

30th India Fellowship Seminar

17th & 18th December 2018

GI Case Study-Professional Standards

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Professional Standards

Types of Professional Standards



Professional Conduct Standards (PCS)

- General principles & standards to be followed by all members
- Member's duty towards the profession
- Standards & Obligations when providing services to a client

Actuarial Practice Standards (APS)

- Mandatory in nature for all members
- Specific to a particular type/topic of actuarial work
- Purpose is to ensure high esteem and reputation for the profession
- Non-compliance can lead to disciplinary action

Guidance Notes (GN)

- Recommended Practice but non-mandatory
- Specific to a relevant topic of actuarial work
- Purpose is to remove ambiguity and ensure uniform standards across different member's work

Professional Standards

Existing Standards for General Insurance



Professional Conduct Standards (PCS) 3.0

- To serve the public interest, act with integrity, maintain profession's reputation
- Perform actuarial work where satisfied of personal competence or relevant guidance is available
- Adhere to Guidance notes and APS
- Avoid/Disclose conflicts of interest and any financial interests
- Respect and take other members views as necessary

APS 21- Appointed Actuary and General Insurance Business

- AA should ensure company's business is conducted on sound financial lines
- Defines the duties and responsibilities of AA holding a valid GI COP and practicing in GI industry
- Provides guidance to actuaries who are directors, employees or consultants (other than in the AA role)

APS 33- Peer Review of Appointed Actuary's work in- General and Health Insurance/Reinsurance

- Issued on 9th September 2017 by IAI
- Peer Review to become a standard element of all annual statutory actuarial valuations done by AA
- Defines minimum peer review standards
- Defines clearly the responsibilities of the AA and peer reviewer

GN31- GN on the Financial Condition Assessment Report For General Insurance Companies

- Guidance to provide clarity on FCAR preparation by AA
- Further to IRDA's circular no. 081 dated 13th May 2010

