

# 32nd India Fellowship Seminar

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## Case Study - 3: Professionalism

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# Case Study



You have recently joined Fastgrow Life Insurance Company (FLIC) in India as the Pricing Actuary, reporting to the Appointed Actuary. FLIC has recently signed-up a distribution partnership with a major Bank and is in the process of designing and pricing an individual product for the customers of the Bank. The Appointed Actuary has asked you to price the product and has given you a set of pricing assumptions including persistency assumptions. You are not comfortable with the persistency assumptions as you have deep insights into the persistency experience of the Bank's business from your previous employment. You believe that using the assumptions given by the Appointed Actuary has the risk of overstating the product's profitability. You are however in a dilemma as you are not sure whether you can share your previous experience with the Appointed Actuary. What are the options in front of you? Your discussions must draw reference to relevant requirements of IAI and IRDAI.

# Agenda



- Problem Statement
- Why address the dilemma
- Fact Check
- Options available
  - Why sharing experience with AA?
    - Performing background check
    - Ways of sharing experience with AA
  - Why not sharing experience with AA?
- Other options available
- Conclusion

# Problem Statement



- Recently signed-up a distribution partnership with a major Bank
- Designing & pricing a product for the customers of the bank
- Set of assumptions given by Appointed Actuary
- Not comfortable with the persistency assumptions
- Possess deep insights into the persistency experience of the Bank's business
- Based on deep insight, believe that the persistency assumption may overstate profitability
- Dilemma over whether previous experience can be shared with the Appointed Actuary

# Why address the dilemma?



- Inappropriate parameters at the time of pricing affects profitability
  - loss making portfolio affects solvency
- *An Appointed Actuary should ensure, so far as is within his/her authority, that the life insurance business of the company is conducted on sound financial lines and that he/she has regard to Policyholders' Reasonable Expectations (PRE).*
- APS 1 -Nature of Responsibility 2.2.

# Why address the dilemma? continued



- *The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company, in particular the following:*
  - i) *The premium rates on which the company has written existing business and intends writing new business*
  - x) *The current and likely future level of policy persistency rates*

APS 1- The duties of the Appointed Actuary 5.5.

# Why address the dilemma? continued



- *The Appointed Actuary must be satisfied that premium rates for new business are appropriate, that is to say sufficient in due course to enable the company to meet its liabilities. If future new business is being 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 new business in the context of how much capital is required and should inform the Board of Directors accordingly.*

APS 1-Premium rates and policy conditions for new products and existing products on sale- 6.1

# Fact check



## Reliability/relevance of Data

- In terms of type/size/target market
  - How recent the data is
- *Advice should normally include sufficient information and discussion about each relevant factor and about the results of the actuary's investigations to enable the intended recipient of the advice to judge both the appropriateness of the recommendations and the implications of accepting them. Further, the actuary should, in communicating his professional findings, show clearly that he takes responsibility for them. He shall also indicate the extent to which he or other sources are available to provide the client or employer with supplementary information and explanations about scope, data, methods and the findings.*

**PCS-STANDARDS FOR ADVICE-3.5**



# Fact check



*Where there have been significant changes in the operating environment such that historical experience may not be a useful guide for future persistency experience, the Actuary should consider using his/her judgement in setting the persistency assumptions including considering knowledge of wider industry experience, the features of the products and the expected effect of the change in the operating environment.*

**APS 10-Non-economic projection assumptions-  
Persistency Rates- 7.14**

# Options available



- Sharing the experience with Appointed Actuary
  
- Not sharing experience with Appointed Actuary

# Why sharing experience with AA?



- Disclosing information with permission

- *“As a matter of law, information acquired by an actuary in the course of professional work is frequently confidential to the actuary’s client or firm. As such it should not be disclosed unless consent has been obtained from the actuary’s client or firm”- PCS, section 2.5.1*
- *“A matter which is protected by confidentiality at the time it becomes known to a member may cease to be confidential for many reasons, for example because it becomes a matter of public knowledge or because confidentiality is waived by the person to whom that confidentiality is owed”- PCS, section 4.3.2*

