



Institute of Actuaries of India

Case Study – Capital Injection

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21st Indian Fellowship Seminar

*Indian Actuarial Profession
Serving the Cause of Public Interest*

Agenda

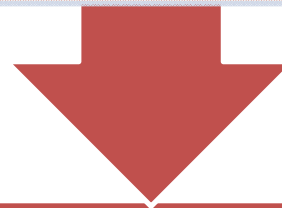
- Introduction
- Duties and Responsibilities of Appointed Actuary
- Why capital is required?
- Ways to increase free assets
- The way forward

INTRODUCTION

Company structure

UK Life Insurance Company

Has all decision making powers



Indian Life Insurance Company

Local board is “purely a dressing tool”

The problem

AA:

Requires capital to retain company's competitive free asset position

Local Board:

Notes and agrees with AA; but states UK company is decision maker

CEO of UK company:

Mentions that he will decide what capital to inject; solvency will not be impacted; and he will decide the amount of capital to be injected and its timing

WHAT SHOULD THE AA DO?

DUTIES AND RESPONSIBILITIES OF APPOINTED ACTUARY

Duties and responsibilities of AA

- IRDA (Appointed Actuary) Regulations, 2000
- APS 1 by IAI
- APS 2 by IAI

IRDA (Appointed Actuary) Regulations, 2000



Section 7:

Empowers the AA to

- to **attend all meetings** of the management including the directors of the insurer;
- To **speak and discuss** on any matter, at such meeting:-
 - that relates to the **actuarial advice** given to the directors;
 - that may affect the **solvency** of the insurer;
 - that may affect the ability of the insurer to meet the **reasonable expectations of policyholders**; or
 - on which actuarial advice is necessary

Section 8:

Lists the duties of AA, which include:

- Ensure solvency at all times
- Act in the interests of the insurance industry and the policyholders
- Draw the attention of management of the insurer, to any matter on which action is required to be taken by the insurer

APS1: AA and Life Insurance Business

Section 2: Nature and responsibility

- Central to the financial soundness of the life insurance company
- Should ensure that the business of the company is conducted on sound financial lines
- Has regard to Policyholders' Reasonable Expectations
- Uphold standards, technical and ethical, in the public interest

Section 3: Considerations affecting the position of AA

- AA must have right of access to the Board of Directors and Principal Officer
- Where there is a **group structure**, AA should ensure a right of direct access to relevant decision making bodies

Section 4: Extent of AA's responsibility

- Responsibility to the profession
- Responsibility to the client (company)
- Statutory responsibilities to the IRDA
- In case of conflict advise the company
- If the company does not remedy the situation, inform IRDA – but not before informing the company.
- AA has a continuing responsibility to look after PRE

APS1: AA and Life Insurance Business

Section 5: Duties of AA

- Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company, in particular the following:
 - the extent of company's free assets

Section 6: New products and existing products on sale

- If the contract is likely to give rise to significant new business strain then the Appointed Actuary must be satisfied that the company can set up the necessary reserves. If need be he/she should indicate limits on the volume of sales that may prudently be accepted and/or how much capital is required and gain reassurance from the Board of Directors that the required level of capital will be available and not earmarked for other purposes.

Section 7: Capital Requirements

- AA 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
- AA should be satisfied that, if new business strain is likely to be a problem, the company will be able to meet the necessary reserves and solvency margin requirements from capital within the shareholders funds

