *An Act to provide for regulating and developing the profession of Actuaries and for matters connected therewith or incidental thereto.*
- Professional Code of Conduct version 4.00 - *The Professional Conduct Standards provides guidance on Professional conduct in addition to that is provided under the Act and Rules and Regulations.*

Relevant Act and Actuarial Practice Standards (APS)/ Guidance Notes(GN)



- APS 27 - Employee Benefits - *This standard aims to provide a principle-based set of standards that can apply to all actuarial work for employee benefits. It enables the user in this area to be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the work.*
- APS 27 Checklist - *This checklist assists Practicing Actuaries, and others to whom such APS is applicable, in self-evaluating for compliance.*

Relevant Act and Actuarial Practice Standards (APS)/ Guidance Notes(GN)



- APS 34 - General Actuarial Practice - *This APS provides guidance to actuaries when performing actuarial services to give intended users confidence that*
 - *Actuarial Services are carried out professionally and with due care*
 - *The results are relevant to their needs, are presented clearly and understandably, and are complete; and*
 - *The assumptions and methodology (including, but not limited to, models and modelling techniques) used are disclosed appropriately.*

Key Questions - Deep Dive

Responsibility w.r.t providing actuarial services to the client

- Undertake steps to perform the employee benefit valuation as prescribed by regulations and actuarial standards

Referring to APS 27 Section 4 Compliance & Application: Whenever a member performs actuarial work related to pensions or other employee benefits in the specific areas covered in this standard, this standard will apply whether the member is working in a statutory/regulatory capacity or as a consultant/advisor or is employed by an insurance company and advising the insurance company's clients

Responsibility w.r.t providing actuarial services to the client

- Ensure compliance with APS 27 checklist

Referring to Checklist for Professional Compliance with reporting requirements of APS 27- It is classified as a Practice Standard and has been prepared so as to assist Practicing Actuaries, and others to whom such APS is applicable, in self-evaluating for compliance.

- Plan course of action w.r.t Last Year's liability

Course of action to be taken by XYZ's Junior Actuary w.r.t Last Year(LY)'s liability



- I. Communication with the Actuary who performed valuation Last Year(LY)
- II. Compare, between last year(LY) and current year(CY), the key differences in terms of:
Data, Assumptions, Methods, Provisions, Discretionary Benefits experience
- III. Review last year's signed valuation report and supported docs
- IV. Discuss the observations with XYZ's Senior Actuary

I. Communication with the Actuary who performed valuation Last Year(LY)

- Since acceptance of this assignment, it is assumed that intimation has already been sent to MNO's Actuary who performed last year's(LY) valuation.
- So MNO's Actuary would have already shared if there are any particular considerations, that XYZ's Actuary ought to know before acceptance of assignment.

I. Communication with the Actuary who performed valuation Last Year(LY)



Referring to PCS 7.2 - If an actuary invited to provide an actuarial service to client, knows or has reason to suspect that another actuary is acting or has recently provided advice on the same or a related matter, the actuary should communicate, in writing, with the other actuary at as early a stage as possible to ask whether, he is aware of any professional reasons to be considered in accepting the appointment or any particular considerations which ought to be borne in mind before providing actuarial services. Upon receiving an enquiry, the other actuary may provide the required information as soon as possible, but no later than 10 days from receipt of the communication from the actuary, and should make no attempt to obstruct a client who wishes to change advisors.

II. Comparison between Last Year & Current Year

- Data



- Comparison with last year's issued actuarial report for the following(covering both retired and current employees):
 - (1) Employee movement
 - (2) Average salary / pension
 - (3) Average past service
 - (4) Average age of the employees
 - (5) Tagging under Defined Benefit / Defined Contribution
 - (6) Discretionary Benefits
 - (7) Assumption used Last Year vs Actual experience during inter-valuation period

II. Comparison between Last Year & Current Year

- Data



Referring to APS34 2.5

Data validation - The actuary should take reasonable steps to review the consistency, completeness, and accuracy of the data used. These might include:

- Undertaking reconciliations against audited financial statements, trial balances or other relevant records, if these are available*
- Testing the data for reasonableness against external or independent data*
- Testing the data for internal consistency and consistency with other relevant information*
- Comparing the data to those for a prior period or periods.*

