

INSTITUTE OF ACTUARIES OF INDIA

Subject SA2 - Life Insurance

May 2026 Examination

Introduction:

The indicative solution has been written by the Examiners with the aim of helping candidates. The solutions given are only indicative. It is realized that there could be other points as valid answers and examiners have given credit for any alternative approach or interpretation which they consider to be reasonable.

Solution: 1

- i) As per the fair treatment to customers and Citizens' charter, product design including solicitation and servicing consideration to include:
- All prospects or policyholders shall be treated equitably, honestly and fairly at all stages of their relationship
 - Treating customers fairly shall be an integral part of the corporate culture of all insurers and distribution channels
 - Special attention shall be given to the needs of vulnerable groups
 - products solicited and services offered are designed to meet the needs of prospects or policyholders and are targeted accordingly; and are affordable.
 - prospects or policyholders are provided with clear and updated information and are kept appropriately informed before, during and after sale, including the costs (Premium, charges etc.), risks, and exclusions or limitations.
 - Where prospects or policyholders receive advice, the advice is suitable and takes account of their needs and circumstances.
 - prospects or policyholders are provided with product(s) which suit their requirement and meet their reasonable expectation.
 - prospects or policyholders do not face post-sale barriers imposed by insurers and distribution channels, if any, to change product, submit a claim or make a complaint.

[5]**ii)****a) Proposed strategy**

- Own sales force as distribution channel
- Digital sales as a predominant channel
- Trail commission
- Extensive awareness campaigns

With an objective to have better persistency

The proposed strategy may be different to the existing models in India and hence may carry significant risks in terms of implementation. The potential risks include

Own Sales Force and Digital sales as predominant channel**❖ Risk of higher expenses and/or lower new business volumes**

- While digital is a fast growing and quite adoptive channel, it does not necessarily come at a cheaper cost
- Insurance is a strong function of trust. Given a new insurer, it might take time to build trust in the market which may mean either this is a time taking approach or the insurer has to burn money extensively

- Digital channel requires extensive investment on technology, backend and process to have a seamless journey, an attractive customer interface and significant understanding and use of data/analytics
- The digital journey requires regular benchmarking with changes in market dynamics, new technological changes etc. to ensure it does not become obsolete
- Similar risk exists for own sales force. Own sales force channel takes time to build in terms of hiring, super structure set up branch openings in case there is a physical model approach,
- Own Sales force also has risk of high attrition and lower productivity especially in the early years of set-up

❖ Risk of mis-selling litigation claims and complaints

- Under digital journey, if the product is not explained well or inclusions/exclusions not spelt out clearly, there is risk of customer not understanding the product fully before buying
- Given digital and DIY journey, there are chances that suitability analysis and product advisory may not have been done extensively. This might lead to product chosen by customers which does not meet its needs
- Similar risk exists for own sales force in terms of product not explained correctly to customer by own sales team or wrong promises given to customer by sales team.
- In addition, own sales force typically works on their natural markets (i.e. Known friends and family). This may also mean forced sales or obligatory sales leading to lower persistency

❖ Technology and other Risks

Given digital sales and journey, there are risks pertaining to:

- Personal data security and data mis-use
- Cyber Security
- System Security
- Digital consent

Which requires proper management and controls

Trail Commission

For Trail commission to work, the overall trail commission needs to be higher than upfront commission to allow for persistency and the sales force should be able to see uplift in commission in case of better persistency

- Retention Risk - If the entire market is offering upfront commission, by offering trailing commissions, recruitment and retention of the sales channel may be challenging.
- New Business Volumes Risk - In turn, this may possibly result in low sales productivity leading to lower business volumes or uncertain business volumes than expected and hence not able to reach the desired volumes.

