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Should I stay or not - Professional Case Study

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Case Study

- Ram worked as a valuation actuary at Meta Life Insurance in India.
- Ram received a call from a placement consultant for the Appointed Actuary (AA) role at Sebi Life Insurance, a listed insurer in India.
- He left Meta and joined Sebi in May, excited to take on his dream role as AA.
- Sebi had already disclosed financial results for the March year-end in April, despite not having an AA at that time.
- The disclosures were made under the guidance of the valuation actuary, with an external consulting actuary reviewing the work.
- Ram learned that the previous AA had resigned due to disagreements with management over assumptions used in valuation.
- Ram reviewed the assumptions, experience analysis, reserves, and embedded value (EV) / value of new business (VNB) methodologies.

Case Study

- On joining, he found that assumptions were aggressive, and methodologies did not comply with relevant regulations, Guidance Notes, and Actuarial Practice Standards.
- The company had already disclosed the numbers for March, so Ram couldn't change them when submitting the year-end report to the IRDAI by June.
- He realized that correcting the figures would significantly impact statutory profitability, EV and VNB margin.
- Ram found it difficult to convince management to correct the issues, especially given that the previous AA resigned for similar reasons.
- Ram is unsure whether to resign before submitting the year-end returns (as his previous position at Meta is still open) or stay and attempt to address the issues despite management resistance.
- He faces a decision between leaving to avoid potential fallout or staying to fulfill his regulatory responsibilities, knowing the challenges involved.

Agenda

- Ethical & Professional Responsibilities
- What could Ram have done to avoid this situation?
- Evaluating the Options - Ram's Next Steps
- What should Ram do now?
- Key Takeaways & Conclusion

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- **Ethical & Professional Responsibilities**
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Ethical & Professional Responsibilities



Ram should refer to the relevant clauses of the PCS

- PCS Section 1.3: “A member who has any doubt about the interpretation of professional guidance or its application in particular circumstances should normally seek advice from an actuary who has relevant experience in the first instance. If this would be inappropriate or if, having consulted such an actuary, the member has residual doubts about the course of action to be taken, the member is advised to seek guidance from the professional body”

Ethical & Professional Responsibilities



Consult with previous AA for the roles and responsibility and seek confirmation for any conflict with management.

- PCS Section 7.2 : “If an actuary invited to provide actuarial services to a client, knows or has reason to suspect that another actuary is acting or has recently provided advice on the same or a related matter, the actuary should communicate in writing, with the other actuary at as early a stage as possible to ask whether, he is aware of any professional reasons to be considered in accepting the appointment or any particular considerations which ought to be borne in mind before providing actuarial services”

Ethical & Professional Responsibilities



Acquire knowledge of the company past practice

- APS 34 section 2.2 : “The actuary should have or obtain sufficient knowledge and understanding of the data and other information available, including the relevant history, processes, nature of the business operations, law, and business environment of the subject of the actuarial services, to be appropriately prepared to perform the actuarial services required by assignment.”

Ethical & Professional Responsibilities



Confirm with the management about the role and responsibility

- **reluctance of the management in changing the methodology or process modification.**
- **intervention of management within the scope of the actuarial services.**
- APS 34 section 2.1.1 states that:
The actuary should confirm with the principal the nature and scope of actuarial services to be provided, including:
 - a) the role of the principal
 - b) any limitation or constraints on the actuary.

Ethical & Professional Responsibilities



Ram should adhere to PCS, relevant APSs and GNs in performing his assignments.

- APS 34 section 2.1.2 states that:

In accepting an assignment, the actuary shall:

- a) Be satisfied that the assignment can be performed under the applicable code of PCS, relevant APSs and GNs.
- b) Have reasonable assurance of time, resources, access to relevant employees of the principal and other relevant parties, access to documentation and information, and the right of the actuary to communicate information, as may be necessary for the work.

