

# 31st India Fellowship Seminar

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Guide: Rajeshwarie VS



### Presenters

1. Chehak Jain
2. Arindam Chakraborty
3. Rahul Gupta

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# Context.. the background (1 of 2)



- Start-up actuarial consultancy V2 bags actuarial audit of an insurer
- Significant fee and boost in image/ reputation of V2 through this contract
- Key decision maker for the deal from insurer is Chief Actuary (CA) well known to me, one of the partners at V2
- Following V2's selection the task is assigned to me (CA's close friend)
- One of the key actuarial assumption used by CA seems unacceptable
- Professional standards and regulation confirm this

# Context.. the background (2 of 2)



- CA feels both his view and mine are correct
- CA also states his team was heavily involved in setting this along with the other assumptions
- He is not willing to change this assumption and rework this year as this would adversely affect profits
- However he is open to reviewing it next year
- Subtle pressure on me from CA, due to his position in the industry/ company and his role in V2 clinching the deal and his support for me all these years

# Context.. the problem statement

- Unacceptable assumption
- CA not willing to change it this year
  - this might result in incorrect realisation of the profit for the insurer
- Conflict of interest - me knowing CA before and having benefitted from his support/ guidance in the past
- Pressure from my firm as well because this deal is a significant opportunity for V2

# Professional Standards



- Professional standard for reference
  - Professional Conduct Standards v3 (PCS)
  - Sections which are relevant in this case are
    - Professional Standards
    - Standards for advice
    - Breach of Professional Guidance
    - Conflict of interest
    - Financial interests

# Relevant sections of PCS to refer

(1 of 2)



## Breach of Professional Guidance:

- The assumption is key to impact the profitability hence quite material
- Being aware of the material breach of guidance appropriate action needs to be taken at the earliest opportunity which includes
  - approach to other member who is competent and experience in the subject matter
  - communicate to professional body about this
- Challenges may arise in terms of the confidentiality of the financial information while discussing/ sharing third party involve

# Relevant sections of PCS to refer

(2 of 2)



## Conflict of interest:

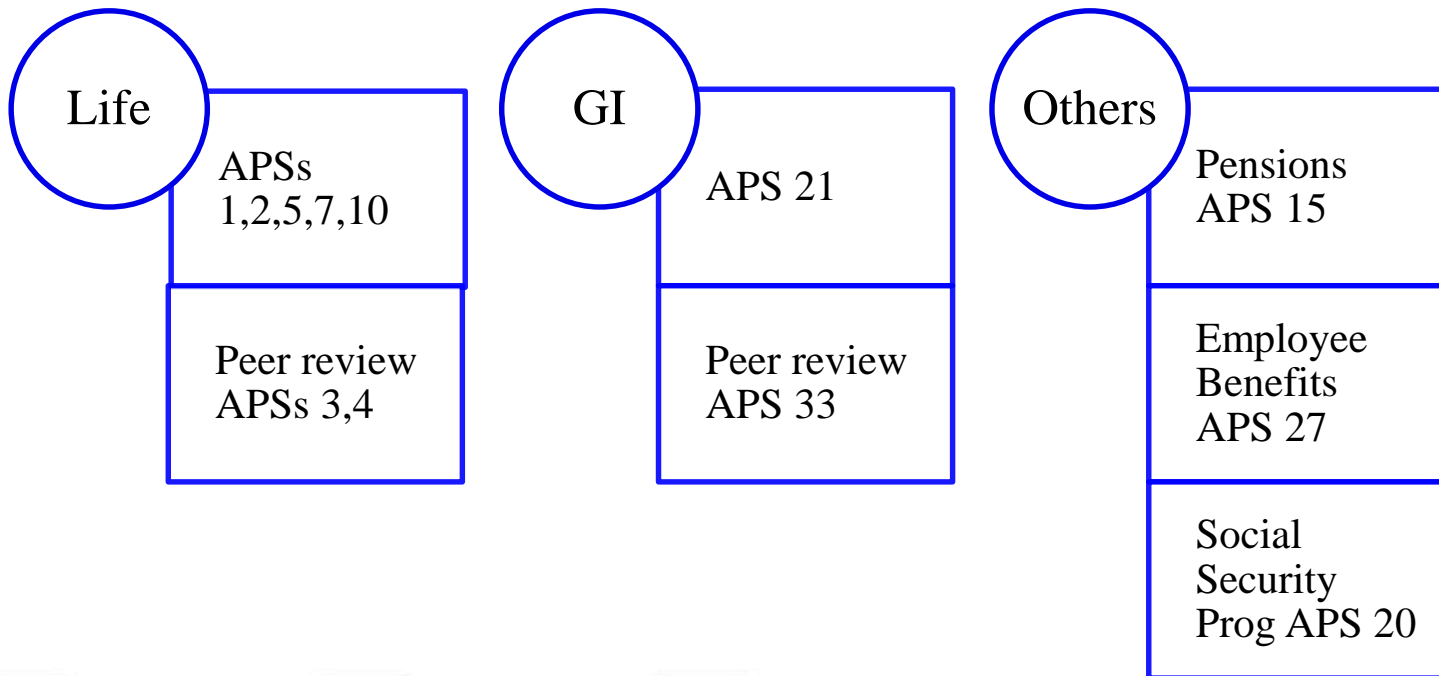
- Being assigned for this task for having connection to the CA from previous organization there might be conflict of interest

## Financial interest:

- V2 is a recent start-up and
- the current deal is a big opportunity for the firm both in terms of fees income and credential enhancement



# APS



# Assumptions - Our take



- Valuation is dependent on certain material assumptions
- Key assumption could be in any one of these areas
  - Data underlying assumption
  - Benchmarking
  - Loss Ratios
  - Outwards reinsurance protections
  - Inflation
  - Rates
  - Underwriting actions

# Possible actions

- Insist on change to assumption
  - All at once in the current year
  - In a phased manner - Document clearly that the assumption is being reviewed and the change would be completed next year, partly amended this year
- Opt-out of the project and let my partner at V2 or some other senior member handle it - this would avoid the conflict of interest that arises because of your acquaintance with V2
- Provide a 'qualified' opinion
  - highlighting in the report about the assumptions
  - flagging the point of disagreement
  - quantify the impact a change of assumption would make if possible

# Factors for deciding course of action

- What the professional standards/ regulations suggest/ prescribe in such situations
- Impact of changing the assumption
- Materiality/ significance of the assumption
- The advice of experts/ seniors subject to any confidentiality restrictions
- The management of the insurer may have a solution/ stand
- V2's stand
- CA's behaviour towards me- it could be intimidating or unprofessional

# Possible implications of these course of action

- Possible damage to reputation for me, CA and V2
- Sour relationship between me and CA
- V2 may end up losing the contract or may not be asked to audit for the insurer in the future
- Change in assumptions - adverse financial impact on the insurer
- In extreme case any action by regulator/ professional body

# Conclusion



- These situations arise more often than not!
- Key is to always follow the professional guidance available
- Seeking expert advice could help reach solutions faster
- Every situation is very specific and will have to be considered on a case to case basis
- Whistleblowing is always an option