

# 46th India Fellowship Seminar

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**Title: Policyholder Fairness, Governance and Strategic Change  
Following Acquisition of a Life Insurance Company**

**Presented By :**

- 1. Sapan Gupta**
- 2. Muralidharan Ramachandran**
- 3. Shweta Gupta**
- 4. Neha Ramdas Tiwari**



# Fair Life: Ownership Transition in a Proprietary Life Insurer

## Historical Positioning of Fair Life

- Large participating portfolio
- Conservative management philosophy
- Stable bonus track record
- Long-term investment orientation
- Strong solvency position
- Trusted brand reputation

## Acquirer Strategic Objectives

- Improve capital efficiency
- Accelerate growth
- Improve shareholder returns
- Modernize operations
- Enhance digital distribution
- Optimize investments

# Fair Life: Ownership Transition in a Proprietary Life Insurer

## Impact of Acquisition

- Management restructuring
- Revised strategic priorities
- Operational integration
- Changes to investment strategy
- Review of product profitability
- Reassessment of expense allocation methodologies

## Board Asks from the AA

- Potential impacts on policyholders
- Required governance safeguards
- Fairness considerations for par business
- Risks arising
- Role of the appointed actuary during transition
- Enhanced communication

# Why Ownership Change Is Especially Sensitive in Life Insurance

## Nature of Life Insurance Liabilities

- Long-duration obligations
- Embedded guarantees
- Participating surplus distribution
- Dependence on management discretion
- Sensitivity to investment performance

## Potential Impact of Strategic Change

- Shift in risk appetite
- Changes in bonus philosophy
- Revised investment strategy
- Altered expense allocation
- Capital extraction pressure
- Different growth priorities

# Key Governance & Fairness Questions Arising From the Acquisition

## Policyholder Fairness

Will PRE remain protected?  
Could bonus & investment philosophy materially change ?

## Participating Fund Integrity

How should inherited estate be managed ?  
Are expense allocation methodologies still equitable ?

## Risk and Solvency

Does increased growth pressure alter risk appetite ?  
Could investment strategy changes affect guarantees ?

## Governance and Professionalism

Are governance safeguards sufficiently independent ?  
How should fairness be monitored post acquisition ?

# Governance Safeguards & Oversight Framework

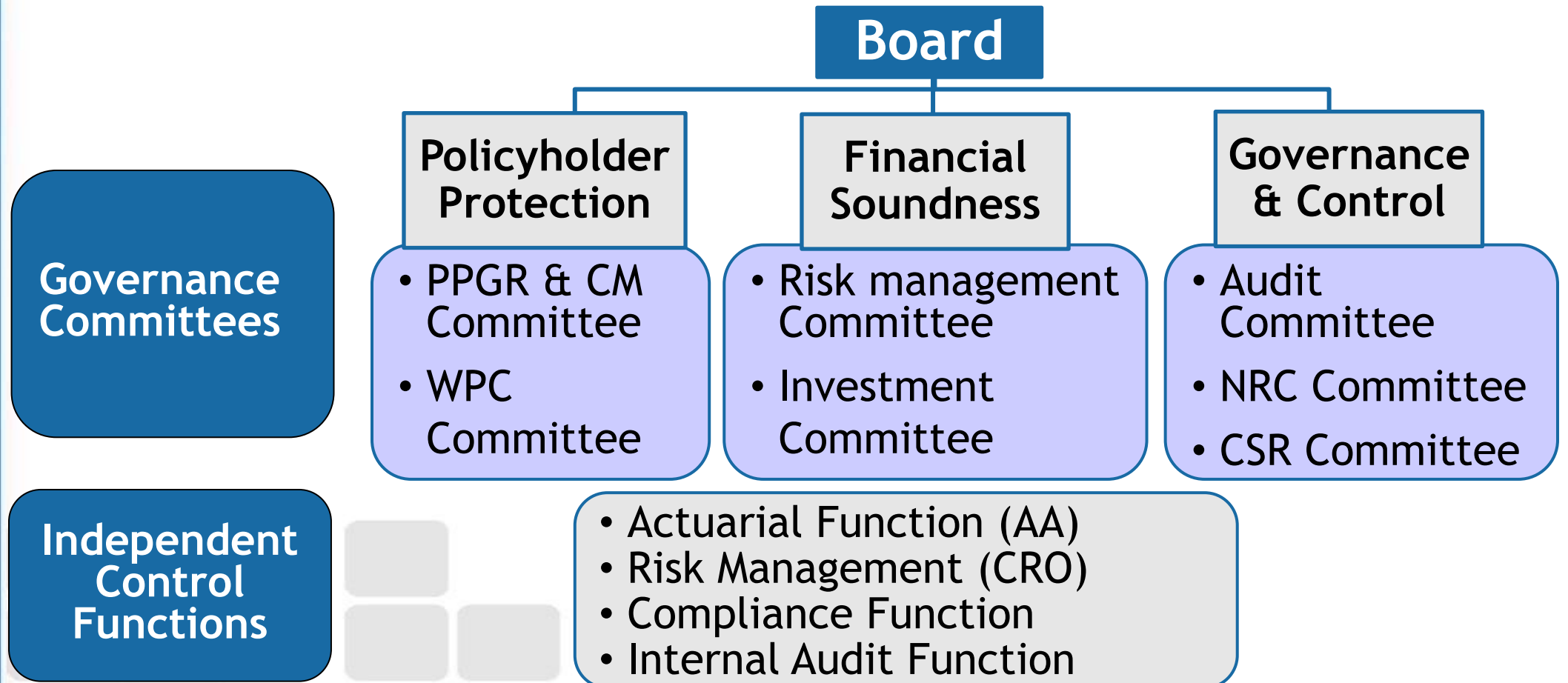
# Board's Fiduciary Challenge Following Ownership Change