Ethical & Professional Responsibilities



Ram must be impartial in carrying out his duties

- PCS Section 6.1: “Actuaries must ensure that their professional judgement is not compromised, and is not seen to be compromised, by any bias, conflict of interest or the undue influence of others”
- PCS Section 6.2: If there is a conflict between a client and the actuary or the actuary’s firm, the actuary must consider the nature and extent of the conflict and whether it is such as to make it improper for the actuary to provide actuarial services to one or more of the clients involved in the conflict.

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What could Ram have done to avoid this situation?

- **Conduct thorough Due Diligence before changing Jobs**
- **Engage with Key Stakeholders Early On**
- **Assess Management's Alignment with Actuarial Independence**
- **Align the Role with Career Goals and Ethical Considerations**
- **Assess the Transition and Handover Process**

Conduct Thorough Due Diligence Before Changing Jobs

- **Company Research:**
 - Investigate Sebi's historical actuarial practices.
 - Identify any past regulatory issues or non-compliance.
- **Examine Financial Disclosures:**
 - Scrutinize financial results for aggressive assumptions.
 - Look for inconsistencies in reserves and profitability margins.
- **Review Actuarial Reports:**
 - Ensure actuarial assumptions align with industry standards.
 - Assess compliance with IRDAI regulations and guidance notes.
- **Understand Market Perception:**
 - Review public opinions and market reactions to Sebi's financial disclosures and actuarial assumptions

Engage with Key Stakeholders Early On

- **Consult External Actuary:**
 - Discuss Sebi's actuarial assumptions and methodologies.
 - Identify potential risks in valuations or assumptions.
- **Meet with CFO and CRO:**
 - Understand management's approach to actuarial practices.
 - Clarify expectations around reserves, EV, and VNB calculations.
- **Learn from Previous AA's Resignation:**
 - Understand reasons behind the previous AA's resignation.
 - Gauge management's willingness to address past conflicts.
- **Discuss Challenges with Other Senior Actuaries**
 - Gauge their experience with Sebi's valuation practice

Assess Management's Alignment with Actuarial Independence

- **Probe Management's Attitude:**
 - Ensure management supports actuarial independence.
 - Assess if management values actuarial input in decision-making.
- **Understand Compliance Culture:**
 - Assess whether Sebi values regulatory compliance.
 - Gauge management's commitment to maintaining actuarial integrity.
- **Understand the Conflict Resolution Mechanism:**
 - Investigate how past conflicts between the actuarial team and management were handled

Align the Role with Career Goals and Ethical Considerations



- **Evaluate Career Fit:**
 - Reflect on whether the AA role aligns with long-term career objectives.
 - Assess growth opportunities within Sebi, considering potential challenges.
- **Ethical Considerations:**
 - Consider how working with aggressive assumptions impacts professional integrity.
 - Reflect on whether the company's culture supports ethical practices and professional growth.
- **Make clear Strategy for Addressing Issues:**
 - Plan to handle potential resistance from management
 - Understanding company dynamics

Assess the Transition and Handover Process

- **Ensure a Proper Handover:**
 - Confirm thorough documentation from the previous AA.
 - Ensure a clear understanding of assumptions and valuation methodologies.
- **Review Pending Reports:**
 - Assess the compliance of year-end reports with regulatory standards.
 - Ensure all reports align with Sebi's disclosed numbers to avoid discrepancies.
- **Identify Transition Risks:**
 - Identify potential issues from the previous AA's work.
 - Address gaps in knowledge transfer that could impact compliance.

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Evaluating the Options - Ram's Next Steps

Stay and Address the Issues



- APS 1 (Section 2.1): *“The responsibilities of an actuary who is appointed under the AA Regulations, are central to the financial soundness of the life insurance company to which he is so appointed.”*
- APS 1 (Section 2.2): *“An Appointed Actuary should ensure, so far as is within his/her authority, that the life insurance business of the company is conducted on sound financial lines and that he/she has regard to Policyholders’ Reasonable Expectations (PRE).”*
- APS 34 (Section 2.8.2) states that If the actuary cannot support a prescribed assumption or methodology due to a significant conflict with appropriate practice or insufficient basis to judge its appropriateness, they must disclose this in their report, including the prescribing party and the reason they set it.