- Profitability and margin risk - In pricing the products, if current experience of the industry is considered for persistency and if actual persistency turns out to be better than allowed for, insurer will have to make regular payments towards trailing commission during the policy term to the sales force which may result in more expenditure and may also reduce the insurer's long-term profitability.
- Liquidity Risk - Trailing commission payments may require regular liquid cash

Extensive Awareness Campaigns

Massive insurance awareness campaigns may enable insurer to reach the customers immediately and may become familiar within the industry; however,

- Risk of Higher expenses

If insurer spends high expenditure for this massive advertisement:

- i. this effort may not necessarily yield the desirable or expected volumes,
 - ii. Possible stunted growth,
 - iii. Leading to higher expenditure than allowed due to reduced volume of business
 - iv. Higher premiums and possible affordability issues to the customers
- Reputational risks – Awareness campaigns may be misleading resulting in reputation risks or non-compliances or regulatory actions
 - Reputational risk - Given that it is 100% foreign insurer may create inhibitions or trust issues in the minds of consumers and hence possibly reduced volumes
 - Competition Risk – There is also a risk that such insurance awareness campaigns benefit the overall insurance industry and hence, the new business is spread to overall industry, leading to volumes not justifying the expenses incurred

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b) Corresponding Safeguards to be built in:

- Multi distribution model rather than relying completely on digital and/or own sales force
- Introduce volumes linked or persistency linked payouts to own sales force to avoid large fixed costs
- Have thin fixed cost model by having centralized operations and avoid branch models
- Strengthen governance framework like regular system audits, internal audits, cyber security
- Appropriate training in solicitation methods and products like need analysis and suitability in product offerings
- Despite trailing commissions, to retain the sales force, the commission payment structure may be designed to attract and retain them like at defined terms say somewhat higher commission to rewards to efforts followed by trailing commission or incentive for better persistency or bonus commissions every 3 or 5 years linked to persistency
- If possible, trailing commission may be introduced in phased manner
- Awareness campaigns to be focused towards company specific products and talk about company performance or achievements

- Awareness Campaigns to be vetted thoroughly and made in simple terms to avoid future complications
- Give new insurer, have differentiated product offerings or customer service support to mark a presence in the market and build trust.
- Rolling out education materials to the target markets at low costs
- Trained staff to perform operations effectively

[5]

iii) Projected Indian Embedded Value (IEV): Considering the insurer has addressed the potential risks associated with the business strategy, the possible reasons could be:

With trailing commissions, massive insurance awareness and digital presence, the insurer may be targeting:

- Insurer is not dependent on any other insurance intermediaries and the entire sales force is from within, giving direct control on the business solicitation, customer reach and services. This eliminates management of external distribution channel, associated costs and possible churning of the business, resulting in reduction in overall costs and retention of business within.
- Engagement of digital platforms enable operational efficiency, direct customer contact, business retention and enables rapid expansion capacity.
- Massive campaigns may position the insurer with other existing insurers within a short time, paving way to access customers
- Due to digital reach, it may be accessible to the customers enabling wider reach and with associated massive advertisements, this may lead to increased customer base and overall resulting in lower operating expenses, quicker policy issuance and customer service.
- Sales force may be incentivized to recognize trail commission as continuous stream of income leading to:
 - Higher business volumes
 - Higher persistency, whereas existing practice of upfront commissions may be leading to churning and lower persistency increasing costs to the insurer.
- Trailing commission shifts the costs and spreads throughout the policy term, instead of incurring high upfront commission leading to low new business strain and better profitability or better product for customer.
- Insurer would have chosen product mix with high profitability and less capital intensive
- Insurer may have to flexibility to include higher profit margins in the pricing due to this new strategy
- Higher business volumes associated with trail commission may result lower per policy expenses and also possible low new business strain due to relative lower acquisition costs. With the engagement of digital platforms, this may further bring down the costs - which may not be the case with the existing insurers
- Digital platform, own sales force and trailing commissions together may be resulting in reduction in mis-selling, improving customer satisfaction, overall reduction in lapses and surrenders and operational costs

