

11th Capacity Building Seminar in General Insurance (11th CBGI)

Insurance Institute of India

19th December 2024

Observations: Compliance Questionnaires

Suruchi Bhargava

G.V. Subhasree Nigamma

(Presenting as members of Advisory Group on General Insurance)



Agenda

Overview of APS21



Key Regulations References



Observations on Questionnaires
Received

Overview



General Insurance Practice



APS33: Peer Review of Appointed Actuary's work in - General and Health Insurance / Reinsurance

APS21: Appointed Actuary and General Insurance, Health Insurance or Reinsurance Business

Applicable to:

1. **Appointed Actuary**- appointed in accordance with IRDA Appointed Actuary Regulations by an Insurer carrying on the business of General Insurance or Reinsurer or Health Insurance
2. **Other actuaries**- who is associated with a general insurer or reinsurer or health insurer and have to relate directly or indirectly to the Appointed Actuary

APS 21: Version 2.0 – 15-09-2023



Duties of Appointed Actuary

Uphold Professional Standards

Ensuring Solvency of the Company

Premium Rates of the insurance products are fair

Various Financial aspects such as RM, Reinsurance adequacy, expenses under compliance, ALM

Capital Requirements assessment for projected volume of business

Various Actuarial Investigations

Premium and Claim Reserving

Actuaries who are Directors, Employees or Consultants

Key Regulations References



APS 21: Version 2.0 – 15-09-2023



APS 21 : Para 8.8.1 along with Para 4 – Part II of Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024

Regulation:

- UPR shall be computed as under:
 - (1) Marine Hull - 100 percent of Net Written Premium during the preceding twelve months;
 - (2) Other Segments - 50 percent of Net Written Premium during the preceding twelve months;or on the basis of proportion of the unexpired period to the total period of the respective policies.
- However, Insurers shall follow the method of provisioning of Unearned Premium Reserve in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Competent Authority.

APS:

- Incidence of the risk over the policy term while estimating the UPR.
- Thus, if the UPR is computed by using the time apportionment or $n/365$ method, which assumes uniform incidence of risk over the policy period, necessary adjustments to the value calculated should be made for the uneven incidence of risk.
- The Appointed Actuary should state the method used in the computation and the underlying assumptions.

APS 21: Version 2.0 – 15-09-2023



Para 8.7 along with Para 7 (2) and 7 (9)– Part II of Schedule I of Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024

Regulation:

- Rendering actuarial advice to the management of the insurer, in particular in the areas of product design and pricing, insurance contract wording, investments and reinsurance;
- Ensuring adequacy of reinsurance arrangements;

APS:

- The Appointed Actuary must review the reinsurance arrangements from time to time and consider alternative approaches with regard to retentions and type(s) of reinsurance arrangements. This would require the Actuary to develop necessary statistics and statistical analyses for studying actual experience and recommend possible alternatives where considered necessary.

APS 21: Version 2.0 – 15-09-2023



Para 8.9.1 along with Regulation 3 of IRDAI (Expenses of Management, Including Commission of Insurers) Regulations, 2024

Regulation:

- Every insurer shall have a well-documented policy approved by its Board on an annual basis for Expenses of Management, which shall, at the minimum specify:
- Manner of allocation and apportionment of expenses of management amongst various business segments including the following parameters, at the minimum:
 - (a) Expenses which shall be allocated;
 - (b) Basis of allocation;
 - (c) Expenses which shall be apportioned;
 - (d) Basis of such apportionment;

APS:

- Analyze the insurer's expenses according to fixed and variable expenses and type of Expense.
- Alert the insurer about the occurrence of cross subsidies, if any between product lines in respect of expenses except to the extent required to meet rural and social insurance obligation

APS 21: Version 2.0 – 15-09-2023



APS 21 : Para 8.8.3 along with Regulation 8 – Part II of Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024

- Claims made in respect of contracts where the claims payment period exceeds four years shall be recognized on an actuarial basis, subject to regulations that may be prescribed by the Authority.
- In such cases, certificate from a appointed actuary as to the fairness of liability assessment must be obtained.
- Actuarial assumptions shall be suitably disclosed by way of notes to the account.