Why board structure matters	Key governance expectations	Critical board responsibilities
<ul style="list-style-type: none"><li>• Board composition may change post acquisition</li><li>• Strategic priorities may shift</li><li>• Group influences may strengthen</li><li>• Risk appetite may evolve</li></ul>	<ul style="list-style-type: none"><li>• Optimum mix of independent directors</li><li>• Insurance, business expertise</li><li>• Ability to challenge management</li><li>• Oversight of policyholder fairness</li><li>• Ensuring regulatory quorum in board meetings</li></ul>	<ul style="list-style-type: none"><li>• Oversight of bonus philosophy</li><li>• Approval of investment strategy changes</li><li>• Monitoring solvency impact</li><li>• Expense allocation fairness</li><li>• Inherited estate usage</li></ul>

Reference : Master Circular on Corporate Governance for Insurers, 2024

# Corporate Governance Framework

Corporate governance provides the framework through which an insurer is directed and controlled, balancing policyholder interests, financial soundness and shareholder objectives.



# Key Governance Risks and Safeguards Following Ownership Change

Areas of Change	Governance Risk	Governance Safeguards
Bonus philosophy	Pressure to reduce smoothing	Participating fund oversight & WPC Committee
Expense allocation	Cost shifting disproportionately to the par fund	Audit & actuarial review
Investment strategy	Increased risk appetite in pursuit of higher returns	Risk Management (ALM) & Investment Committee review
Growth strategy	Aggressive expansion affecting solvency and capital strain	Board risk oversight
Inherited estate management	Misaligned use of estate	WPC oversight, PRE and fairness review

# Committee Oversight Framework : Key Challenge Questions



Committee	Key questions the committee should challenge
With Profits Committee	Are bonus declarations, smoothing practices and estate management consistent with PRE and policyholder fairness?
Investment Committee	Do investment strategy changes remain appropriate for participating liabilities and long-duration guarantees?
Risk Management Committee	Does accelerated growth alter the company's risk profile, capital position or solvency resilience?
Audit Committee	Are revised expense allocations and financial reporting practices fair, transparent and appropriately controlled?
PPGR&CM Committee	Are policyholder outcomes, claims experience and customer treatment deteriorating during transition?
NRC Committee	Do remuneration structures create incentives that could disadvantage policyholders?