Evaluating the Options - Ram's Next Steps

Stay and Address the Issues

- PCS (Section 2.1): *“The Actuarial Profession has an obligation to serve the public interest.”*
- PCS (Section 2.2): *“Members have a duty to the actuarial profession and clients must act honestly and with integrity”*

Evaluating the Options - Ram's Next Steps



Stay and Address the Issues

- IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, Schedule I:

Section

6.3

The Appointed Actuary must exercise his power to attend, speak and discuss on any matter in meetings of the management including directors meeting of the insurer and in meetings of the shareholders or the policyholders of the insurer:

- (i) that relates to the actuarial advice given to the directors;
- (ii) that may affect the solvency of the insurer;
- (iii) that may affect the ability of the insurer to meet the reasonable expectations of policyholders; or
- (iv) on which actuarial advice is necessary.

Evaluating the Options - Ram's Next Steps



Stay and Address the Issues

- IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, Schedule I:

Section 6.4

An Appointed Actuary shall be entitled to make any statement to insurer, for the purpose of the performance of his or her functions as Appointed Actuary. This is in addition to any other privilege conferred upon an Appointed Actuary under any other regulations.

Section 7.6

Drawing the attention of management of the insurer, to any matter on which he or she thinks that action is required to be taken by the insurer to avoid any contravention of the Act of such a nature that it may affect the interests of the policyholders.

Evaluating the Options - Ram's Next Steps



Stay and Address the Issues

Pros:

- Ram upholds and maintains professional integrity by ensuring compliance with regulations.
- Participates in management discussions to resolve the issues and build management's awareness on non compliance.
- Takes responsibility and helps the company to correct aggressive assumptions and non-compliant methodologies
- Enhances credibility and his reputation as an Appointed Actuary.
- Strengthens trust with IRDAI, investors, and policyholders.
- Establishes a robust actuarial framework for the company's long-term benefit.
- Demonstrates Ram's commitment to actuarial profession and its principles.

Evaluating the Options - Ram's Next Steps

Stay and Address the Issues

Cons:

- Considering past issues, Management may resist changes, making implementation difficult.
- Increase workload pressure and considerable stress due to potential conflicts.
- risk of being associated with non-compliant reports if issues persist with management.
- Any corrective actions would require time, requiring ongoing effort.
- Possibility of job insecurity and relations with management, if conflicts escalate.
- Risk of facing regulatory scrutiny for past disclosures, even if not responsible.
- Risk of bad reputation

Evaluating the Options - Ram's Next Steps

Seek Regulatory Intervention

- APS 1 (Section 2.3): *“Any Appointed Actuary, who becomes doubtful as to the proper course to adopt in relation to a potentially significant matter, is strongly advised to seek help and advice from the IAI.”*
- APS 1 (Section 4.1) states that An Appointed Actuary also has statutory duties to the IRDA. If these obligations conflict, the Appointed Actuary must notify the company if its actions or an uncontrollable situation threatens solvency. If unresolved, the Actuary must inform the IRDA, but only after notifying the company.

Evaluating the Options - Ram's Next Steps

Seek Regulatory Intervention

- As per Schedule I, Section 7.14, IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024

The actuary must inform the Competent Authority in writing, within a reasonable time, of any contravention of the Act or other Acts by the insurer that may significantly affect policyholders' or beneficiaries' interests, failure of directors to enable the actuary to fulfill their duties, or any conduct by an officer or employee preventing the actuary from performing their duties.

Evaluating the Options - Ram's Next Steps

Seek Regulatory Intervention

Pros:

- Ensures regulatory compliance and adherence to actuarial standards.
- Protects professional integrity by escalating concerns formally.
- Reduces personal liability if future issues arise.
- Increases pressure on management to take corrective action.
- Strengthens trust with IRDAI, showing commitment to transparency.
- Prevents long-term financial and reputational damage to the company.
- In the best interest of policyholders and public

Evaluating the Options - Ram's Next Steps

Seek Regulatory Intervention

Cons:

- May strain relations with management, making the work environment hostile.
- Regulatory Intervention and scrutiny may create an adverse impact on company's reputation.
- Corrective actions would require time and regulatory involvement.
- Potential backlash from internal stakeholders, affecting collaboration.
- If Ram is misinterpreted, could limit future career opportunities.
- Could lead to job insecurity or forced resignation, if matters stay unresolved.