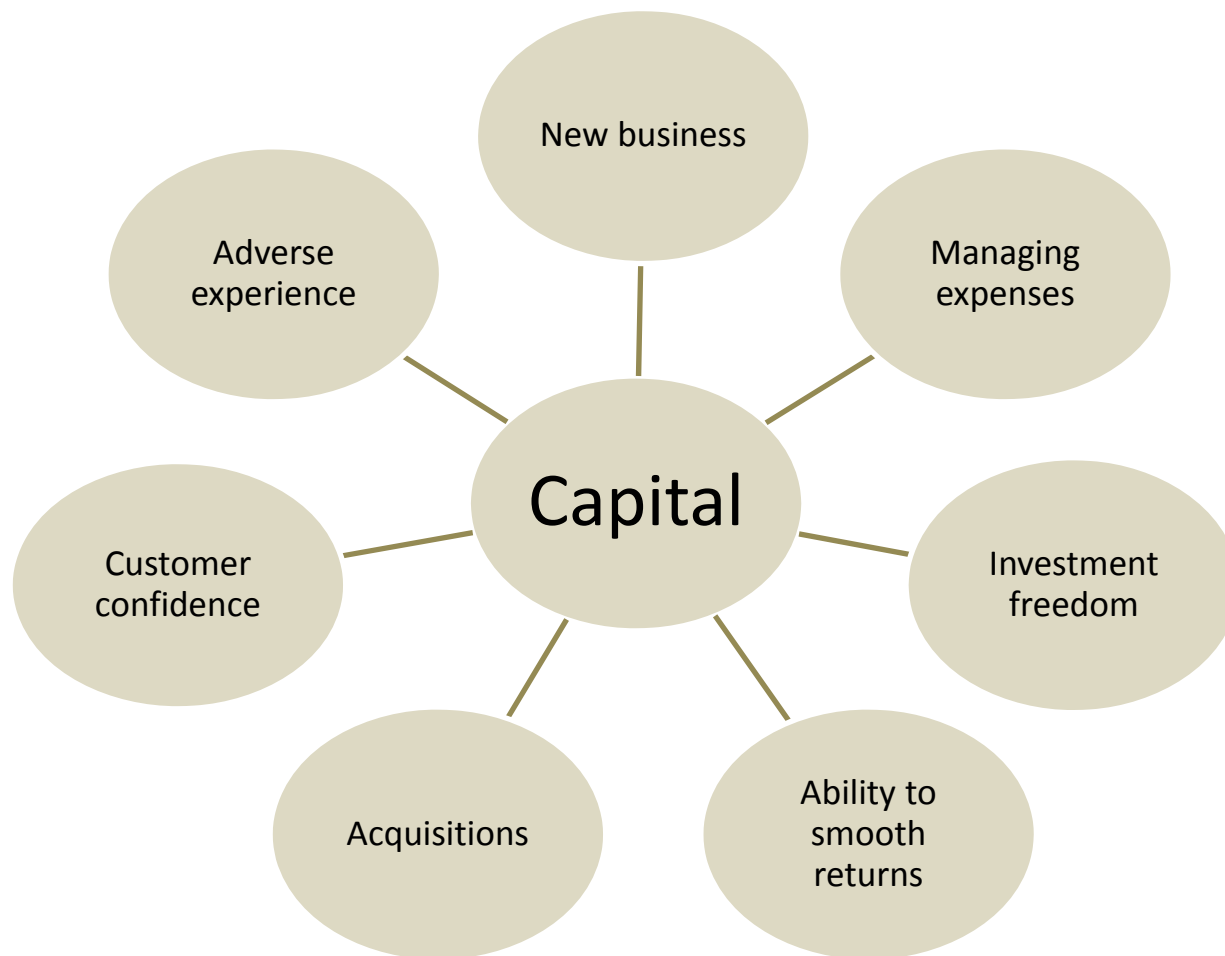
APS2: Additional guidance to AA

Section 1

- It is the Appointed Actuary's professional duty to make timely disclosures, both to the company and to the Authority about the financial viability of the life office

WHY IS CAPITAL REQUIRED?

Why capital is required?



There can be many uses of free capital

WAYS TO INCREASE FREE ASSETS

Ways to increase free assets

- **Capital injection**
- Reducing NB volumes
- Sale of less capital intensive products
- Reinsurance
- Financial reinsurance – subject to regulatory approval
- Reduce bonus rates – subject to PRE and TCF
- Expense efficiencies
- Review margins in reserves – subject to regulations and professional guidance