Observations on Questionnaires

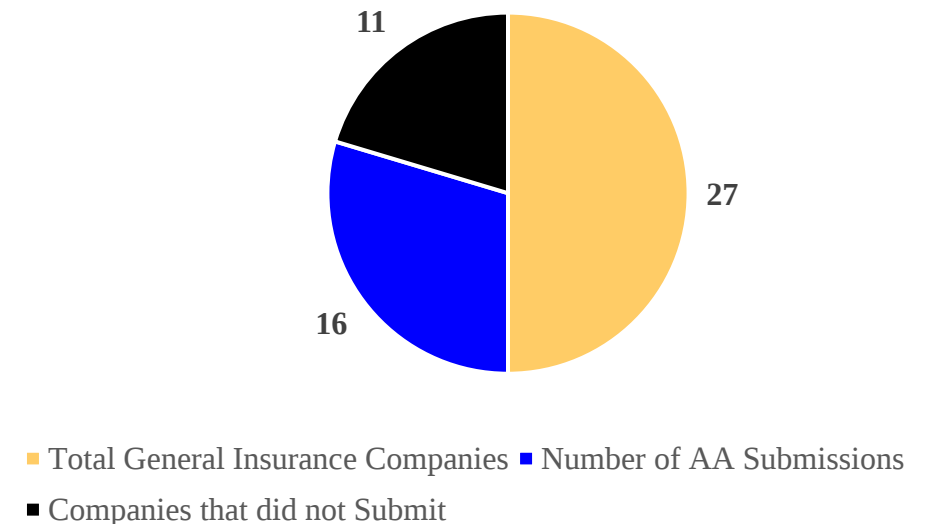


Observations

Compliance Questionnaire Observations 2023-2024

- The Questionnaire is objectively designed to have an Answer as Yes or No with comments wherever the Actuary of the Company would like to add a clarification or specific status of the company
- Many answers were found to be ambiguous without a clear Yes or No
- Certain questions with No as an answer, should have the explanation for the non-compliance (Not Applicable, why analysis of expenses not done, why capital requirements not assessed, etc.)
- Some submitted questionnaires are incomplete where certain questions are not answered yet the submission is signed
- A questionnaire received in word with comments for most questions without a clear Yes/No

**Compliance Questionnaire Submission Status
(FY ending 31-03-2024)**



Observations

General Suggestions for Improvement

Q No	Link para	Checklist question	Reply(Yes/NO)	Remarks	Additional Observations and where the questionnaire may be at variance with IRDA, ALSM, Regulation, 2016
32.	7.1	have you advised the Board of Directors as to the capital requirements associated with writing the required volume of business?	Did not require to, as Company is well capitalized with Solvency ratio of		

42.	8.7	Have you reviewed the reinsurance arrangement of the insurer and considered alternative approaches with regard to retentions and type(s) of reinsurance arrangements by developing necessary statistics and statistical analysis for studying actual experience.	No	The Company has a separate Reinsurance department that do considers the alternative approaches to retentions and types of reinsurance arrangements and discusses in it committee meetings.
-----	-----	--	----	--

51.	8.9.1	Have you conducted an analysis of expenses of insurer according to fixed and variable expenses and type of expense?	Did not arise	
-----	-------	---	---------------	--

Observations

General Suggestions for Improvement

Q No	Link para	Checklist question	Reply(Yes/NO)	Remarks	Additional Observations and where the questionnaire may be at variance with IRDA, ALSM, Regulation, 2016
43.	8.8.1	If the UPR is computed by using the n/365 method, which assumes uniform incidence of risk over the policy term, have necessary adjustments been made to the value calculated for the uneven incidence of risk, if any. Have you stated the method used and the underlying assumptions?	No	UPR is computed basis IRDAI guidelines.	

Q No	Link para	Checklist question	Reply(Yes/NO)	Remarks	Additional Observations and where the questionnaire may be at variance with IRDA, ALSM, Regulation, 2016
43.	8.8.1	If the UPR is computed by using the n/365 method, which assumes uniform incidence of risk over the policy term, have necessary adjustments been made to the value calculated for the uneven incidence of risk, if any. Have you stated the method used and the underlying assumptions?	No	Uneven incidence of risk exists only in case of project policies like Contractor's All Risk and Erection All Risk which has negligible proportion in Company's overall business.	

Thank You