

# 32nd India Fellowship Seminar

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## Case Study 8: The Dilemma

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Institute of Actuaries of India

### Speakers:

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# Agenda



- Synopsis
- The Dilemma
- Options available (Pros & Cons)
- Assessment
- Conclusion

# Synopsis..



## ➤ The Company

- Is financially strong
- Operates in different financial & accounting regimes as it has investments in many companies across various countries
- Intends to influence management decision by representation on the Board of Members as it is interested in taking up significant stake in MLIC
- Entered into a Confidentiality agreement with MLIC

# Synopsis..



- Due Diligence (DD) process..
  - Only one Actuary on the Company's DD team
  - MLIC adopted an aggressive growth strategy in last couple of years
  - MLIC's profits have also grown in previous years
  - Actuary (on DD team) feels that:
    - Persistency assumptions for newly launched individual protection product are inappropriate
    - Also MAD for a critical assumption is inappropriate across various policy durations

# Synopsis..



- Due Diligence (DD) process..
  - Restated profits will be lower by 15% which seems material
  - Findings have been included in the DD report submitted to the Company



**In dilemma about the findings !!!**

# The Dilemma...

- PCS (Sec 4.1): A material breach of any of the following is of itself a ground for complaint under the disciplinary procedures and would amount to strong prima facie evidence of misconduct.

Professional  
Conduct  
Standards (PCS)

Practice  
Standards

Acts & Rules &  
Regulations

- PCS (Sec 4.3.1): On becoming aware of any event which appears to be a material breach by another member of any professional guidance or other guidance, a member must take appropriate action at the earliest opportunity.

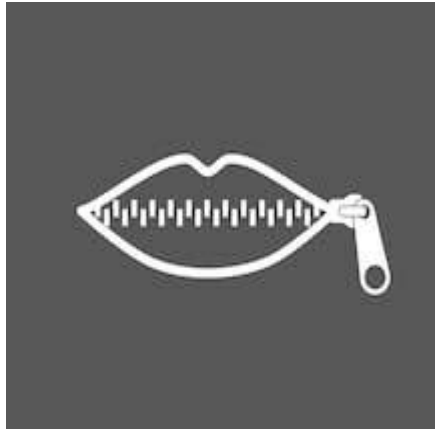
# The Dilemma...



## But...

- PCS (Sec 8.1): Members must avoid any action that would unfairly injure the professional reputation of any other member. Criticism is acceptable, provided that it is properly reasoned and believed to be justified.
- PCS (Sec 8.3): Care must be taken to acknowledge that other members may quite properly hold different professional opinions and that special circumstances may exist in any particular case.

# What to do...



**Option1** Do Nothing



**Option 2** Just Complaint



**Option3** Independent  
Review & Decide



# Option1-Do Nothing

Pros

- No conflict
- Time & efforts saved

- Policyholder's interest may be at risk
- Profession's reputation may be at risk
- Integrity doubtful
- PCS redundant

Cons

# Option 2-Just Complaint

Pros

- Saves my time & efforts involved in investigation
- Professional body will take a decision after thorough review
- Strengthens Profession's integrity
- Unwarranted bad publicity of AA
- Bad publicity of the profession
- Personal reputation at stake
- Breach of Confidentiality

Cons

# Option 3- Independent Review & Decide

Pros

- Fully Compliant with PCS
- Fair to the AA and the Profession
- Sufficient evidence to support claim
- Requires time & efforts
- Risk of breach of confidentiality

Cons

# Assessment



- If revised assumptions are correct then impact (decrease in profits by 15%) seems material.
- Appointed Actuary is a prestigious position. Based on IRDAI (Appointed Actuary) Regulation 2017 has requisite qualification and experience.
- Confidentiality agreement - Need to exercise caution about what, how much and whom to reveal.
  - Actuary with sufficient experience within the Company may be consulted.
  - Approach the Profession for review. But sanitize the information
- Vague & Unconvincing but which guideline/standards were breached ?

# Code, Standards & Regulations



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## Code (PCS Section 3)

- Expected to use best judgement
- Pay proper regards to any relevant professional guidance
- Should include sufficient information and discussion such that recipient can judge both appropriateness and implications.

## Regulations

- IRDAI (ALSM) Regulation 2016, Schedule II, Sec 2(4) suggests:
  - Expected experience shall include appropriate margin (referred as MAD)
  - MAD may result in an increase in the amount of liabilities
  - Sec 5(1b) requires MADs to be based on APS/GN issued by IAI.

## Actuarial Practice Standards (APS 7)

- AA remains solely responsible for levels of MAD
- Prime consideration is protection of existing policyholder's interest
- For lapse minimum MAD is +/- 20%
- Rely on overall MAD rather than just the MAD associated with the parameter
- Consider additional protection provided by actual solvency margin.