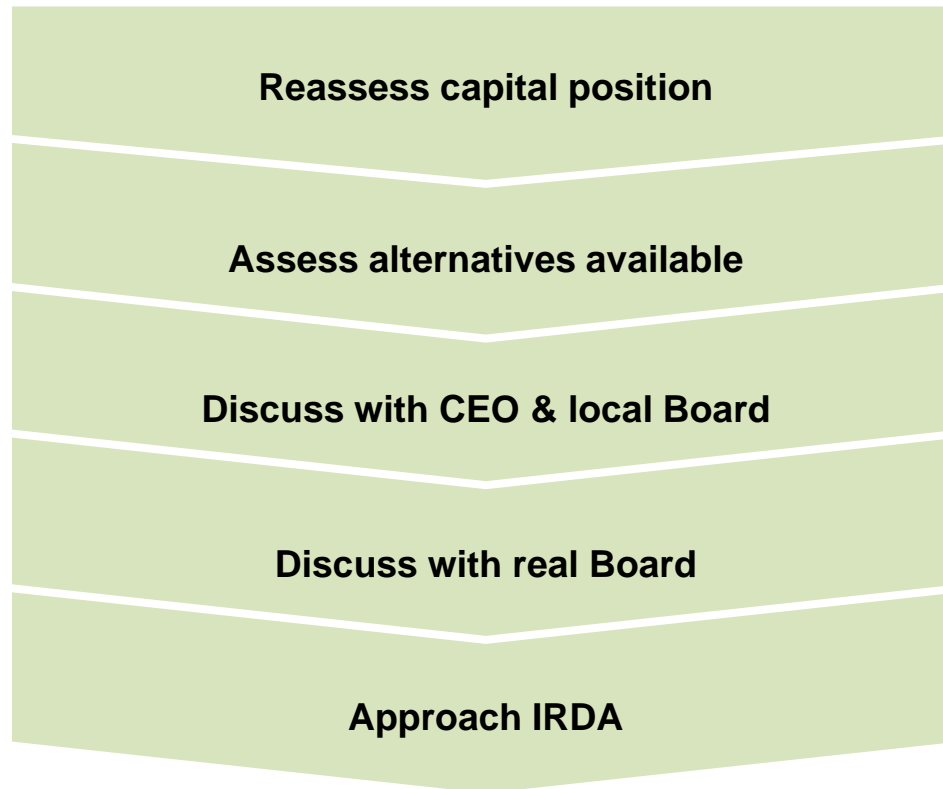
The feasibility of each option needs to be assessed