# With-Profits Governance: Ensuring Fair Surplus Distribution

Areas of management discretion	Governance objectives	Governance Tools
<ul style="list-style-type: none"><li>• Bonus distribution</li><li>• Smoothing policy</li><li>• Expense attribution</li><li>• Estate management</li></ul>	<ul style="list-style-type: none"><li>• Protect PRE</li><li>• Ensure intergenerational equity</li><li>• Maintain consistency of philosophy</li></ul>	<ul style="list-style-type: none"><li>• Bonus policy framework</li><li>• Independent actuarial review by AA</li><li>• Experience monitoring</li><li>• Documentation of surplus distribution principles</li><li>• External review where needed</li></ul>

# Investment Governance Under Changing Strategic Priorities

## Potential Strategic Changes

- Increased equity allocation
- Higher credit risk exposure
- Alternative assets
- Illiquid investments
- Yield enhancement strategies

## Governance concerns

- ALM mismatch risk
- Inability to meet long duration guarantees
- Increased volatility impact on participating and unit linked policyholders
- Liquidity & solvency implications

## Governance Safeguards

- ALM discipline
- Stress testing
- Risk appetite limits
- Board approved investment policy
- Concentration controls

# Policyholder Fairness

# Policyholder Fairness Principles (1)



## Main considerations post stake acquisition

### Principle 1

- The acquiring shareholders effectively inherit not only the liabilities but also the policyholders' **accumulated expectations**.

### Principle 2

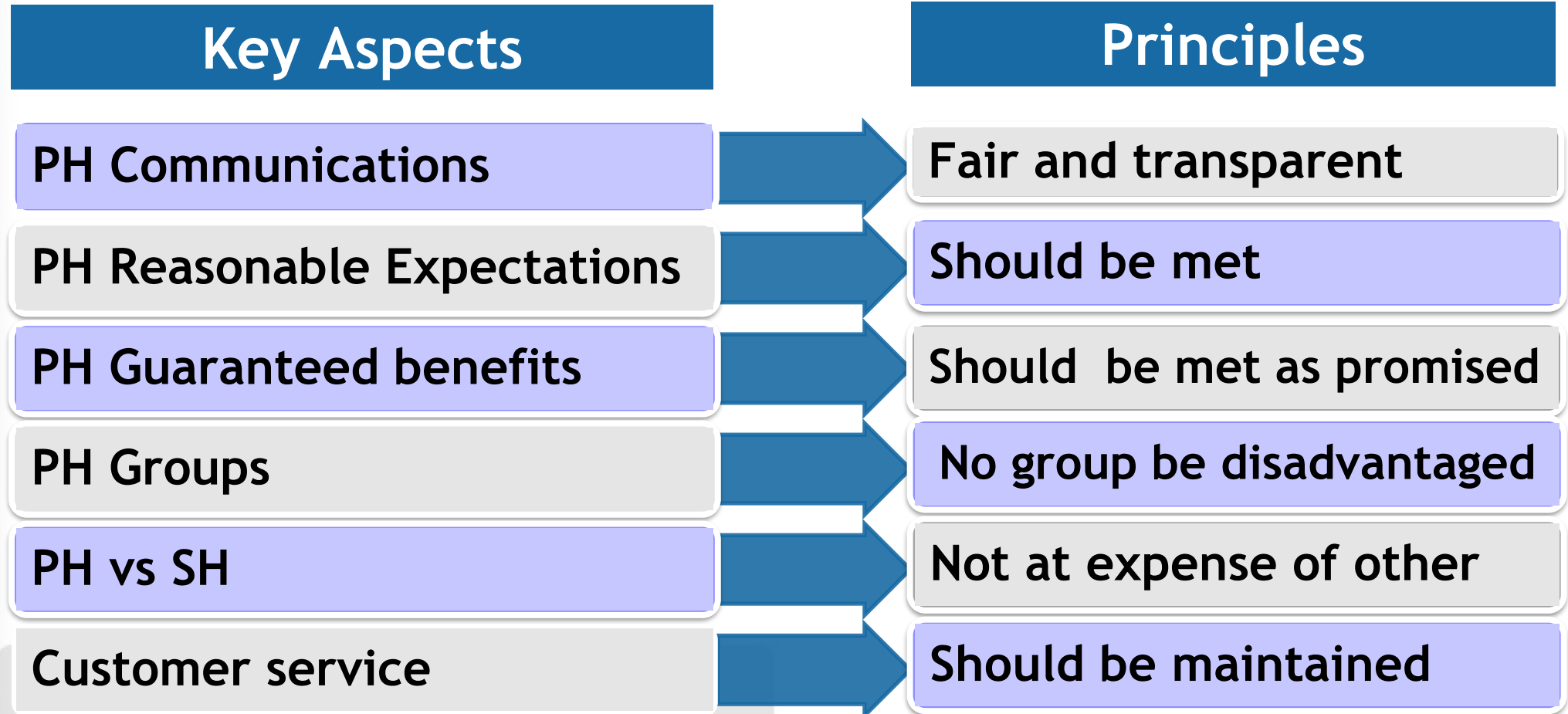
- The acquisition should not fundamentally **alter the nature** of the insurer in a manner that materially disadvantages existing policyholders.

