Institute of Actuaries of India
Statutory body established under an Act of Parliament

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December 29, 2021

To
All members and stakeholders

Subject: Invitation of Comments on Exposure Draft on Actuarial Practice Standard 21 (APS 21) on Appointed Actuary and General insurance, Health insurance or Reinsurance business

Institute is seeking comments on Exposure Draft on Actuarial Practice Standard 21 (APS 21) on Appointed Actuary and General insurance, Health insurance or Reinsurance business as per para 4.4 of Principles and Procedure for issuance of Guidance Note/ Practice Standard.

This Actuarial Practice Standard (APS) is applicable to an Appointed Actuary, appointed in accordance with the provisions contained under Insurance Regulatory and Development Authority of India (Appointed Actuary) Regulations, 2017 (hereinafter referred to as AA Regulations) and amendments thereto, by an Insurer carrying on the business of General Insurance or Reinsurer or Health Insurance (as defined under Section 2(6B) and 2(6C) of the Insurance Act 1938), and shall constitute Professional Standard within the meaning of Regulation 2(A)(vi) of the AA Regulations. This is also applicable to all other actuaries, who as a matter of course, get associated with a general insurer or reinsurer or health insurer and have to relate directly or indirectly to the Appointed Actuary of such a general insurer or reinsurer or health insurer.

Important aspects in the draft APS 21

The Draft APS 21 deals with the following:-

1. The duties and obligations of an Appointed Actuary
2. Considerations affecting the position of Appointed Actuary
3. Extent of the Appointed Actuary's responsibility
4. Premium rates and policy conditions for new products and existing products on Sale
5. Capital Requirements
6. Actuarial investigations
7. Premium and Claim Reserving
8. Guidance to Actuaries who are Directors, Employees or Consultants of a General Insurance Company.

The same is annexed as annexure 1

Request for Comments
The IAI appreciates comments and suggestions on all areas of this proposed Exposure draft within 30 days i.e by 30th January 2022. Rationale and recommended wording for any suggested changes would be helpful and requested to be provided in format as per Annexure 2 and to be submitted to Mr. Yogesh Pandit, Chief Manager, Compliance at yogesh@actuariesindia.org

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Annexure 1

INSTITUTE OF ACTUARIES OF INDIA

ACTUARIAL PRACTICE STANDARD (APS) 21

APPOINTED ACTUARY AND GENERAL INSURANCE, HEALTH INSURANCE OR REINSURANCE BUSINESS

Classification: Practice Standard

Legislation or Authority: Section 19(2) (i) of the Actuaries Act 2006

Authority: The Council of the Institute of Actuaries of India

Application

This Actuarial Practice Standard (APS) is applicable to an Appointed Actuary, appointed in accordance with the provisions contained under Insurance Regulatory and Development Authority of India (Appointed Actuary) Regulations, 2017 (hereinafter referred to as AA Regulations) and amendments thereto, by an Insurer carrying on the business of General Insurance or Reinsurer or Health Insurance (as defined under Section 2(6B) and 2(6C) of the Insurance Act 1938), and shall constitute Professional Standard within the meaning of Regulation 2(A)(vi) of the AA Regulations. This is also applicable to all other actuaries, who as a matter of course, get associated with a general insurer or reinsurer or health insurer and have to relate directly or indirectly to the Appointed Actuary of such a general insurer or reinsurer or health insurer.

Status

APS 21 Version 1.0 – Remained inforce till 31st December 2011
APS 21 Version 1.01 – Remained inforce between 01st January 2012 to XXX
APS 21 Version 2.0 – Approved by Council in its meeting dated XXX. This version of APSI 21 (Version 2.0) comes into effect from XXX

A: The Appointed Actuary

1. Legal Framework: The following regulations and amendments thereto from time to time issued under the Insurance Regulatory and Development Authority Act, 1999 define the role of the Appointed Actuary in respect of General Insurance or Reinsurer and Health Insurance companies:

1.1 Insurance Regulatory and Development Authority of India (Registration of Indian Insurance Companies) (Seventh Amendment) Regulations, 2016 (hereinafter referred to as Registration of Indian Insurance Companies Regulations) and amendments thereto;

1.2 Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2016 (hereinafter referred to as Solvency Regulations) and amendments thereto;

1.3 Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016 (hereinafter referred to as Investment Regulations) as amendments thereto;

1.4 The Insurance Regularity and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (hereinafter referred to as Accounting Regulations) and amendments thereto;

1.5 Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 (hereinafter referred to as Reinsurance Regulations) and amendments thereto;

1.6 Section 13(6) of the Act requires the Appointed Actuary to perform an annual investigation into the financial condition of certain sub classes of general insurance business unless exempted by the Authority in terms of proviso thereto.