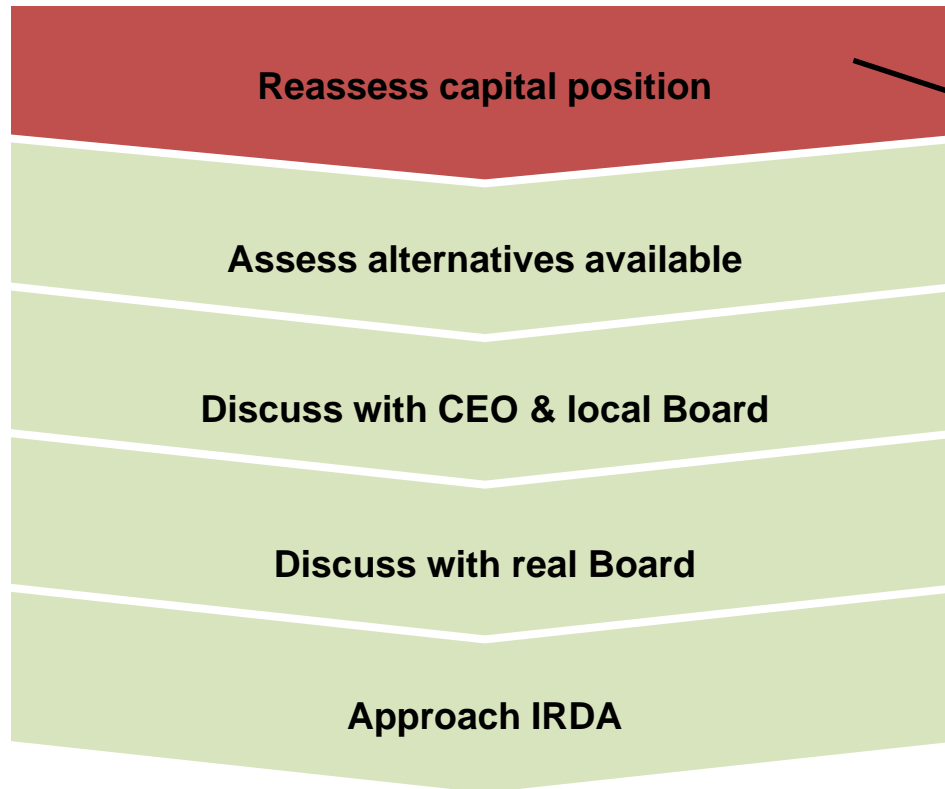
THE WAY FORWARD

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Way forward

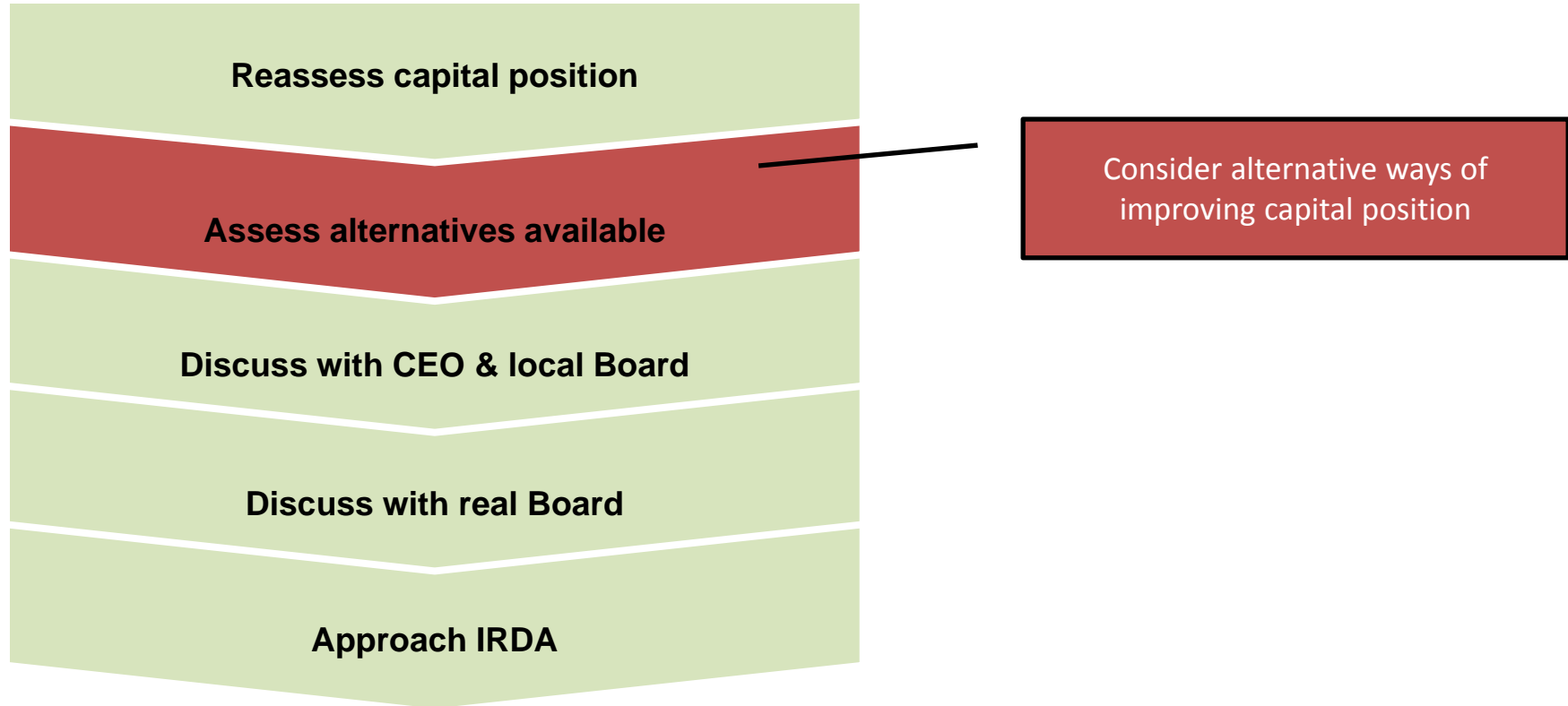


Way forward

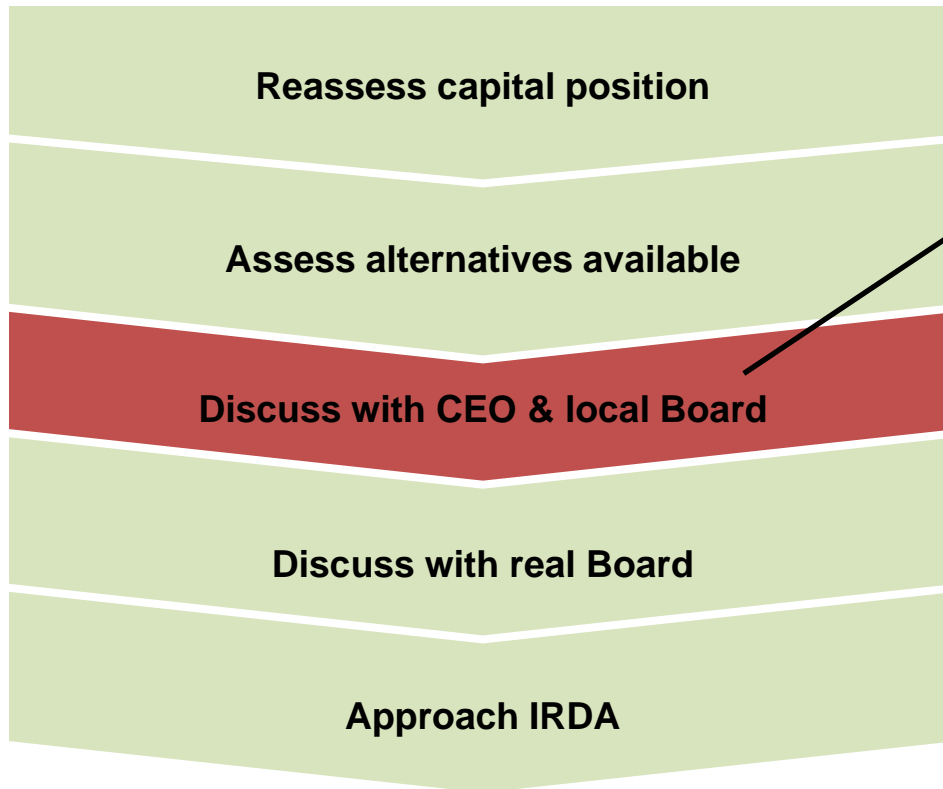


- Impact on solvency
- Ability to write new business
- Supportable business plan
- Scenario projections to aid analysis
- Competitiveness
- Ability to meet PRE
- Reputational risk