### Principle 3

- Policyholders should not be made to feel that they are effectively dealing with a different institution than the one originally selected.

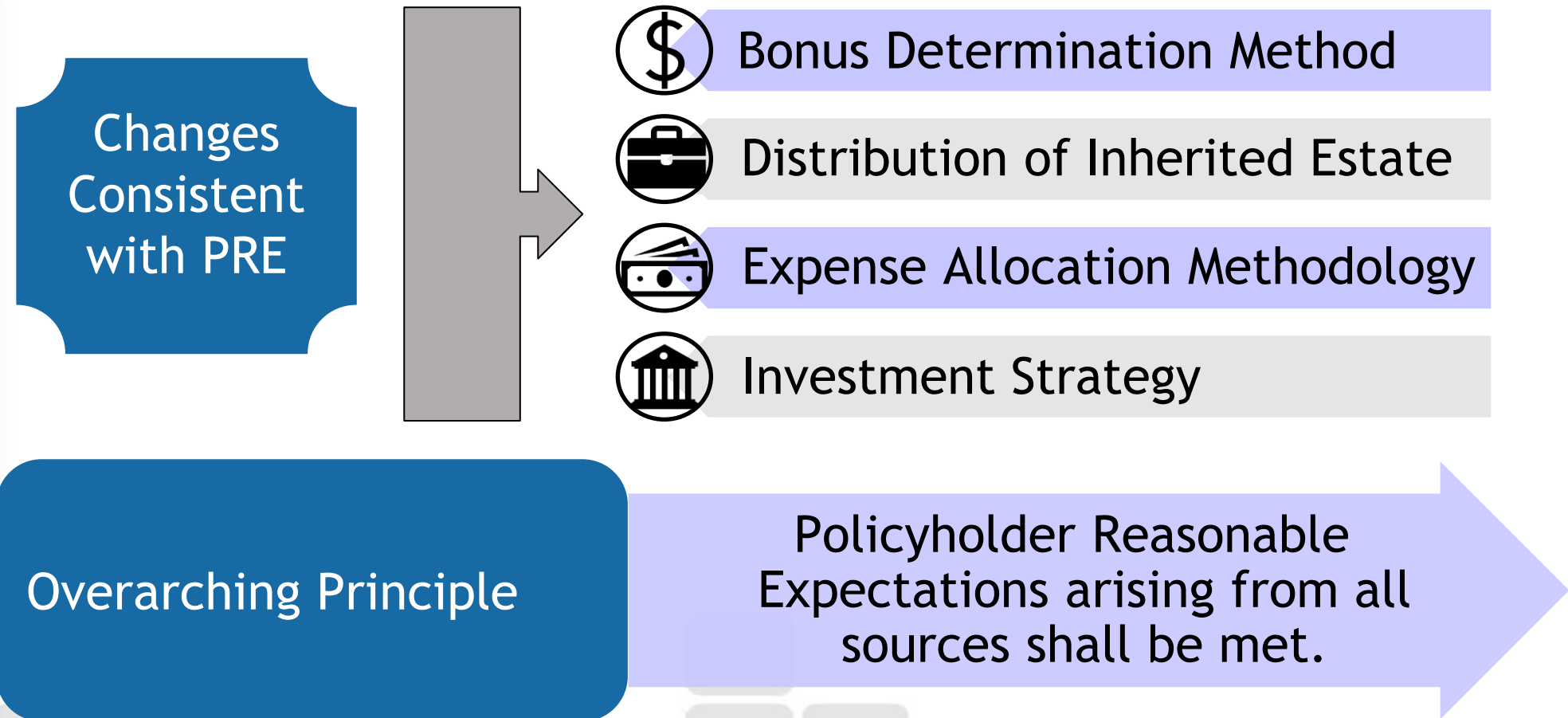
Ownership change does not alter policyholder entitlements – but it heightens the risk that discretionary decisions may be tilted towards shareholder benefit.