Evaluating the Options - Ram's Next Steps



Resign Before Submitting the Returns

- As per IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, Schedule I, Section 5.3

If AA makes formal intimation to the Insurer to cease to be an AA of the insurer, then the insurer and the Appointed Actuary shall intimate the Competent Authority the reasons thereof within one week of the date of such intimation to the insurer.

- PCS (Section 2.1) emphasizes that the actuarial profession must serve the public interest, with individual members maintaining the highest standards of conduct. The profession's reputation relies on the judgment and actions of each member.

Evaluating the Options - Ram's Next Steps

Resign Before Submitting the Returns

Pros:

- Maintains integrity by not signing off on reports and supporting inaccurate results.
- Protects professional reputation by not endorsing aggressive assumptions and avoiding regulatory intervention.
- Avoids potential regulatory scrutiny over incorrect filings.
- Avoids personal responsibility for non-compliant financial disclosures. Informing Insurer with a Prior notice will help to avoid bad reputation.
- Prevents conflicts with management and a stressful work environment.
- Considerable opportunity already available with Meta or seek other opportunities in the industry

Evaluating the Options - Ram's Next Steps

Resign Before Submitting the Returns

Cons:

- Leaving the company without an AA, would lead to delay in regulatory submissions for Sebi and reputation damage for Ram.
- The step might be seen as avoiding responsibility, affecting long-term credibility in the industry.
- Such a situation ignores the opportunity to drive corrective actions and improve governance and controls of Sebi.
- Potential financial and career uncertainty without another secured role, if he chooses not to return to Meta.
- Regulatory authorities may still question Ram about reporting challenges and issues.

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What should Ram do now?

Recommended Approach: Stay and Work Towards Corrective Actions

Immediate Actions:

- Review assumptions and methodologies
- Document all discrepancies and investigations undertaken.
- Perform impact analysis, to quantify impact due to current issues.
- Perform impact analysis to quantify impact, if corrections are undertaken
- Propose his recommendations to senior management, the Board, and the With-Profits Committee, highlighting regulatory risks and PRE concerns if issues are not corrected.
- Provide expert advice for correction of assumptions.
- Escalate concerns to IRDAI, if issues are still unresolved with management.

What should Ram do now?

Recommended Approach: Stay and Work Towards Corrective Actions

Medium & Long -Term Actions:

- Propose a corrective action plan to align assumptions with regulatory requirements.
- Seek external actuarial review and advice, if required.
- Develop a framework for periodic review of assumptions and experience analysis to avoid future scenarios with similar issues.
- Engage with the Risk Management and Audit Committees for support.
- Strengthen governance around actuarial reporting by involving external consultants, if necessary.

What should Ram do now?

Stay and Work Towards Corrective Actions

If Compliance Cannot Be Ensured:

- Escalate the matters to the Regulator, if issues are unresolved.
- Resign with a formal prior notice to Insurer and IRDAI, timely.
- Adhere to professional guidelines, uphold professional integrity while ensuring a smooth transition from the company.

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Key Takeaways & Conclusion

- Actuaries in leadership roles must conduct due diligence before taking key positions.
- Ram must act in the best interest of policyholders and uphold professional integrity.
- He should either take steps to resolve the issues or escalate the issues to the regulator and management.
- Staying and addressing the issues is the preferred approach, provided management issues can be resolved.
- A correction plan, appropriate analysis, proper documentation, and strong governance oversight should be implemented.
- Regular communication with the Board, Risk Management Committee, and IRDAI is crucial to maintain transparency and trust.

Questions & Answers

Thank You