2 Duties and Obligations

2.1 The duties and obligations of an Appointed Actuary, who is appointed under the AA Regulations, shall include ensuring the Solvency of the Insurance Company to which he is so appointed.

2.2 An Appointed Actuary shall comply with the provisions of the section 64 VA of the Insurance Act. 1938 (hereinafter referred to as Act) in regard to maintenance of required control level of solvency margin in the manner required under the said section and draw the attention of management of the insurer to any matter on which he or she thinks that action is required to be taken by the insurer to avoid any contravention of the Act or Prejudice to the interests of policyholders.

2.3 The essence of the profession lies in upholding its standards, technical and ethical, in the public interest. As a member of the Institute of Actuaries of India (IAI), every Actuary has the responsibility to maintain the highest professional standard envisaged by the IAI. Any Appointed Actuary, who is uncertain as to the proper course of action to adopt in relation to a potentially significant matter, is strongly advised to seek the help and the advice from the IAI.

3 Considerations affecting the position of Appointed Actuary

3.1 The role of the Appointed Actuary constitutes an ‘Actuary-in-practice’ and in order to practice as Appointed Actuary, an actuary must at all times while in practice hold a Certificate of Practice (CoP) issued by the IAI.

3.2 Any actuary, before accepting the appointment as an Appointed Actuary, must consider most carefully in the light of individual knowledge and work, whether acceptance would be in line with proper professional behavior and standards. No actuary should act as Appointed Actuary if he / she does not have the adequate knowledge relevant to the assignment concerned. There may be exceptional circumstances where this need not apply, but in such cases the Appointed Actuary is to have recourse on a professional and formal basis to an actuary who has such knowledge and expertise and who himself / herself holds a CoP issued by the IAI and such an arrangement must be approved by the IAI as well as IRDAI.

3.3 An Actuary before accepting the appointment as an Appointed Actuary must satisfy himself/herself that all stipulations as specified under regulation 3(B) of AA Regulations are complied with and will continue to be complied with as long as he / she continues as Appointed Actuary.

3.4 The Appointed Actuary must have a right of access to the Board of Directors in general and the Principal Officer in particular and should have access to all relevant information, books and records so that the full range of his duties and obligations can be carried out satisfactorily. This must be made explicit in the appointment letter. Where there is a group structure, the Appointed Actuary should bear in mind any possible implications on his / her right to information and ensure a right of direct access exists to the relevant decision making bodies and / or persons.

3.5 Where an actuary has a financial interest in an Insurance Company or a Group of Companies which by their nature and size are or become such that a material conflict of interest would in the normal course of events, arise or seem to arise (or where a material conflict arises from some other reasons), the actuary must ensure that their professional judgement is not compromised, and cannot reasonably be seen to be compromised, by bias, conflict of interest, or the undue influence of others.

3.6 The Appointed Actuary shall follow the regulations of the Authority in regard to his note as such and shall be guided by Guidance Note/Actuarial Practice Standard and other Guidance Notes/Actuarial Practice Standards specifically issued, if any, in respect of the provisions of the regulations.

4 Extent of the Appointed Actuary's responsibility

4.1 Every actuary has a responsibility to the profession and his / her responsibilities to a client must be consistent with this. An Appointed Actuary is however also in a special position as he / she has statutory responsibilities to the IRDAI. If these two aspects materially conflict, the Appointed Actuary has to advise the company as soon as he / she feels that the company has initiated any action – or a situation has arisen outside the control of the company – that materially threatens its solvency. If the company does not remedy the situation, the Appointed Actuary is required to advise the IRDAI – but not before informing the company first. This duty applies, notwithstanding any provision or provisions contained in the code of conduct of the IAI which might seem to restrict or inhibit discharge of this responsibility.