# Policyholder Fairness Principles (2)



# Par Policyholders and Fairness

Main considerations post stake acquisition



# Non-Par & ULIP Policyholders & Fairness

## Main considerations post stake acquisition

### Non-Par

- Quality Standards in Claims, Surrenders

Service Quality

1

- Shall remain consistent with past

Claims Process

2

- No withdrawal or Modification

Optional Benefits

3

### ULIP

#### Fund Management & Investment Strategy

ULIP PHs chose funds based on the insurer's historical investment approach and risk culture. Performance against stated Benchmarks shall be maintained

### ULIP

#### Customer Service

Cost reduction initiatives may lead to reduced customer support. Customer service levels shall be maintained and not be allowed to decline.

# Participating Fund Management

# Why Participating Business Is Special



Sharing Nature of Par Funds

Participating business often contains elements that resemble a mutual insurer

Surplus Allocation

Shall remain equitable, consistent, and consistent with PRE

Governance Structures

WPC Framework for policyholder protection, fair expense allocation & balanced decision-making

Inherited Estate

Held to support PHs and the long-term operation of the fund, rather than for capital extraction

# Understanding Inherited Estate



**Definition:** Inherited Estate is the accumulated surplus within a participating fund that has not yet been allocated to either current policyholders or shareholders.

**Sources:** Historical Capital Injections and Retained earnings , Under distribution of Surplus, Profits from policies that have exited the fund.

## Inherited Estate is owned by whom?

Being held in trust for their benefit

PHs View

Suppliers of capital have legitimate claim to some

SHs View

Must be managed fairly & prudently in the interests of both SHs &PHs

Reg View

## Management Actions Impacting IE

- Indirectly funding SH Initiatives
- Lower Bonus Declarations
- Change in Bonus Allocation- between RB &TB

**Function:** Solvency Support, Bonus Smoothing, Support for Guarantees and Investment Flexibility

# Bonus Philosophy and Smoothing



**Bonus smoothing** is one of the key mechanisms through which insurers deliver **fair and stable returns** to policyholders

Acquirer may prefer faster distribution of estate to improve the pace of shareholder returns.

Acquirer may attempt to align the bonuses with current investment performance

If bonuses become Lower, more volatile, PHs may perceive that the acquisition has disadvantaged them

The company may maintain and publish a Bonus Policy Statement committing to clear principles for reversionary and terminal bonus decisions.

# Inter-generational Equity

**Definition:** It refers to the principle that different generations of participating policyholders should receive a fair share of the benefits and costs arising from the participating fund.

In a par fund, different generations of PHs share in common investment pools, benefit from smoothing and participate in inherited estate.

## Impact of Acquisition

Excessive bonus distribution

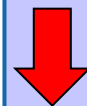


Benefit current PHs

Unfair to future generations.



Excessive surplus retention



Lower bonuses to current PHs

Stronger estate to future PHs



The objective is usually not equal outcomes, but equitable outcomes. Different generations may receive different bonuses depending on market conditions, but no generation should be systematically advantaged or disadvantaged.

# Expense Allocation Issues



Expenses are one of the largest drivers of lower surplus emergence.

Corporate Overheads are more contentious because allocation methodologies can significantly affect surplus.

Is the par fund being used unfairly to absorb Integration costs Transformation costs or Group overheads due to the acquisition

Is the Estate indirectly funding SH initiatives? If par PHs bear the costs while SHs receive most of the benefits, fairness concerns arise.

**Participating PHs should not unfairly subsidize others.**

# Strategic Risk

# Strategic Risk : Where ambition meets uncertainty



## Definition

Strategic risk is the risk from major business decisions or changes in strategy that could fail or backfire, affecting the insurer's long-term direction.

## Nature

It is typically a long-term, company-wide risk, potentially threatening achievement of objectives or even solvency if strategic choices are flawed.