# Why sharing experience with AA?



- Preventive and corrective action

- *“Where a member becomes aware that the member’s firm intends to act, or has already acted, in a way which would put the member (or any other member employed by the firm) in breach of professional guidance, the member must take appropriate preventative or corrective action”*
  - [PCS, section 1.4](#)
- *“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.”*
  - [PCS, section 4.3.1](#)
- *“If the member decides that the nature of the breach is such that action is called for, the member must, in the first instance, consider discussing the apparent breach with the other member.”*- [PCS, section 4.3.4](#)

# Performing background checks



- ✓ How old is the past experience?
- ✓ Impact of any regulatory changes - IRDAI (Non linked Regulation), 2019
- ✓ Difference in product feature (for e.g. surrender value)
- ✓ Consistency of assumptions with valuation experience of any product sold via similar channel

# Ways of sharing experience with AA



- Information available on Public Disclosure
  - Persistency rates of another life insurance company, if selling business mainly through this bank, will be available on Public Disclosure. In such case there is no breach of confidentiality.
- Highlighting the effect of persistency on Profitability
  - Appointed Actuary can assess the impact on profitability by using persistency assumption of past experience. Such sensitivity analysis will help Appointed Actuary to take right decision about the persistency assumption to be used.
  - *“Appointed Actuary shall comment in great detail on the differing nature of the assumptions and the extent to which those can be relied upon. He or she shall also comment on the factors that are outside the control of the life office.*  
- APS3, section 2.2.4

# Why NOT sharing experience with AA?



- Data confidentiality

- *“As a matter of law, information acquired by an actuary in the course of professional work is frequently confidential to the actuary’s client or firm. As such it should not be disclosed unless consent has been obtained from the actuary’s client or firm”- PCS, section 2.5.1*

- Raises question on integrity

- *“A member has a duty to the profession and must not act in a manner, which denigrates its reputation or impugns its integrity”- PCS, section 2.2*
- *“Users of actuarial services, including actuary’s firm and colleagues in that firm, are entitled to have absolute confidence in the skill, objectivity and integrity of any member”- PCS, section 2.3*

# Why NOT sharing experience with AA?



- Legal implication due to contractual obligations
  - Employment contract may have a clause on confidentiality which is valid for a specific period even after an employee has exited the company. This prohibits Pricing Actuary from sharing company-specific confidential information to external parties without their formal consent.
- Difference in Product mix and customer profile
  - Product mix of the previous insurer varies from the current insurer's product mix. Customer profile of the bank has changed due to geographical expansion. Hence, the persistency experience may not be comparable.
  - *"Advice should normally include sufficient information and discussion about each relevant factor and about the results of the actuary's investigations to enable the intended recipient of the advice to judge both the appropriateness of the recommendations and the implications of accepting them."* - PCS, section 3.5



## Other options available

- Use of higher margins in the assumptions
  - Since we are writing business with bank for the first time we do not have a credible persistency experience on which we can rely while setting these assumptions.
  - *"If there is no experience available, the Appointed Actuary has to use his professional judgement while deciding the assumptions."* - **APS 7**.
- Using industry average across similar companies using Bancassurance
  - Since the company does not have sufficient experience with the Bank, the persistency assumption used for pricing can be based on assumptions of other insurers having similar size of business and similar product suit.

# Conclusion



- Institute of Actuaries of India provides a suitable framework for members to maintain high professional standards through the professional conduct standards, various guidance notes, and actuarial practice standards.
- Thorough awareness of this framework does not just fulfil the responsibility of maintaining the profession's credibility but also avoids being subject to disciplinary action in case of misconduct / breach
- For the given case study, the PCS apply directly and provide guidance on what should or should not be done
- Profitability of FLIC should be the key responsibility of the Pricing Actuary as well as Appointed Actuary.
- In view of this, Actuary need to strike a balance between confidentiality and disclosure of the available information
- Lastly in the event of ambiguity, Pricing Actuary should approach the Professional Body for guidance.

# Thank You