4.2 The Appointed Actuary must ensure that his / her conduct and reach and depth of his / her functionalities enable him / her to discharge his / her duties and obligations in letter and script in accordance with regulation (9) of AA Regulations.

5 The duties of the Appointed Actuary

5.1 The Appointed Actuary shall ensure that the premium rates of the insurance products are fair and that the actuarial principles have been used in the determination of liabilities, i.e. calculation of reserves for incurred but not reported claims (IBNR) and other reserves (including incurred but not enough reported claims (IBNER) and premium deficiency reserve (PDR) etc., complying with relevant regulations.

5.2 For the purposes of the regulation the Appointed Actuary must ensure that all the requisite records have been made available to him / her relevant to perform his duties and he / she must make sure that the company understands the necessity of this information.

5.3 The Appointed Actuary shall also perform those duties as may be called upon by the Authority from time to time.

5.4 The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company, including but not limited to the following;

> 5.4.1 Rendering actuarial advice to the management of the insurer, in particular in the areas of product design and pricing, insurance contract wording, investments and reinsurance;
> 5.4.2 Ensuring that overall pricing policy of the insurer is in line with the overall underwriting and claims management policy of the insurer;
> 5.4.3 Ensuring adequacy of reinsurance arrangements;
> 5.4.4 Contributing to the effective implementation of the risk management system
> 5.4.5 The current and likely future level of expenses including compliance with limitation of expenses provision in the Act;
> 5.4.6 Investment policy and its implications on Assets matching Liabilities.

6 Premium rates and policy conditions for new products and existing products on Sale

6.1 The Appointed Actuary must satisfy himself that premium rates for business (new, renewal etc. as applicable) are fair, i.e., are neither excessive nor inadequate, that is to say sufficient in due course to enable the company to meet its liabilities both in tariff and non-tariff classes of business. If in future, such business is likely to be written on inadequate terms, it will require support from the free assets in the Shareholders' fund. The Appointed Actuary should consider the company's ability to continue to write such business in the context of how much capital is required and should inform the Board of Directors accordingly.

6.2 Whether the premium rates are appropriate is a probability statement and hence the Appointed Actuary must exercise his / her judgment. This judgment needs to be based on the use of sound techniques and the Appointed Actuary should also consider, among others.

6.2.1 types of products and product mix
6.2.2 claims costs including claims handling expenses
6.2.3 the adequacy of the provision for expenses and acquisition costs
6.2.4 the impact of future inflation
6.2.5 Implication of any legislative amendments, which may not have been fully, reflected in the claims data.

6.3 Premium Rate Components - The Appointed Actuary should also analyze the insurer's own claims experience and, where possible, compare it with the industry experience. The analysis should consider both claims frequency and claim size. The Appointed Actuary should consider, as far as is practical, the extent to which the insurer's and industry's / reinsurers' claims experience is influenced by:
6.3.1 Data Quality
6.3.2 Claims Management Policies
6.3.3 Portfolio Mix
6.3.4 Marketing and Underwriting Strategies
6.3.5 Case Reserving
6.3.6 Infrequent large losses; and random variations

7 Capital Requirements

7.1 One of the important factors that will affect the financial position of a insurance company is its marketing strategy and the projected volume of business likely to be generated. The Appointed Actuary should form an assessment as to whether the projected volumes are realistic and advise the Board of Directors as to the capital requirements associated with writing the required volume of business.

7.2 The Appointed Actuary should be satisfied that for a new product or a new area of operations or change in underwriting policies, the company will be able to meet the necessary reserves and solvency margin requirements from capital within the Shareholders' funds.

7.3 The Appointed Actuary should as far as possible assess the capital requirements.

8 Actuarial investigations

8.1 Section 13(6) of the Act requires the Appointed Actuary to perform an annual investigation into the financial condition of certain sub classes of general insurance business unless exempted by the Authority in terms of the proviso thereto.