## Acquisition Context

Fair Life's new majority owner brings ambitious plans (rapid growth, capital changes, digital overhaul) that raise the insurer's strategic risk, given its historically conservative approach.

# Post Acquisition strategy : Where risk builds



## Capital Efficiency Vs Solvency

- New owners may reduce excess capital or prudent reserves to boost return on equity.
- **Risk:** Weaker solvency margins and less buffer for adverse events.



## Aggressive Growth

- High sales targets could prompt underpricing or relaxed underwriting to drive volume.
- **Risk:** Higher future claims and new business strain can erode profitability and capital.



## Rapid Modernization

- Ambitious digital and operational changes (fast integration with parent systems).
- **Risk:** Execution failures and short-term disruption



## Investment Shift

- Chasing higher yields via riskier assets.
- **Risk:** Market volatility and ALM mismatches threaten stability, especially with long-term guarantees.

# Growth and product strategy : Hidden risks



## ● New Business Strain

- Rapid expansion consumes capital (for upfront costs and reserves).
- **Risk:** Solvency ratio declines if growth outpaces capital support.

## ● Relaxed Underwriting and Underpricing

- Cutting premiums or relaxing risk selection to meet targets.
- **Risk:** High future claims and poor profitability.

## ● Product Mix Shift

- Emphasis on non-par/ULIPs (100% shareholder profit) over par business.
- **Risk:** With-profits fund stagnation - fewer new par policies may result in higher per policy expenses harming existing par policyholders.

## ● Cultural and Reputation Impact

- Abrupt shift from policyholder-centric ethos to aggressive profit-driven culture.
- **Risk:** Erosion of trust among customers and agents; potential lapses and lower new business quality.

# Investment strategy : Return vs resilience



- **Chasing Yield (Riskier Assets)**
  - Shifting towards high-yield, high-risk assets (equities, real estate) for better returns.
  - **Risk:** Investment volatility - in a downturn, asset losses cut both shareholder profits and benefits for ULIP policyholders.
- **ALM and Guarantees**
  - Poor duration matching or interest-rate mismatches
  - **Risk:** Adverse movements in interest-rate mismatches may lead to reinvestment and guarantee risks.
- **Expense Allocation Changes**
  - IT investment costs may create dispute regarding allocation of expenses, particularly for PAR funds.
  - **Risk:** Reduced bonuses and dissatisfied customers; potential breach of fair allocation practices.
- **Shareholder Capital Demands**
  - New owners may aim for higher dividends or try to tap “excess” funds from inherited estate.
  - **Risk:** Over-distribution of capital reduces future safety margins.

## Managing Strategic Risk : Guardrails that matter

○ 1

### **Board Oversight and Risk Appetite:**

- Board must enforce a clear risk appetite. Risk and Policyholder Protection Committees oversee strategic changes to ensure no breach of risk limits and no unfair impact on policyholders.

○ 2

### **Rigorous Risk Testing:**

- Employ scenario analysis and stress testing to test new strategies under adverse conditions. Use results to adjust plans so solvency and profitability remain robust.

○ 3

### **Appointed Actuary's Due Diligence:**

- AA should evaluate proposed changes for impact on solvency and fairness. AA's approval is a key checkpoint to rein in excessive risk-taking.

○ 4

### **Phased and Transparent Implementation:**

- Roll out major changes in phases with careful monitoring and communication to the Board

# Shareholder - Policyholder Conflict

# Conflict : Structural by design



## Core Issue

In a shareholder-owned life insurer, shareholders seek profit, while policyholders seek security and value.

Leading to inherent conflict of interest if not managed.



## Where It is Acute

Particularly in participating (with-profit) funds, where profits and risks are shared.

Areas of tension include surplus and expense allocation, investment strategy, and inherited estate usage.



## Post-Acquisition Pressure

New owners' drive for higher returns (faster growth, ROI) can intensify these conflicts

e.g., pushing to limit bonuses, use Inherited Estate minimize costs on service

# Balancing bonuses and shareholder returns

## Conflict: Bonus Distribution Vs Capital Retention

New owners may prefer retaining surplus to strengthen capital, support growth, or smooth future bonuses, while policyholders expect a fair share of surplus declared through bonuses

### 90:10 Rule

At least 90% of distributable surplus from participating business is allocated to policyholders and not more than 10% to shareholders. This safeguards policyholders' share and limits what shareholders can take.