# Assessment



- Individual protection product is a newly launched product. Therefore, sufficient experience may not be available.
- Persistency reflects policyholder's behaviour and is difficult to predict.
- Past experience gives an indication but judgement also allows for new product's features, management actions and other factors

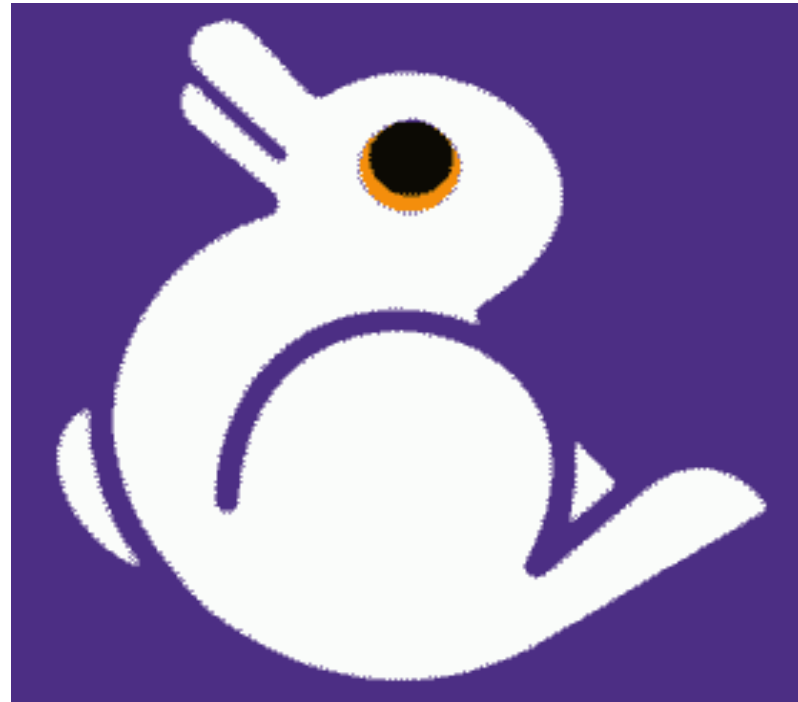
# Assessment



- APS/Regulation prescribes minimum level of MAD i.e. +/-20% which should result in increase in liability. No explicit requirement to vary MAD by duration.
- Prudence has to be considered on an overall basis and not for individual parameter (lapse in this case)
- APS4 requires peer review of valuation assumptions. Has the peer reviewer raised similar inadequacies in his report ?

# Conclusion

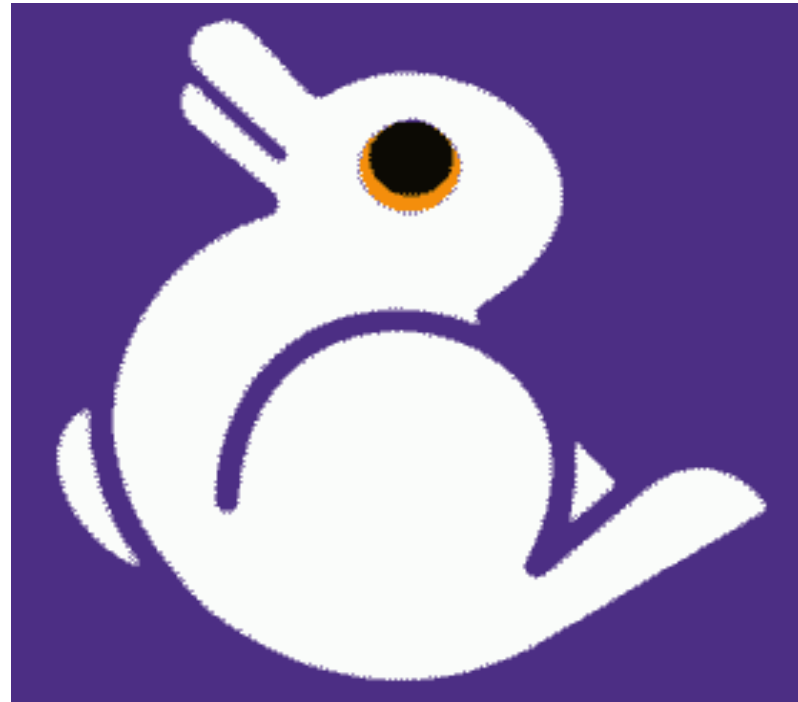
Which animal do you see ?





# Conclusion

Which animal do you see ?



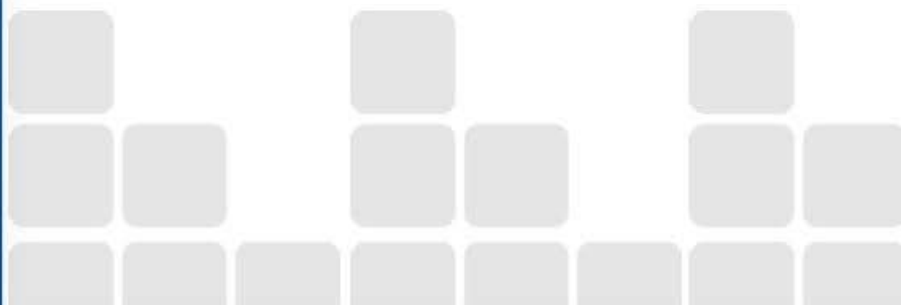
A Hare or A Duck

# Conclusion



- Impact on profit (15%) is material. But its based on difference in assumptions.
- Assumptions is based on personal judgement. Therefore, it is an opinion and not a fact.
- Nothing contrary to Professional Standards/Acts/Regulation have been observed.
- PSC demands members of the profession to acknowledge and respect professional opinion of other members

# Questions ?



Thank  
YOU