- Using digital insurer may be able to underwrite lives in faster and better manner leading to lower claims compare to industry.
- Using data and analytics, insurer may have been able to target the right set of customers and with pan-India reach leading to lower customer acquisition cost.
- Faster issuance – with digital journey, policies may been issued faster leading to better customer experience and hence customer satisfaction leading to trust build up and hence, higher volumes
- Customers may renew regularly and insurer may collect renewal premiums without incurring high costs leading to efficient expense management.
- Given the above, it will also impact the value of new business positively and also the total Embedded Value over time.
- This may also lead to reduced capital requirements at the time of writing the business and for managing the business
- In addition, the assumptions that the new insurer is using may be more optimistic in terms of investment returns.

All the above influence the projected Indian embedded value positively.

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iv) There may be not be an existing product with such features to learn from the experience. Hence, the entire cycle of product design may be subjected to various challenges starting from solicitation to claim settlement.

i. Target market – consumers from tier III and below locations:

- a) Insurer may not have readily available experience in assessing their needs and the products offered may not be suitable.
- b) They may not be conversant with the digital platforms and may not be effective in reaching to customers or may find it difficult to navigate leading to dissatisfaction.
- c) They may prefer physical solicitation over digital marketing

ii. Marketing Material:

- a) Digital marketing may not be effective if jargons or complex products are introduced
- b) They may not be conversant with English or Hindi and may prefer in local languages
- c) They may not reflect the products appropriately leading to incorrect or misleading sales

iii. Digital platform - Proposal form:

- a) Using digital platform may not be user friendly, in particular for unlettered persons and with lower literacy
- b) Insurance awareness may be low and without assistance, consumers may find it difficult to fill leading to rejections
- c) Rule engines developed to process the proposal form may not be suitable to the target market profiles.

iv. Underwriting:

- a) Medical underwriting may be a challenge, given the 5 minutes policy issuance

- b) Simplified underwriting or tele or video based medical may be introduced, but possibility of moral hazard or anti selection
- c) Financial underwriting may be a challenge
- d) Link to medical data base may be challenging, given the target market

v. Premium payment:

- a) As the entire journey is digital, premium payment through cash or other modes like cheque may not be allowed and may limit the options to the consumer.
- b) May limit the consumers reach, in particular, for irregular income or with no bank account
- c) This also means cash is not allowed to buy smaller ticket size policies

vi. Policy issuance:

- a) Reputation risk, if timelines are not adhered to or if data breaches /cyber security issues are frequent
- b) Maintenance of digital policy bond may be challenge, if the consumers are unlettered

vii. Customer services and claims servicing:

- a) Operational efficiency of the digital platform without physical presence in providing services, claims settlement and resolving grievances could be challenging in such locations
- b) Delays in any of these may result in reputational risk and regulatory actions
- c) Frauds may be challenging to investigate and identify

viii. Product design:

- a) Products offered may not be attractive to the target market
- b) Complex products may lead to lapses

ix. Pricing:

- a) Mortality experience may not be readily available with the industry or reinsurers
- b) Lapse experience may not be similar to that observed in tier II and above, due to seasonal incomes or irregular incomes
- c) High costs of maintenance of digital platforms relative to the volumes and low income group customers leading to higher premiums or unviable premiums
- d) Allowance for risk of adverse selection, possible frauds
- e) Possible low premium per policy due to size of the Sum assured proposed of ₹5lakh to ₹15lakh.
- f) Cost of policy acquisition, servicing, and claims management in remote areas, may exceed the premium income, challenging profitability.
- g) Lack of historical data may lead to pricing difficulty leading to inaccurate (too high or too low) premiums.

x. Regulatory:

- a) As such, no regulatory actions or challenges, however, given new insurer and different strategy, there might be a closer monitoring by regulator

- b) Further, there could be possible regulatory actions, if expectation to customers are not met both on issuance or claim settlements times as promised.