### Appointed Actuary's And WPC Role

AA proposes bonus rates based on fund performance, PRE and performance. The WPC oversees surplus distribution to ensure policyholders are treated fairly and shareholder interests do not unduly influence bonus decisions.

# Inherited estate : Not free capital

## ● Definition

The inherited estate is the unallocated surplus built up in the par fund over time from conservative bonus declarations. It's a cushion for future bonus smoothing, guarantees, and solvency support.

## ● Conflict Risk

Shareholders may view the estate as idle capital to utilize. However, the estate effectively belongs to the par fund for the benefit of policyholders (past, current, future).

## ● Regulatory Control

There's no automatic shareholder access to the estate under IRDAI rules. Any attempt to release estate to shareholders would require regulatory scrutiny and a sanctioned scheme.

## ● AA's Stance

The Appointed Actuary must protect the estate for policyholder interests - only supporting its use for legitimate policyholder benefit.



# Conflict hotspots : Where value shifts



## Product Portfolio Bias

New strategy might favor non-par products (all profit to shareholders) over with-profit products.

**Impact:** Neglecting par business undermines risk pooling and future bonuses for existing par policyholders.



## Expense and Fee Allocation

To boost profits, management may allocate more expenses to par fund or increase policy charges (e.g., on ULIPs) on new business.

**Impact:** Policyholder returns (bonuses, ULIP fund values) decrease, effectively transferring value to shareholders.



## Claims and Underwriting

More aggressive approach (tight claim approvals, selective underwriting) can reduce costs and losses.

**Impact:** Policyholder outcomes (claims experience, product accessibility) suffer, potentially breaching fair treatment norms.

# Managing conflicts : Governance and control



## Board's Fairness Duty:

Board's oversight ensures policyholder interests are protected and shareholder actions do not compromise fairness or PRE.  
A strong With profit Committee ensures appropriate bonus policy.

## With-Profits Oversight:

Establish a With-Profits Committee with independent experts and the AA. They monitor par fund practices - bonus setting, estate use, expense allocation - to uphold transparency and intergenerational equity.

## Policies and Disclosures:

Maintain clear, IRDAI-compliant Bonus policies and Expense Allocation policies.  
These codify how shareholder vs policyholder interests are balanced and ensure stakeholder confidence through transparency.

# Regulatory Framework & Actuarial Professionalism

# Board Ask

The Board has asked the AA to prepare a comprehensive review report addressing:

Potential impacts on policyholders

Required governance safeguards

Fairness considerations for par business

Strategic Risks arising

Role of the appointed actuary during major transaction

Enhanced communication

During major transactions, the AA's role expands from routine valuation → critical strategic advisory ensuring PH protection, Financial soundness, Governance & Regulatory compliance.



# AA Role: Regulatory & Professional Environment



APS, GN &  
PCS

IRDAI  
Regulations

Insurance Act  
1938  
(Amended)

## Appointed Actuary (Dual Accountability)

### Advisor to the Board

Capital adequacy to meet the new business objectives, Surplus Distribution

Concerns on meeting PRE & Maintaining Solvency

AA is a member of key committees governing the company: WPC, RMC, IC, PMC, Audit Committee

### Independent Reporting to IRDAI (Section 46A of the Act)

Ensuring balance between PI and SH objectives

Threats to the company's solvency to be advised to IRDAI if the Board does not remedy the situation

# AA's Role: Regulatory Framework



Under APS 1 c.3.7, The Appointed Actuary has **responsibility** in respect of all the provisions of the Act, the Rules and the Regulations framed by the IRDAI wherein specific mention has been made of an **actuary carrying out certain duties and obligations**.