Way forward

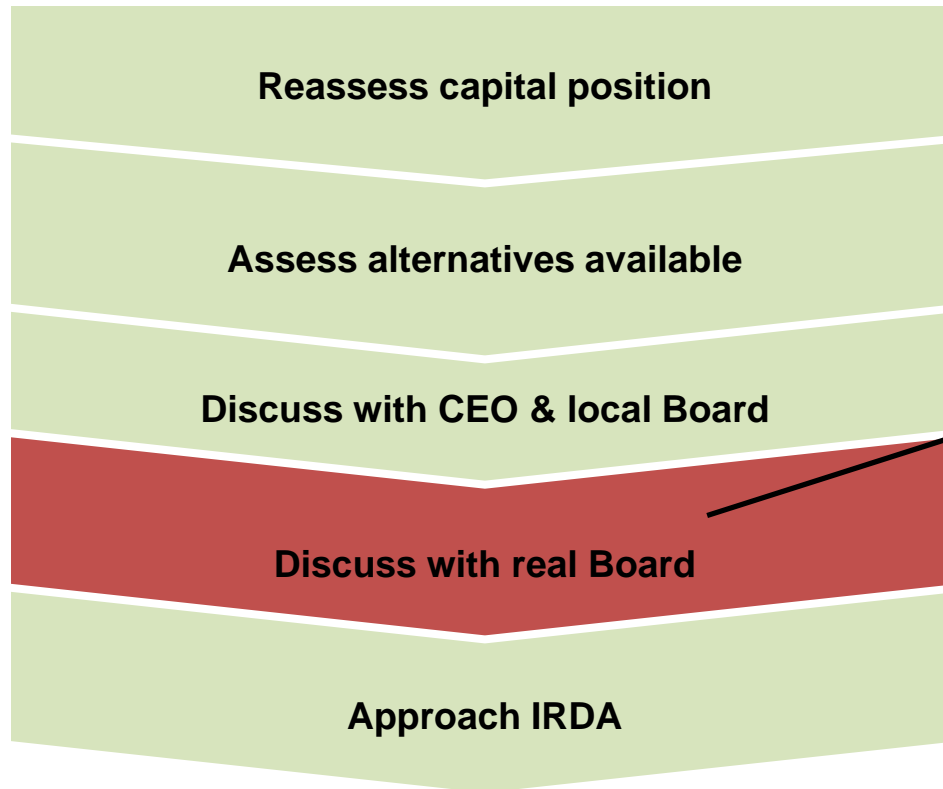


Way forward



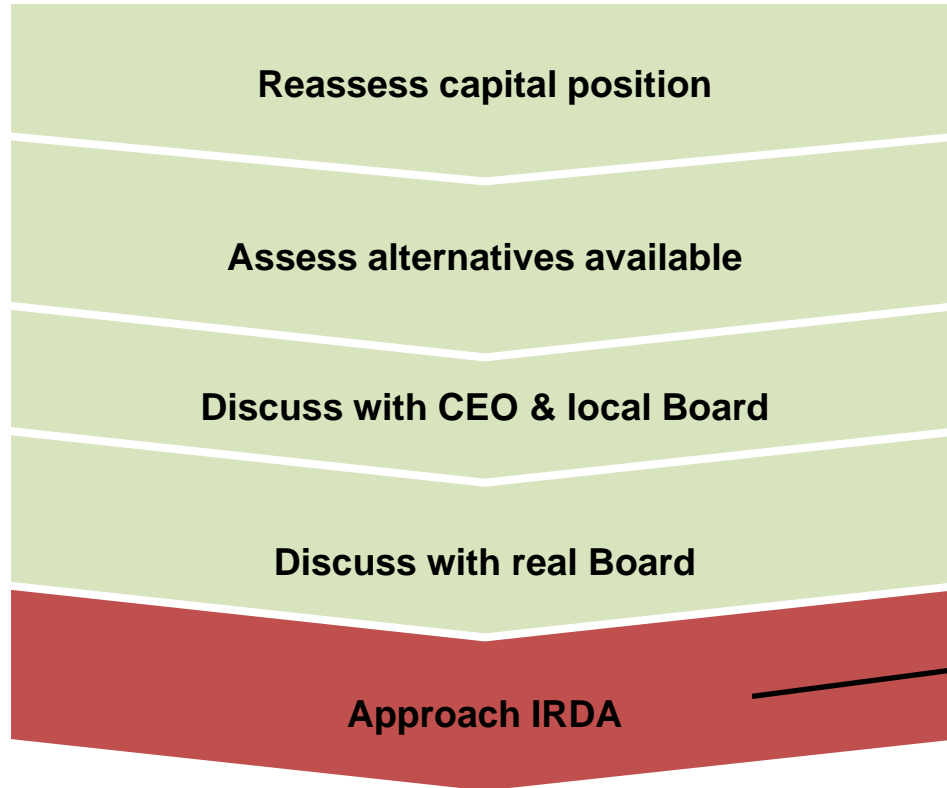
- Summarise the key issues
- Simple, non technical language
- Communicate the professional duties and responsibilities of AA
- Explain the impact of not increasing free assets
- Educate the board on available options – pros and cons of each
- Highlight the need for and seek access to the real Board
- Supplement suggestions with mathematical projections
- Consider impact on various stakeholders
- Consider impact on competitiveness
- Highlight the need to access real Board
- Highlight the powers vested with the AA and possible course of action

Way forward



- Summarise the key issues
- Simple, non technical language
- Educate the Board on regulatory requirements in India
- Explain duties and responsibilities of AA in India & powers vested in him
- Highlight issues as done for local Board & CEO
- Explain impact on local and parent company

Way forward



- Use option as last resort
- Inform Board before approaching IRDA

Questions?