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- v) Insurer is offering relatively low sum assured option of ₹5lakh to ₹15lakh at tier – III and below geographical locations with insta issuance and insta claims :

- a) Stop-Loss Reinsurance: Stop Loss Reinsurance is a form of reinsurance that:

1. offers protection to an insurer against aggregate volatility in claim amounts and expected to manage the tail risk in case of high overall claims.
2. only becomes payable when the total claims (aggregate claims) for a specific portfolio exceeds a pre-defined aggregate retention limit (agreed expected claims) over a given period, generally one year.
3. is not based on individual claims
4. does not protect against a single catastrophic claim which is not exceeding the aggregate limit
5. limits the insurer's overall financial liability in case the portfolio is expected to have higher frequency-related losses rather than a single large claim.
6. expected to protect the insurer against adverse claim experiences that exceed expected projections.

[3]

- b) Suitability of Stop-Loss Reinsurance:

- 1) Stop loss may be considered suitable to certain extent due to the proposed product structure:
 - effective tool for maintaining capital adequacy during early years of a product, during rapid growth, or during periods of uncertain pricing.
 - suitable for new business lines where data on expected mortality is not fully credible or launching new products or entering new markets with limited data.
 - manage volatility in the insurer's balance sheet.
 - possibility of high business volumes increase associated with high frequency of claims with relatively low sum assured for a new insurer in new geographical locations.
 - managing its overall claims ratio of the whole portfolio.
- 2) Stop loss reinsurance alone may not:
 - be sufficient to protect from any single event claims, due to localised concentration risks that may get accumulated due to the product offerings
 - offer adequate protection, given the insurer is new to the market and is also exploring new geographies
 - be cost-effective as it is generally expensive, relative to other forms of reinsurance due to the high tail-risk coverage.
- 3) May require high-quality historical claim data to set appropriate overall claims retention limits.

- 4) Stop loss may not lead to benefit in solvency requirement unless explicitly modelled and can be complex to find reserves with and without reinsurance including Sum at risk with and without reinsurance

[5]

c) Other forms of Reinsurance

1) Proportional - Quota share reinsurance risk premium basis

- Sum assured is relatively stable and range bound and if insurer intends to reduce new business strain and also manage claims volatility in the initial years, this may be appropriate in addressing possibly low claim and high frequency portfolio
- May support in reducing capital strain due to ceding commissions.

2) Proportional - Surplus reinsurance:

- May be considered as an alternative to quota share, but with an appropriate retention limit, so that only policies with sum assured above the limit can be reinsured.
- May be relevant, if the insurer is confident about the portfolio that is expected to be built and is willing to keep the risks up to certain limit.
- May not be effective compared to quota share given range bound of sum assured is narrow

3) Catastrophe reinsurance:

- May be considered as the target market is expected to market at specific geographies exposing the single event risks.
- More effective if policies written in a particular geography more prone to catastrophes like coastal areas or hilly terrains or earthquake prone zone or for group insurance

[3]

[55 Marks]

Solution 2:

i) As per Section 49 of the Insurance Act, 1938:

- surplus must be explicitly shown in the valuation balance-sheet submitted to the regulator as per the regulations.
- arisen from an actuarial valuation of the assets and liabilities of the insurer prepared in accordance with regulations.
- adjustments allowed for income-tax deducted at source (TDS) and estimates for tax on the surplus.
- surplus calculation cannot include transfers from reserve funds unless they are accounted for as revenue by the valuation date.

[2]

ii) Observation is that 20% of model points for a new participating product show unsustainable projected illustrated bonus rates.

This could possibly mean that the asset shares cannot support the projected bonuses for such model points.