IRDAI (AFI Functions of Insurers) Reg, 2024 (evolving Reg 2026)

- AA duties, liability valuation, solvency, With-Profit Committee, Investment mandates, ALM

IRDAI (CGI) Reg, 2024

- Independence of control functions, Participate in Board committees as applicable

IRDAI (Registration, CS, ToS & Amalgamation of Insurers) Reg, 2024

- IRDAI approval for ownership transfer, fit-and-proper norms

IRDAI (PPI, Operations & Allied Matters of Insurers) Reg, 2024

- Ensuring PH interests are adequately protected

IRDAI (Insurance Products) Reg, 2024

- Ensuring the Principles & Product design meets the objectives of the regulation

IRDAI (EoM, including Commission, of Insurers) Reg, 2024

- Advise to maintain the expenses within the overall limits specified, Return Certification

# AA's Role: Actuarial Professionalism



The IAI Actuarial Practice Standards particularly APS 1(AA), APS 2(ALSM), APS 3(FCR), APS 7(MAD), APS 10(IEV), GN 6(PAR), GN 22(STOCH GUAR) & APS 34(GAP) impose clear and non-negotiable professional obligations on the Appointed Actuary and are also applicable in change of ownership. Professional Conduct Standards (PCS) provides guidance on professional conduct to all the members of the profession.

Professional Standards 2.2: Members have a duty to the actuarial profession and clients and must always act honestly and with integrity

Professional Standards 2.3: Clients (including participating PH) are entitled to place absolute confidence in the skill, objectivity, and integrity of the actuary.

Standards for Advice 4.1: Expects the actuary to use best judgment in formulating advice and to have proper regard to all relevant professional and other guidance.

Impartiality 6.1: Ensure that an actuary's professional judgment is not compromised, and is not be seen to be compromised by: any bias, conflict of interest, or the undue influence of others.

Impartiality 6.3 :Mandates that, where actuarial services to a client are or will be influenced by interests other than those of that client, this must be disclosed in the output of actuarial services.

Impartiality 6.7 Financial rewards which are large in relation to the professional time spent, incl. success related or contingency fees, can threaten objectivity and thus contravene the general requirements.

# Evolving Role Of The Appointed Actuary

# Evolving role of the AA during major transaction



## Advise the Board on Governance

**New Management Decision:  
Management Restructuring by  
Acquiring company**

### AA Role

- As per **APS 1** right of access & access to all relevant information.
- Under **APS 34** professional obligation to communicate clearly, maintain independence, and act in the public interest
- If new AA is appointed, provide handover report about open issues, known risks, and pending regulatory submissions.

## Advise the Board on Capital Adequacy

**New Management Decision:  
Improve Capital Efficiency by  
operating with a lower solvency  
ratio**

### AA Role

- Low Solvency ratio implies unable to meet future obligations in adverse situations
- Ensure New Business as per the risk appetite of the company
- Ensure to meet solvency requirements as prescribed under 64VA of the Act
- Evaluate assumptions & reinsurance arrangements
- APS 7 perform a resilience test to test adverse situations

# Evolving role of the AA during major transaction



## Advice on Surplus Distribution

**New Management Decision:  
Improve Shareholder Returns**

### **AA Role**

- Only attained by improving the profitability & keeping adequate reserve.
- AA to ensure fair distribution of inherited estate as per the company's Bonus philosophy which are in lines with GN 6 & AFI\* Reg. 2024 to avoid Conflict of Interest between SH & PH.
- The WPC must review and approve any change in estate treatment.

## Advice the WPC of the Board

**New Management Decision:  
Reassess Expense Allocation  
Methodology**

### **AA Role**

- Higher expense allocation to PAR, will reduce asset share & impact bonus supportability.
- Under **GN 6**, expense allocations must be consistent with PRE, with the level of expenses charged to the PAR fund being subject to AA oversight.
  - AA to review the expense allocation fairness for PAR fund

# Evolving role of the AA during major transaction



## Advice the Investment Committee

### New Management Decision

**Optimise Investment Performance** by making possible changes to investment strategy. Shift towards higher yielding assets would increase bonus variability and breach PRE

### AA Role

- Assess ALM implications, as altering asset liability matching may require additional reserves as per APS 2.
- Review impact on participating fund
- Reassess guarantee reserves if investment guarantees on par products move closer to being in-the-money

The IRDA regulations, Actuarial Practice Standards, Governance framework consisting of several committees and the Appointed actuary role provides adequate safeguards to ensure that the company is run in a financially sound manner and the policyholders' interests are protected during and post change in ownership.

# Thank You!

We welcome any questions & feedback