

Institute of Actuaries of India

Professional Compliance Questionnaire (PCQ) – APS5

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 5: Appointed Actuary and Principles of Life Insurance Policy Illustrations

The Executive Committee in terms of the powers vested in it under rules of the IAI 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 5 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 knowledge and due processes as prescribed within rules of the IAI

The Professional Compliance Questionnaire (PCQ)-APS 5

Question No	Questions	Reply
1	<p>1. Illustrations (Link para A 1 of APS 5)</p> <p>1.1 Have the illustrations used by your office prepared in consultation with you and have these been authorized by the Board of Directors of the Company?</p> <p>1.2 Are the two rates used in the illustration – higher and lower – as set out by the Life Insurance Council?</p> <p>1.3 Have the charges in respect of fund management and policy charges been deducted from the gross investment return assumptions?</p> <p>1.4 Are the illustrations being reviewed from time to time and in any case at least once a year in the month of April?</p> <p>1.5 Have you used the latest rates of interests-higher and lower - as have been specified by the</p>	

	<p>Life Insurance Council ?</p> <p>1.6 If you have used interest rates other than those specified by the Life Insurance Council, have you ensured that the rates used are not higher than the higher and lower rates specified by the Life Insurance Council for this purpose?</p> <p>1.7 Have you ensured that the phrase as specified in the APS 5 appears on the front page of illustrations?</p> <p>1.8 Have the controls been set up in the process of issuing illustrations to ensure that customers are provided illustrations that are authorized by you and approved by the Board of Directors?</p> <p>1.9 Have all policy, fund management and other policy charges payable by customers been included explicitly within the illustration tables?</p> <p>1.10 Has the life office's policy on surrender values been indicated within the illustrations?</p>	
<p>2</p>	<p>2. Role of Appointed Actuary (Link para B of APS 5)</p> <p>2.1 Have you ensured that the illustration prepared by the life office as required in terms of the Life Insurance Council circular did not create unreasonable expectations?</p> <p>2.2 Have you ensured that the illustration envisaged to be given to the prospective policyholders is filed with the IRDA for all plans?</p> <p>2.3 File and Use compliance being your responsibility, have you ensured that the illustrations authorized for use by the Board of Directors of the life office been prepared taking into account your advice and that the advice is within the framework of the APS 5?</p>	
<p>3</p>	<p>3. Guiding Principles (Link para C of APS 5)</p> <p>3.1 Have you ensured that illustrations are used to educate the prospective customer about the insurance product on sale and to assist him/her in developing a proper understanding of features of the product and the flow of benefits in</p>	

	<p>different circumstances as envisaged in the APS and not used as a tool to achieve a competitive edge in the market place?</p> <p>3.2 Have you ensured that illustrations for a product are consistent with the terms and conditions of the product as filed with the IRDA and are consistent with the wordings in the policy document and company practice?</p> <p>3.3 Have you ensured that illustrations do not withhold important information such as conditions upon which the illustrations would not be valid?</p> <p>3.4 Have you ensured that the content of the illustration is such that the key messages are not lost?</p> <p>3.5 If for certain target markets such as rural markets or a certain distribution forms of illustrations are used, have you ensured that the forms of illustration have been filed with the IRDA?</p> <p>3.6 Have you ensured that the intermediaries and the life office employees responsible for sales receive appropriate training and are supervised and monitored with regard to the policy illustrations and if it was not so have you taken up this matter life office management for appropriate action?</p>	
<p>4</p>	<p>4. Benefits (Link para C 7 & 8 of APS 5)</p> <p>Guaranteed:</p> <p>4.1 Do the illustrations clearly distinguish between the guaranteed benefits and non-guaranteed benefits?</p> <p>4.2 Have the circumstances in which the guaranteed benefits would be available and the conditions applicable been clearly stated?</p> <p>Non-guaranteed or variable benefits:</p> <p>4.3 Are the illustrations of non-guaranteed or variable benefits based on assumptions about future experience, such as, investment return, taxation, mortality, morbidity, charges, expenses, terminations by lapse or surrender and discontinuance of premiums leading to policy becoming paid up?</p> <p>4.4 Are the assumptions appropriate to the product which is illustrated based on past experience, if</p>	

	<p>available, and my view of assumptions for the future?</p> <p>4.5 If the assumptions are different from the assumptions underlying the profit test and other analysis carried out for the filing or the most recent refiling of the product for approval by the IRDA, do you have justification for the same?</p> <p>4.6 Do the table/s, illustrating the values based on the two sets of returns – higher rate and lower rate as set by the Life Insurance Council or the more conservative rates used of investment returns?</p> <p>4.7 In respect of unit-linked plans, do the illustrations include full description of expense charges, i.e. amounts of all types of charges debited against policyholders’ premiums or unit account, in case of ongoing policy?</p> <p>4.8 Have you used for the purpose of illustrations expense charges increased at inflation rates appropriate to the higher rate and lower rate set by the Life Insurance Council, where so permissible?</p> <p>4.9 As the bonus rates themselves could be misleading, have you provided additional information on the rate of return achieved in suitable form, ensuring that the customer is not misled or misinformed?</p> <p>4.10 Have you determined what assumed projected rates of bonus be used for each of the higher and lower rates, which in your judgement would be appropriate and supportable under the investment return rates set by the Life Insurance Council taking into account all the relevant factors?</p>	
<p>5</p>	<p>5. Lapses, Surrenders and non-forfeiture provisions (Link para 9 of APS 5)</p> <p>5.1 Have you ensured that the options and benefits available in circumstances such as discontinuance of premiums before the policy acquired any value and after the policy had acquired a paid up value/or surrender value been clearly spelt out together with the applicable conditions?</p> <p>5.2 If the illustration shows surrender value, does the illustration clearly distinguish between guaranteed</p>	

	<p>and non- guaranteed surrender values?</p> <p>5.3 In the case of non-guaranteed surrender value, do the illustrations show as to how long the current non-guaranteed surrender value would be applicable and does it advice checking with the life office the available non- guaranteed surrender value thereafter?</p> <p>5.4 Have you documented all assumptions underlying the calculations along with suitable justification, wherever necessary, and have I ensured the accuracy of calculations?</p> <p>5.5 Whenever the Life insurance Council has revised the investment return rates, have you carried out a review of and revised the assumed basis for illustrations for all types of plans and have the revised illustrations got those approved by the life office management and filed with the IRDA before those are used at the point of sale?</p>	
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Name of the Appointed Actuary

Signature
Date