Institute of Actuaries of India

Professional Compliance Questionnaire (PCQ) – APS2

Author: Life Insurance Board (approved at its meeting held on 11 08 2004 and by the Executive Committee in its meeting held on 28 08 2004)

Source or Authority: Objectives of the "Checklist of Professional Compliance" Ver. 1.00/28 08 2004 issued by LIB

Version	Effective From
1.00	28 08 2004
1.01	01 07 2011

Subject of Compliance: APS 2: Additional Guidance for Appointed Actuaries and other Actuaries involved in Life Insurance

Introduction

The Executive Committee in terms of the powers vested in it under rules of the Society has put in place the above APS which is classified as Practice Standard, meaning thereby that a material breach of its provisions would of itself be a ground for complaint under disciplinary powers and would amount to a strong prima facie evidence of unprofessional conduct or professionally objectionable conduct. Such evidence could normally be set aside only if the member could show that in an actuarial advice given, any departure considered appropriate from the strict compliance with any aspect of the APS had been disclosed and justified.

The Executive Committee would want to satisfy itself, to the extent that it is possible to do so, that the Appointed Actuaries are in strict compliance with this APS at all times and that to the extent it is not so, the same is made part of the actuarial report and justified. The Executive Committee would also want to satisfy itself as to the manner in which such compliance is actualized so as to ensure that the APS is strengthened if need be on continuing basis.

The Executive Committee has therefore advised the Life Insurance Board to monitor the compliance and set necessary procedures and processes for such objective to be achieved effectively. The Life Insurance Board within this authority delegated by the Executive Committee has issued a "checklist on Professional Compliance" relating to this APS and further issues this Professional Compliance Questionnaire (PCQ). The LIB at its meeting held on 11 08 2004 has decided that this PCQ be mandatory to be filed by each Appointed Actuary whether currently working as appointed Actuary or has had worked as such earlier within a date as specified by the Secretary, LIB and that this exercise be one off. After having had the experience analysed as a result of filing of this PCQ and subject to directions if any by the Executive Committee, the LIB shall decide as to whether such PCQ with or without modification shall be required to be filled up on regular basis say annually.

It is clarified that the PCQ is a means for the LIB to have a higher level of satisfaction of compliance by the Appointed Actuaries and does not amount to certification that the Appointed Actuary has complied with all the provisions of the APS fully as in the nature of things such a judgmental process should rest with the Executive Committee and the judicial authority in India.

It is also clarified that this PCQ contains those elements of the APS 2 which are currently considered by LIB as key aspects to be monitored and there could be other aspects as well which the Appointed Actuary needs to comply.

Confidentiality

The contents of this PCQ are confidential between LIB or any committee constituted by LIB or the Executive Committee and the Appointed Actuary and shall under no circumstances be used against him/her without his/her knowledge and due processes as prescribed within rules of the Society.

The Professional Compliance Questionnaire (PCQ)

A: The Appointed Actuary

Question No	Question and link to APS 2	Reply
1	**1. Introduction** Have you fully complied with the APS if not, have you suitably qualified the report given to you?	

2	**2. The Actuarial Valuation 2.1:** Are your assumptions for the valuation parameters based on the insurer's expected experience and do those include appropriate margins for adverse deviation with the margins reflecting the degree of confidence you have in the assumption made about the expected level of those parameters? **2.2:** Have you ensured that the reserves are at least as large as any guaranteed surrender value and are never less than zero? **2.3:** Have you used Gross Premium Method for valuation for any class/segment of the business? If not, have you specified that the valuation method adopted is in accordance with the generally accepted actuarial principles and state in brief the same? **2.4:** Have you considered the resilience of the valuation results to changes in circumstances and provided appropriate margins in the valuation basis or an additional reserve? If changes in the circumstances resulting in a change in the aggregate liability are not matched by a change in the market value of the corresponding assets, have you considered as to what provision is required as a contingency margin, having regard to the consequences, should the provision prove to be insufficient ? **2.5:** Have you ensured that the valuation basis for participating business are, in particular, consistent with the provisions of 5 (5) (d) of Schedule II-A of the IRDA ALSM Regulations? Further, have you ensured that the liability in the changed investment conditions, as envisaged in 2.4 above, adequately covers latest view of policyholders' reasonable expectations? **2.6:** Have you ensured that either the valuation method or valuation assumptions are not subject to arbitrary discontinuities from one year to the next and any changes necessitated because of environmental changes are capable of justification and state briefly as to how these are justified? **2.7:** Have you described in your valuation report how allowance for tax has been made?	