II. Comparison between Last Year(LY) & Current Year(CY) - Assumptions



- Comparing LY & CY Assumptions (both demographic & financial), especially those factors to which results are most-sensitive - Few examples below:
 - Mortality/Morbidity (Pre and post employment) & Improvements - not sensitive to gratuity
 - Normal, early and ill health retirement
 - Withdrawal
 - Salary growth rate
 - Take up rate of options /Guarantees if any, pension commutation
 - Discount rate, Inflation & Investment return
 - Percentage married assumption

II. Comparison between Last Year(LY) & Current Year(CY) - Methods & Provisions

- Any change in methodology adopted LY like change in accounting standards or funding methods
- Any update in modelling software incorporated to check model risks
- Any changes in rules of the pension scheme like:
 - Change in options for early retirement
 - Change in methods of payment e.g. commutated value option

II. Comparison between Last Year & Current Year

- Assumptions, Methods & Provisions

- *Referring to APS 34 2.7.6. Internal Consistency of Assumptions and Methodology - The actuary should determine if the assumptions and methodology used for different components of the work are materially consistent, and that any significant interdependencies are modelled appropriately. The actuary should disclose any material inconsistencies in any report.*
- *Referring to APS 27 8.6.3 A commentary on any material developments in the inter-investigation period which have led to a significant variation in the experience from the assumptions last made and their impact on the valuation.*

III. Review Last Year(LY)'s valuation report

- Qualifications and/or comments about the data used LY, if any

Referring to APS 34 2.3

Reliance on Others - The actuary may use information prepared by another party. This information may include data, opinions of other professionals, and supporting analyses.

Referring to APS 34 2.4

Materiality - In case of omissions, understatements or overstatements, the actuary should assess whether the effect is material. If the effect of any of these is material, the actuary should disclose this in any report to which it is relevant

III. Review Last Year(LY)'s valuation report

- Allowances made for discretionary benefits, if any

Referring to APS 27 8.6.2

The report should disclose if there is a history of discretionary benefits, and it should make reference to allowance, if any, that has been made for discretionary increase in benefits. If in the inter-valuation period, the benefits have been varied, a specific mention thereof should also be made in the report.

III. Review Last Year(LY)'s valuation report

- Data-related investigations performed by LY's Actuary and the conclusions related to them, if any

Referring to APS 34 2.3.3

If the actuary states reliance on the information prepared by another party and disclaims responsibility for it, the actuary should:

- Disclose in any report that fact (including identifying the other party)*
- Disclose in any report the nature and extent of such reliance*

III. Review Last Year(LY)'s valuation report



- c. Examine the information for evident shortcomings*
- d. When practicable, review the information for reasonableness and consistency and*
- e. Disclose in any report the steps, if any, that the actuary took to determine whether it was appropriate to rely on information.*

IV. Discuss observations with XYZ's Senior Actuary



- Discuss the steps taken so far with XYZ's Senior Actuary.
- Perform the valuation and submit the draft report to Senior Actuary for review and sign off.

Referring to:

- *PCS 2.1 Professional Standards - The actuarial profession has an obligation to serve the public interest within context of building and promoting confidence in the work of actuaries and in the actuarial profession.*
- *PCS 4.1 Standards of Advice - An actuary is expected to use best judgement in formulating advice and must have proper regard to any relevant professional guidance or other guidance*

IV. Discuss observations with XYZ's Senior Actuary



Referring to:

- PCS 6.1 Impartiality - Actuaries must ensure that their professional judgement is not be compromised and is not seen to be compromised, by any bias, conflict of interest or the undue influence of others*
- APS 27 8.6 Reporting principles concerning actuarial work in Employee benefits*

Q&A

Thank You

Appendix

Typical Steps performed in Actuarial Valuation of Employee Benefit Scheme



- Determine with the client - Purpose ,Objective of the valuation , Time limit for production of results, Fees, etc.
- Gathering Information about the scheme like Rules, Accounts, Asset data, Last year's Actuary's report ,Minutes of meeting, Actuarial correspondence, etc.
- Validation of membership Data and asset data
- Determining methods of valuation & Assumption
- Performing the valuation & summarize the result
- Reconcile with the result of previous valuation
- Reporting to Senior Actuary for further course of action