8.2 If the Appointed Actuary desires to assess the value of any given liabilities using discounting methods, consideration must be given to the liabilities, the assets and the relationship between the two and the Appointed Actuary should be satisfied as to the resilience of the financial position of the company in all reasonably foreseeable circumstances that might affect the position.

8.3 Appointed Actuary should be satisfied as far as possible that the data are accurate, reliable and consistent. If there are any doubts on the data, the Appointed Actuary is expected to seek assurance from the Company as to their accuracy and completeness. The Appointed Actuary should also be satisfied that the Company is correctly adopting appropriate statistical formats and procedures and that adequate documentation exists in respect of them.

8.4 The Appointed Actuary should consider sensitivity of key assumptions / parameters used for assessing the reserves and allow for margin for adverse deviation, as applicable, to reflect the degree of confidence the Appointed Actuary has in the expected level of the parameter and his / her perception about the extent of such deviation. Further, the margin for adverse deviation should be such that its addition to the expected level results in an increase in the reserve.

8.5 The value placed on the liabilities must make appropriate provision for claims expenses.

8.6 The Appointed Actuary must judge and decide whether the investment policy pursued by the Company is appropriate having regard to the nature and term of the liabilities. If it is not, the company must be informed of any constraints on investment policy needed and additional reserves, which may need to be set up.

8.7 The Appointed Actuary must review the reinsurance arrangements from time to time and consider alternative approaches with regard to retentions and type(s) of reinsurance arrangements. This would require the Actuary to develop necessary statistics and statistical analyses for studying actual experience and recommend possible alternatives where considered necessary.

8.8 Premium and Claim Reserving

8.8.1 The Unearned Premium Reserve [UPR] - The UPR methodology should be in compliance with the extant regulations. Additionally, the Appointed Actuary should have regard to the incidence of the risk over the policy term while estimating the UPR. Thus, if the UPR is computed by using the time apportionment or n/365 method, which assumes uniform incidence of risk over the policy period, necessary adjustments to the value calculated should be made for the uneven incidence of risk. The Appointed Actuary should state the method used in the computation and the underlying assumptions.

8.8.2 Unexpired Risks Reserves [URR] - The Appointed Actuary should judge the adequacy of the UPR to cover the likely cost of the claims, including claim handling and administrative expenses, allowing for possible impact of inflation expected to be incurred during the period of unexpired risk. If the UPR is not assessed to be adequate for the future outgo, additional reserves have to be set up over and above UPR and the total amount is to be included as URR.

8.8.3 Claims Reserves – The Claims reserves comprise of:

1. Reported claims where estimates of loss have been determined.
2. Reopened claims.
3. Reported claims where the estimate of loss has not been fully assessed - the reserve is referred to as Incurred But Not Enough Reported Claims (IBNER Claims Reserve).
4. Incurred but not reported claims (IBNR Claims)

For lines of business, where the Appointed Actuary is of the view that the statistical method is most appropriate for the estimation of Reported claims, the Appointed Actuary may use appropriate statistical methods of claims reserving instead of following case by case method. In such cases, the claims outstanding reserve shall be certified by Appointed Actuary. The Actuary may have to certify reported claims reserves in respect of overseas and inward reinsurance business and the overall reserves are required to be disclosed in the Annual Accounts. The Appointed Actuary is required to certify the adequacy of the IBNR and IBNER claims reserves in the solvency statement both for direct and inward reinsurance business. In accordance with Accounting Regulations a certificate from an Appointed Actuary must be attached as to the fairness of liability claims made in respect of contracts where the claim payment period exceeds four years, which shall be recognized on an actuarial basis, and the assumptions disclosed by way of notes to the accounts.

8.8.4 The Actuary should ensure that appropriate and relevant actuarial methods are used in determination of claim reserves, whether by statute or not.. The actuary need to mention the methodology adopted giving a brief description and the underlying assumptions made.

8.9 Expenses including Acquisition Costs - The Appointed Actuary, if he is called upon to do so, must

8.9.1 Analyze the insurer's expenses according to fixed and variable expenses and type of Expense.

8.9.2 Examine whether or not adequate provision is made in respect of the expenses in premium rating for each product line.