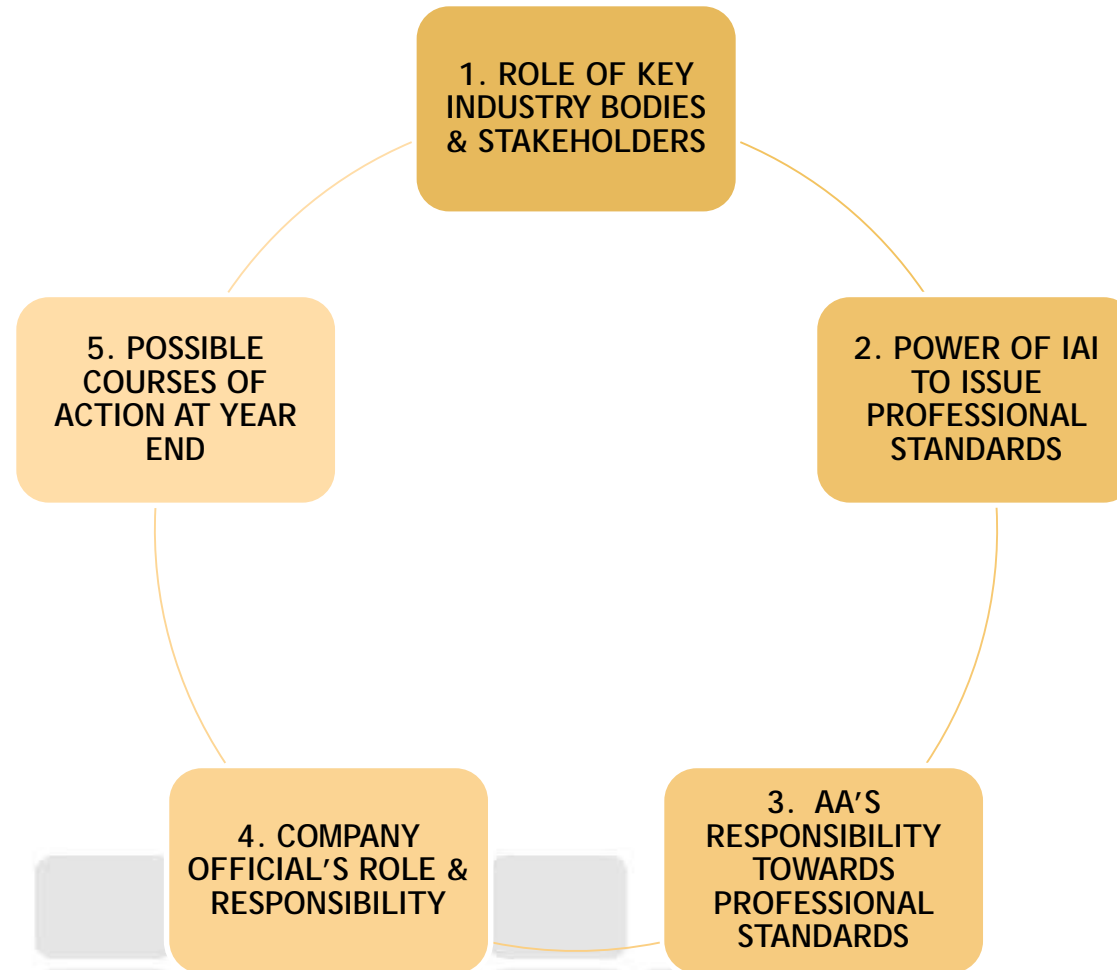
Introduction to the Case Study



- IAI introduces a new professional standard that makes peer review of Technical Reserves at year end mandatory
- Industry council puts the peer review 'on hold' through communication to all GI company CEOs and seeks clarification from IRDAI if peer review is required
- A company official asks the AA to put the peer review 'on hold' till further clarity is obtained
- The Official also takes responsibility for not getting the peer review done
- It is now close to year end and Board timelines are approaching to close the books. It is now 'touch and go' for the peer review to be completed in time.
- External Actuaries being considered for review are saying they might not be able to accept the assignment on professional grounds in case of further delays.

What are the AA's options and what should be done????

Issues Considered



1. ROLE OF KEY INDUSTRY BODIES & STAKEHOLDERS



Industry Council

- Key function is to aid and advise insurers: In setting up standards of conduct and sound practice; In rendering efficient services to policyholders (*Sec 64L, Insurance Act 1938*)
- Advice IRDAI on matter of controlling expenses of insurers (*Sec 64L, Insurance Act 1938*)
- Key link between IRDAI, Central Government and the non-life insurers

IRDAI- Industry Regulator

- Duty to regulate, promote and ensure orderly growth of insurance and re-insurance business
- One of functions is to 'promote efficiency in the conduct of insurance business' (*Sec 14(1), IRDAI Act 1999*)

IAI- Professional Body

- Key Objectives are: to promote, uphold and develop the standards of professional education, training, knowledge, practice and conduct amongst Actuaries, promote the status of the profession and to regulate the practice by the members (*Sec 5, Actuaries Act 2006*)

Compliance Officer

- To ensure company is conducting all its business in full compliance with all applicable laws and regulations

Company's Board

- Monitor the conduct of the company is on sound basis
- Monitor the performance of the company and ensure efficient use of capital
- Discuss and resolve any key issues faced by the company from time to time

2. POWER OF IAI TO ISSUE PROFESSIONAL STANDARDS



Few extracts from 'The Actuaries Act, 2006' to highlight the power of IAI:

- Section 5 states the objective of the institute includes:

"(a) to promote, uphold and develop the standards of professional education, training, knowledge, practice and conduct amongst Actuaries" and

"(c) to regulate the practice by the members of the profession of Actuary"

- Section 19 (r) specifies the following function to the council:

"doing all such things as may be necessary, incidental or conducive to the attainment of all or any of the objects of the Institute"

- Section 44 states the functions of the 'Quality Review Board' as established under Section 43 as:

"(a) to fix standards for the services provided by the members of the Institute; (b) to review the quality of services provided by the members of the Institute including actuarial audit services; and (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements."

2. POWER OF IAI TO ISSUE PROFESSIONAL STANDARDS



- IAI can issue professional standards from time to time as necessary
- Standards are approved by the IAI Council and the Council has overall representations from IRDAI and Government of India along with other fellow members
- Role of Actuaries in non-life industry is expanding and so is the responsibility
- Importance of building and maintaining trust of key stakeholders of non-life industry in actuarial services