3	**3. Valuation Parameters 3.1:** Are the valuation bases appropriate for the block of business to be valued? **3.2:** While making adjustments, if any to the published mortality table adopted, have you given due regard to the likely future experience of the insurer , including the likely incidence of AIDS, and possible improvements in mortality? **3.3:** Have you allowed for the expenses in future years for inflation? And whether the rate of inflation assumed is consistent with the valuation rate of interest? Further, after providing margin for adverse deviation in the valuation rate of interest, have you ensured that there is a margin for adverse deviation in the difference between the valuation rate of interest and the valuation inflation rate? **3.4:** Have you made explicit allowance for future investment expenses? If there is no explicit allowance for future investment expenses, have you allowed for investment expenses by a prudent reduction in the valuation rate of interest? Further, have you allowed for future expenses for paid-up policies? **3.5:** Have you ensured that all references to yield in the IRDA ALSM Regulations dealing with valuation rate of interest are interpreted to mean prospective yield gross of tax? **3.6:** Have you ensured that the yield on existing assets attributable to the blocks of business being valued is used for valuing those blocks of business with due regard to prudence? Further, have you ensured that the yields on existing assets are determined by reference to the statutory value of assets to ensure consistency between the valuation of assets and liabilities? Have you also ensured that the derivative contracts, if any, held in connection with particular assets or liabilities are apportioned to the corresponding assets and liabilities? **3.7:** Have you made adjustment to the yield on assets to recognize the possibility of default as required by the IRDA ALSM Regulations? **3.8:** In respect of non-participating business, have you recognized the risk of a decline in the interest rate and made suitable adjustments as required by the IRDA ALSM Regulations? If so to what extent and how? Have you also considered all future interest rate scenarios that can reasonably be foreseen? **3.9:** Have you taken into account the effect of changes in risk free interest rates in respect of single premium business as required by the IRDA ALSM Regulations?	

4	**4. Additional Requirement for Linked Business 4.1:** Have you ensured that the value placed on the unit reserve is based on the current mid-market value of the assets underlying the unit fund? **4.2:** Have you ensured that if the unit liabilities are not matched, a mismatch reserve has been created? **4.3:** Have separate unit and non-unit reserves been held? **4.4:** Have you ensured that the non-unit reserve take into account morbidity benefits to the extent provided by the non-unit reserves, as well as death benefit? **4.5:** Have you ensured that the total reserve in respect of a policy is not less than the guaranteed value on the valuation date and that neither the unit reserve nor the non-unit reserve in respect of a policy is negative ?	
5	**5. Additional Requirement for Provisions 5.1:** Have you made provision for options contained in the policy contract on prudent basis taking into account factors external or internal to the insurer that might accompany the exercising of the option? If so, please explain in brief how? If not, please explain why not? **5.2:** Have you made provision for investment guarantees on prudent basis taking into account the changes in circumstances envisaged in section 2.4 of APS 2?	
6	**6. Solvency Margin** Have you ensured that the insurer's available assets can provide explicit cover for the amount of required solvency margin? Further, have you in terms of IRDA Appointed Actuary Regulations suitably advised the Directors of the insurer to ensure that the insurer is at all times able to meet the solvency requirements as prescribed in section 64VA of the Insurance Act ? If so, explain how? If not, please explain why not?	

Name of the Appointed Actuary

Signature

Date