8.9.3 Alert the insurer if compliance with the expense limitation provision is unlikely.

8.9.4 Alert the insurer about the occurrence of cross subsidies, if any between product lines in respect of expenses except to the extent required to meet rural and social insurance obligation.

9 Written reports

9.1 The Appointed Actuary must report / inform in writing to the Board of Directors of the Company on the results and implications of any valuation carried out for statutory purposes before any report is made to the Authority. In any report to the Authority, the Appointed Actuary should use his / her best endeavors to ensure that.

9.1.1 The financial results are presented in a way that demonstrates the true underlying position of the company, and

9.1.2 These results are not distorted by any undisclosed valuation methods or Assumptions.

10 The Appointed Actuary or any other Actuary to whom this Actuarial Practice Standard applies shall specifically confirm in his / her written report that he / she has complied with this Actuarial Practice Standard and other applicable Guidance Notes/Actuarial Practice Standards. If he/she is not in a position to confirm his / her compliance to the Actuarial Practice Standard he / she shall explain the reasons for the same in the Report.

B: Guidance to Actuaries who are Directors, Employees or Consultants of a General Insurance Company.

1. An actuary should make suitable enquiries and satisfy himself / herself about the affairs of a Company before and after joining its Board, as the public and the other Directors will assume that he / she is satisfied with the way the Company is being run.

2. Where the Appointed Actuary is also a member of the Board of Directors or the senior management, he / she needs to take all reasonable steps to ensure that other members of the Board of Directors or other senior managers know the capacity in which he / she is expressing any views.

3. Any other Actuary who is on the Board of Directors owes a special responsibility to the Appointed Actuary and should take care to respect the status of the Appointed Actuary.

4. The requirement of paragraph (3) above also applies to any other Actuary holding a managerial or other position of authority in the Company.

5. As regards guidance to actuaries - external to a particular company - who are asked either by the company or someone with a legitimate interest in it to comment on either a valuation carried out by the Appointed Actuary or a report he / she has made to the company, the guidance for such actuaries is that, although there is room for difference of opinion with regard to actuarial advice and judgment, they should always take care to respect the status of the Appointed Actuary. This does not though stop them from making properly reasoned comments on the work of the Appointed Actuary, if need be.

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Appendix A

The Appointed Actuary shall have regard to below Practical considerations / best practices while performing his duties and obligations:

- Periodical monitoring of Business projections against Actual to ascertain its impact on claims reserves, Solvency and product pricing. If the Actuals are materially different than expected, consideration shall be made for business re-projections.
- The underlying drivers for materially adverse development in Actual Vs Expected claims experience
- Where an actuary has a financial interest in an Insurance Company or a Group of Companies which by their nature and size are or become such that a material conflict of interest would in the normal course of events, arise or seem to arise (or where a material conflict arises from some other reasons), the Actuary shall consider undertaking an independent Peer Review of his valuation work. An independent peer review can form part of the process for ensuring the transparency and objectivity of the work undertaken by the Appointed Actuary and can form an appropriate component of conflict management policy.
- Trending/ time series graphs on all important matrices and understanding the movements, e.g. Solvency, IBNR utilization, AY, UW, FY trends, severity and frequency trends, large losses, ALM (DMT gap)
- Variation Analysis of key/material financial metrics periodically so as to understand the various components of change in reserves, new business, change in assumptions, experience etc.
- Attempts to create more transparency around UW loss ratios, Financial Loss ratios and AY loss ratios while understanding trends within these carefully
- Reinsurance - understanding of clean cut treaties, cost of reinsurance, Catastrophe coverage and associated limits and their alignment with growth in business/ expected exposures.

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ANNEXURE 2

FORMAT FOR SUGGESTIONS ON
DRAFT – APS 21

<table>
<tr><td colspan="3">Change suggested by</td><td colspan="2"></td></tr>
<tr><td colspan="3">Date</td><td colspan="2"></td></tr>
<tr><td>Note</td><td colspan="4">❖ It is suggested that ONE Page may be used for one change.
❖ This will enable us to group all the suggestions and take a decision on the changes suggested</td></tr>
<tr><td>Page No</td><td>Paragraph</td><td>Sub-paragraph</td><td>Suggested change</td><td>Reasons for change</td></tr>
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