Possible reasons include:

- a) Insurer might have used different illustrated bonus rates for these model points which are not sustainable.
- b) To attract more volumes, pricing may be aggressive and highly competitive like teaser rates or headline bonus rates for certain combinations
- c) Projected illustrated bonuses may be highly competitive to attract customers, but such rates may not be supported by the expected asset returns, particularly in certain age/term combinations
- d) Inconsistent assumptions used in determining premium rates versus that being used in evaluating the asset share and the corresponding bonus earning philosophy. This could be particularly true if
 - asset share do not allow for lapse profits but premium rate generation do or
 - asset share allows for any cost of guarantee but the premium generation do not
- e) Different smoothing philosophy considered during premium rate generation versus evaluating the asset share resulting in differences in the bonuses
- f) If there is criteria of sum assured to be minimum of return of premiums, then particularly for higher age groups, the premium rates may not sustain the same bonus rates for all model points.
- g) Similarly, if there are any criteria of minimum return at maturity at illustrated investment return, then such criteria may be unsustainable for smaller policy terms and/or higher ages leading to bonus being unsustainable.
- h) Errors in the calculating the bonus earning capacity like model error, parameter error, calculation error, coding error or human error
- i) If policies are offered to higher age groups, this may lead to a situation where higher mortality experience may reduce the asset share and hence the resulting portfolio may not support bonuses illustrated.
- j) If short duration policies are being issued, this may not enough time to build the portfolio to a sustainable scale possibly resulting in unsustainable bonuses illustrated.
- k) If the proposed initial sum assured guarantee is very high, the overall portfolio may have limited flexibility in investing high yielding assets, hence reduced investment income to support the bonuses.
- l) If high sum assured along with higher age groups and short during in any combination, may reduce the asset share building and hence lower ability to earn illustrated bonuses.

[6]**iii) The following might be the considerations for launching the product:**

- a) Competitive pressure, in case some other competitor is offering similar bonus rates or yields at the illustrated investment returns. i.e. Insurer may be matching with the product design available in the market and launched due to heavy competition in pricing
- b) Business strategy to increase new business volumes or create a disruption in the market
- c) Similarly, in case any new channel is being set up (say new agency set up or bank set up) is being planned, the product might have been created to give a differentiated strategy for that channel

- d) Could have designed it exclusively for some channel or only for limited sales to create a buzz in the market
- e) There might be expectations that such increased volumes may be expected to low the per policy or fixed expenses
- f) Insurer may have sufficient capital buffer to smooth and fund the bonuses.
- g) Or, there might be existing undistributed surplus in par fund which the company might of thinking of utilizing to support the bonus under this product
- h) Insurer may not be expecting more business from the 20%, as per the current market trends, hence would have felt appropriate to launch without any change.
- i) The 80% portion of the business may have higher margins and may compensate the gap in the other 20% of the business.
- j) The company may have put internal restrictions on sale of such unsustainable model points, by having very low weightage or commission on such product combination sale

[4]

- iv) Insurer, post launch has 70% of the business from the unsustainable bonus possibly impacting profitability and also solvency, if this a larger business segment. Given this, possible considerations to manage include:

1. New Business:

- a) If this is not as per the expectation of the insurer at the time of launch of the product, then to immediately to arrest further accumulation of unsustainable business may be limited from such business:
 - reprice the product for such model points to make it sustainable, subject to the possibility of making such modifications under file and use procedure.
 - changing product design or features such as restrictions on high age, smaller premiums, or lower premium payment terms or policy terms to ensure bonus supportability
 - If repricing is not possible as above, then possibly withdraw the product from marketing.
- b) Alternatively, disincentivise sales by offering reduced commission levels for the unsustainable business
- c) Limit the business from the unsustainable bonus model points either at the solicitation or at the underwriting, if the insurer is still in a position to manage the portfolio.

2. In-force Business:

- a) If insurer has taken a strategic decision to bring this product and it has the ability to support such business to build volumes, insurer may infuse capital to fund such unsustainable bonus rates.
- b) If allowed, utilize any existing undistributed surplus in par fund to support the bonus under this product
- c) If other model points support, possible cross-subsidy with the rest model points to manage overall bonus rates. i.e. use smoothing to manage the bonus declarations
- d) Manage expenses and commissions and savings, if any, may be used to support the bonus rates. However, this may not be a foolproof approach as any expense or commission savings should lead to increase in bonus rates and cannot compensate for incorrect pricing.

