

Institute of Actuaries of India

The Professional Compliance Questionnaire (PCQ)

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:

Version	Effective From
1.00	28 08 2004
1.01	01 07 2011

Subject of Compliance: APS 3: Financial Condition Report

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

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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 3 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.

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A: The Appointed Actuary

Question No.	Question and Link to APS 3	Reply
1	<p>1. Introduction</p> <p>1.1 Is the Financial Condition Report (FCR) accessible to its readers and does it brings out all important issues concerning the financial condition of the life insurer? (link para 1.3 of APS 3)</p> <p>Have you provided an executive summary drawing attention to the important issues in the report?</p> <p>1.2: Have you assessed the ability of the life office to withstand changes in both external economic environment and the particular experience of the life office? If yes, please explain in brief how?</p> <p>Have you assessed the combined effect of a change in two or more related assumptions than a change in any one of them in isolation? (link para 1.4 of APS 3)</p>	

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	<p>1.3: Are the techniques used to assess the ability of the life office to withstand changes, in both the external economic environment and the particular experience of the life office appropriate? (link para 1.5 of APS 3)</p> <p>1.4: Have you addressed the issue of what actions were open to the life office for dealing with the particular circumstances and, where appropriate, made suitable recommendations? If yes, please quote the reference to the communication to the Company. (link para 1.6 of APS 3)</p> <p>1.5: Have you reported to the Board on some aspects covered in the APS 3 in some report other than the Financial Condition Report? If yes, please identify the source? (link para 1.7 of APS 3)</p>	
2	<p>2. General Points (link para 2 of APS 3)</p> <p>2.1: Have you included in the report?</p> <ul style="list-style-type: none"> ➤ the purpose of the report; ➤ the assessment of the financial position of the life office at the time the investigations were carried out; ➤ any historical development of the life office which might have implications for the future of the life office; ➤ comments on particular aspects of the historical development of the life office, such as any policy condition, prospectus, methods of selling etc. which have led to Policyholders' Reasonable Expectations being formed with financial consequences for the life office; ➤ a review of the business of the life office and the environment in which it was operating; ➤ a review of the financial investigations with special reference to any future external factors which present a threat to the life office's financial security and the options to the life office to deal with these factors; <p>2.2 Have you commented in greater detail on?</p> <ul style="list-style-type: none"> ➤ the methods and assumptions that have been used and have you distinguished between those assumptions which were important and which were less important as also those which were within the life office's control and those which depended on the external situation; ➤ any changes made to the methods or assumptions used in the last similar report; 	

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	<ul style="list-style-type: none"> ➤ any inadequacies in my analysis due to factors such as non availability of data or any other matter; ➤ the differing nature of the assumptions and the extent to which those could be relied upon and have you also commented on the factors that were outside the control of the life office; ➤ as to how the assumptions made compare with the recent experience and explained the reasons where the assumptions significantly differed from the recent experience; ➤ any specific characteristics of the existing business or new business written that required special consideration; <p>2.3: Have you reported , where appropriate, how the following items have been addressed:</p> <ul style="list-style-type: none"> ➤ any unusual features of the existing business, new business being written or proposed product development; ➤ any financially significant reinsurance arrangement; ➤ effects of any known or planned changes in the life office's methods of operations; ➤ any use made by the life office of derivatives, its purpose and its financial significance; ➤ post balance sheet events / developments since the end of the financial year/report period; 	
3	<p>3. Need to be vigilant (link para 3 of APS 3)</p> <p>3.1 Have you been vigilant about the factors that might affect the life office, such as :</p> <ul style="list-style-type: none"> ➤ concentration of assets in particular risk areas; ➤ derivatives; ➤ assets containing unusual provisions which might be susceptible to particular risks; ➤ sources of new business which had unusual characteristics; ➤ impending major claims or litigation that might affect the life office; ➤ risks arising out of product literature or policy documentation; ➤ loss of distribution channel' ➤ the impact of options and guarantees in the insurance liabilities in different scenarios. <p>3.2 Have you provided for all elements of the statutory valuation in each scenario testing? If, yes, explain in brief how?</p>	

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4	4. Special (link para 3 of APS 3) Have you ensured that situations or sets of situations, which have led or could have led to financial difficulty for which no satisfactory remedial action could be found have been brought out with special prominence in the report and include recommendations as to what might have been done to avoid such circumstances ? If yes, please explain in brief how?	
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Name of the Appointed Actuary

Signature

Date