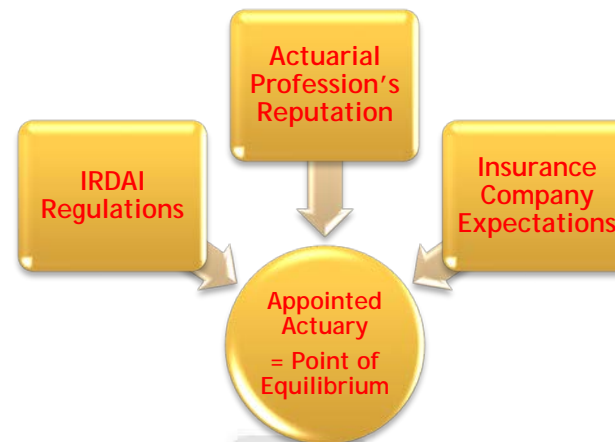


3. AA'S RESPONSIBILITY TOWARDS PROFESSIONAL STANDARDS



APS 33: Peer Review of Appointed Actuary's work in General and Health Insurance/Reinsurance (9th Sept 2017)

- Peer review of all annual statutory actuarial valuations carried out by an AA
- Peer reviewer report to be submitted to the AA before the finalisation of year end results
- Final responsibility of the results rests with the AA as per the regulations



- AA has to be compliant to all Professional Standards and mandatory guidance issued by IAI that directly/indirectly affects his/her work

4. COMPANY OFFICIAL'S ROLE & RESPONSIBILITY



- As member of the IAI, AA needs to follow APS 33 and get the peer review done unless there is a communication from the Institute stating otherwise
- Whether the company official is the Compliance Officer or not, AA should seek any clarification on the matter from IAI
- As member of the Board, AA can communicate the challenge to the Board members directly and take their view on the matter
- The company official cannot take away the AA's professional responsibility to follow the standards as the APS are not relevant to the official
- Hence the official can't absolve the AA of the need to get a peer review and/or take responsibility of the same on AA's behalf

5. POSSIBLE COURSES OF ACTION AT YEAR END



As peer review was temporarily kept on hold and now it is close to year end, options could be:

- Seek advice from IAI Council on next steps as the matter is still open and all key parties: GI Council, IRDAI and CEOs are involved
- Finalise the year end reserves and initiate the peer review with the external actuaries. Meanwhile discuss the matter with the CEO and the Board to extend the timelines
- Finalise the year end reserves and the AA report and disclose the non-compliance to the APS 33 and the matter in the report. Check what other companies are doing
- If Board timelines cannot be extended, finalise the year end reserves and initiate the peer review. Qualify the report stating the results may change post the peer review

CONCLUSION ON THE CASE STUDY



Does the IAI have the power to issue professional standards?

Yes

- IAI being a professional body and as per the powers given to it by the Actuaries Act 2006
- To fulfil the function of the 'Quality Review Board', these are necessary

What are the roles of the industry council, IRDAI, IAI, Compliance Officer and Board of your Company?

- Council has raised industry's concern with the regulator and provided relief to the CEOs
- Regulator needs to facilitate smooth operation of companies and maintain their trust in their Appointed Actuaries for year end results
- IAI has the duty to ensure high quality work and minimize questions on actuarial work later on

Council, IRDAI and IAI are all interlinked representative bodies for healthy growth of the industry

- Compliance officer has conveyed the council's and CEO's message to the AA, thus following the letter
- Board of the company require less volatile results due to changes or questions on the reserves

Do you need to comply with professional standards?

Yes, as member of IAI and a COP holder

CONCLUSION ON THE CASE STUDY



Can the official absolve you of the need to get a peer review? How do you respond to the official?

- No, the official cannot take away the professional responsibility towards the APS
- Explain to the official the criticality of abiding by the practice standards and urge to follow up with the Council/IRDAI on next steps

What are the AA's options and what should be done????

- Finalise the reserves and initiate the peer review process with the earliest timelines possible
- Maintain a clear audit trail for the valuation exercise for smooth review
- Define areas of concern/lines of business with the peer reviewer to expedite the process
- Negotiate with the CEO/Board on the timelines
- Discuss possible extension of peer review implementation from half year end of 2018-19
- Discuss with industry peers for any updates on the matter. Follow with IAI/regulator's office on any finalised next steps
- If no further update, CEO and Board have to extend the internal timelines till peer review report is received and final results given by AA

The key challenge is on the implementation of the peer review in the short timeline indicated (APS 33 Sept 2017 and year end 2017-18).

DECLARATION



The views and possible actions expressed during this presentation are personal and presented for the purpose of discussions during IFS only. They are presented as required by the given case study.