- e) In case, the illustrated bonus approach has a different prudent methodology of asset share calculation different to the way revenue account surplus is generated, make use of such difference to support bonus such as
 - Introducing lapse/surrender in the asset share calculations
 - Bring in surplus from paid up profits in the asset share calculations
 - Introduce benefit of carry forward tax losses in asset shares
 - Remove cost of guarantee from asset share calculations
- f) Change in investment return assumption philosophy for bonus determination calculation.
- g) In case the insurer has equity exposure and has unrealized gains in the fund which is not considered in the bonus determination, insurer may use the same to support the bonus.
 - subject to with-profit committee approval and ensuring policyholder reasonable expectations and treating customers fairly as well as consistent to methodology of other in-force products
- h) Revisit the bonus philosophy by shifting the bonus declaration methods like reduced reversionary bonuses and higher terminal bonus, so that declaration is delayed to maturity or death giving more flexibility to manage the portfolio.
- i) In the worst case, the insurer may go back to regulator for approval for reduce bonus rate and communicate the same to customers. However, this will lead to a lot of bad publicity, legal suits and may even any regulatory penalties/impositions

[8]**[20 Marks]****Solution 3:**

- i) Insurer should have a well-documented policy approved by its Board on an annual basis for Expenses of Management and must include:
 - a) Measures to bring cost effectiveness in the conduct of business and reduction of the expenses of management on an annual basis;
 - b) Manner of transfer of benefits, arising from reduction of expenses and/or from the directly sourced business to the policyholders by way of reduction in the premium;
 - c) Manner in which the compliance with computation of additional allowance;
 - d) Manner of allocation and apportionment of expenses of management amongst various business segments including the following parameters, at the minimum:
 - Expenses which shall be allocated;
 - Basis of allocation;
 - Expenses which shall be apportioned;
 - Basis of such apportionment;
 - e) Manner in which the compliance with the policy shall be ensured

[4]

- ii) Business strategy changes to reduce expenses of management ratio and manage the business efficiently:

- Strategy to manage high commission
- Strategy to reduce expenses other than commission

Bring Expenses efficiency

- Identify redundancy in expenses like overstaff or rationalize underwriting and eliminate
- Identify areas or functions/roles that can be outsourced, so that expense outgo can be reduced.
- Bring-in operational efficiency so that the existing channels also can use digital platforms for completion of solicitation, documentation and acceptance through the platform to eliminate human efforts at every stage and eliminate redundant costs
- Group products can be tailor made with low service needs to reduce operating needs.
- Make sales channels more variable expenses linked to new business volumes rather than fixed sales structure to manage fixed expenses

Manage High Commissions

- Change in the distribution strategy to sell directly to customers to eliminate commissions completely, if commissions costs are hurting, like:
 - Engaging through digital solicitation
 - Introducing direct sales
- Still there will be expenses to train the direct sales force and investing the digital platforms. Hence insurer to conduct cost-benefit analysis to consider the long term impact, rather than looking from the immediate impacts.
- With the existing distribution channels, instead of sales based commission, it can be based on quality parameters like persistency of single premium products and encourage solicitation with longer term retention by offering bonus commission at later periods.
- Introduce claw-backs for surrenders not just in the first year, but in the subsequent years also -this being the single premium and to reduce the impact of sales and churning for higher commissions.
- Heavy dependency on only single premium may result in concentration risk and hence may expand product with regular premium feature so that the regular flow of premium may help in managing the expenses and also built a balanced portfolio
- Over time, as renewal books grows, it help in managing expenses as the expenses including commission are lower under renewal premiums compared to first year premium

[6]

iii) Challenges in launch of Unit linked products within two weeks:

Product development and pricing Challenges

- a) Products launch is subject to use and file procedure, wherein insurer is required to comply with various requirements:
- b) Product management committee's approval is required

- c) Capital required, risk appetite, competitive pressures, regulatory expectation, policyholder expectations to be considered
- d) Developing the product structure which is heavily influenced by the designing appropriate charging structure like premium allocation charges, mortality charges, fund management charges, and surrender charge requires comprehensive modelling and test the sufficiency of charges by projecting the NAV at various time periods.
- e) Developing manuals for underwriting, surrenders, claims, computation of daily NAVs and training the staff
- f) Assessing the need for reinsurance, if the life cover offered under the product is very high

System set up and operational challenges

- a) ULIPs are heavily driven by system requirements, as the segregated accounts of policyholders are to be maintained
- b) ULIPs need systems for various activities from day one like:
 - i. Premium redirection
 - ii. Switching of funds
 - iii. Levying of charges
 - iv. Built in system to compute the monthly mortality charge depending on the type of death benefit offered like higher of fund value or sum assured.
 - v. Partial withdrawals
 - vi. Top up premium and tracking mortality cover that each top-up carries.
 - vii. Calculation of surrender charges
 - viii. Calculation of reduction in yield
 - ix. Offering freelook option
 - x. Generating customized benefit illustration
 - xi. Generating customized customer information sheet
- c) Further, another big challenge which comes is setting up of lock-in period and discontinuance fund its separate charges and revival of any policy out of discontinue fund which requires reversal of charges
- d) Sophisticated IT system requirements requires extensive timing to develop, test and implement like:
 - i. Daily unit pricing and NAV computation
 - ii. levying charges directly from the premium received like premium allocation charge
 - iii. deducting charges from the fund values in the defined frequency like FMC on a daily basis others on a monthly basis
 - iv. Reduction in yield compliance.
- e) Technical failures can be costly:
 - i. like unit pricing error resulting in less or more payments to policyholders
 - ii. incorrect levy of charges

- iii. regulatory intervention may result in refund of monies, if it is incorrect
- iv. involves reputation risk
- f) System to generate annual statement to policyholders giving unit details, NAV, charges levied, details about the funds and their risk profile as per the requirements
- g) System needs to set up to validate the policy at maturity meets the criteria of RIY and 90% of premiums for every maturing policy.
- h) System to record and maintain the past history of performance of various fund offered at different time periods along with the risk profile

Investment Accounting and Actuarial Set up

- a) Developing appropriate accounting framework to value unit and non-unit reserves
- b) Set up of product in a actuarial valuation system to value the unit and non-unit reserves including reinsurance system set up as well as set up for calculation of actuarial profits under unit-linked business
- c) ULIPs need to offer various distinct fund categories and setting up such funds, their investment strategies along with associated risk management framework which requires time along with maintenance of SFIN number
- d) Funds offered under ULIPs may require active fund management strategy to reflect the underlying expectations created with the fund offerings and need resources with such expertise.

Disclosure Training and reporting challenges

- a) Specific disclosure requirements and advertisement norms need to be complied with before the launch.
- b) Regulatory reporting requirements and public disclosure requirements need to be set up
- c) Unit linked product are complex to understand and take time for the sales force to train. If the current sales team is not conversant, it needs considerable time and effort in training the sales team, as scope for mis-selling is high in ULIPs

Readiness and Approvals challenges

- a) While the product can be launched using Use and File procedure, it still requires all product management committee approval along with all relevant documents including File and use and its related documents to be approved internally
- b) Materials like benefit illustrations, CIS, sales literature, display of daily NAV needs approval from the product management committee along with the entire product structure.
- c) CRO to assess independently the risks associated with the finalized product structure along with the risk appetite to present to the RMC

Overall, Entire systems, processes, staff readiness, capital availability are required to be ready for all day-to-day operations, reserving, operational, claims handling, complaints handling and needs to be certified for launch

[15]
[25 Marks]
