

43rd India Fellowship Seminar

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Appointed Actuary's Dilemma: Addressing Discrepancies in General Insurance

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Case Study



You have recently taken up the Appointed Actuary role in a large General Insurance company. The previous Appointed Actuary has moved to a business role and now manages Motor underwriting function. You have taken charge during third quarter of the financial year. While reading the previous year's IBNR report and Peer Review report, you observed some discrepancies, especially in Motor lines of business - both Own Damage and Third-Party Liability.

While discussing these with the previous AA, you were informed that the Peer Reviewer report can be ignored as the recommendations of Peer Reviewer were not practical from business standpoint. You were advised to change the Peer Reviewer in current year even though the same person can continue one more year.

Case Study

A new Peer Reviewer's name was also suggested to you. After carrying out high level analysis, you concluded that the comments of the Peer Reviewer were indeed appropriate, while no action was taken during last annual valuation exercise. You wanted to carry out deep dive during third quarter and sought some specific information around the Company's business strategy for Motor book from the newly appointed Motor Underwriting Head.

While he shared few high-level data points, he declined to share specific inputs around strategy by saying all these are dynamic and can not be relied upon much. You are about to start the December quarter end reserving work. The Company CFO has asked you whether we can change the Peer Reviewer this year as the fees seem to be high compared to market standard.

Case Study

Discuss the following areas:

- Would you want to take the feedback from the previous AA and accordingly change the Peer Reviewer? If not, how you would like to approach the valuation exercise in third quarter and eventually at year-end?
- How will you present your concern around the previous valuation numbers to the Management and the Board of the Insurer?
- How will you deal with the Motor Underwriting Head (previous AA) going forward where he is privy to more critical business information and is reluctant to share the same?

Seeking Feedback from the AA

Understanding areas of disconnect

1. Key Assumptions & Data interpretation

- Quantitative ~ Frequency, Severity, Development Pattern, Changes in Mix (Business, Geographical, death-injury mix) etc.
- Qualitative ~ Changes in underwriting, Coverage, Changes to RI structure etc.
- External ~ Economic factors, inflation(medical, court-awards etc.), Regulatory etc.

2. Valuation Methodology

~Consistency, Preference

3. Risk Appetite

~Balance between risk and sustainability of reserves

4. Business Consideration

Management influence
Business oriented goals

5. Potential Conflict of Interest

Change the Peer Reviewer?

- ~ *Compliance with regulatory requirements*
- ~ *Ensure Company's long term financial health*
- ~ *Upholding Professional Integrity*

Reasons for retaining

- Recommendations appear Valid
- Actuarial work (Based on analysis) > Business pressures
- Within Term limits
- Familiarity with company systems, data, and methodology

Justifying the decision

- Assessing the depth and accuracy of the reviewer's past work
- Knowledge of our operations
- Insights from the regulator to validate recommendations

Change the Peer Reviewer?

Cost Considerations

- Assessing the reasonableness of fees
- Comparing with industry
- Seeking alternatives & renegotiate if necessary
- Discussions with CFO regarding the initial selection

~ Seek guidance from another actuary or regulator

Third-quarter and year-end valuations



Understand & Validate Current Data

- Assess claims development patterns using various reserving methods
- Re-examine Frequency & Severity
- Review Historical loss ratios
- Investigate noticeable changes
 - ~Changes in claim settlement
 - ~Increase in Lok Adalat/decrease in MACT cases, change in inflation
 - ~Changes in coverage
 - ~Shift in Mix etc.

Analyze drivers for adverse development

- *Actual vs. Expected Analysis*
- *Reserve Utilization*
- *Review IBNR & Peer Reviewer's Report, IRDAI queries & External Data (MoRTH, IIB, NL38)*

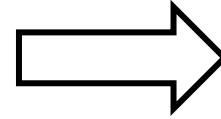
Work closely with the Motor Underwriting Team

- Qualitative insights
- Business strategies

Third-quarter and year-end valuations

External market trends

- Regulatory changes
- Legal environment
- Economic factors



Incorporate trends

- *Trend Analysis*
- *Adjust Loss Ratios*
- *Sensitivity Analysis*

Annual Valuation

- Regularly monitor claims development
- Spot deviation in assumptions
- Address unresolved discrepancies
- Benchmark against Industry data

-Comply with Regulatory standards and reflect true picture

Addressing Management & Board

- Aligning Senior Management with Analysis
 - *benefit from their deep understanding*
 - *unified position in front of the Board*
- Communication with the Sr. management
 - *Simplified & structured ~ time efficient & accessible*
 - *Focus on clear high level insights*
- Adherence to professional standards
 - *respect the status of AA*
 - *yet make properly reasoned comments*

Addressing Management & Board

Discussion with Senior Management.

- Comprehensive Review
- Diagnostic Tests
- Disconnect ~ Trend, Condition & strategy

Substantiating my opinion

- Comparison with Industry specially for Motor TP Lob
- Macro economic trends ~IIB, MoRTH Report
- Regulatory Queries on Annual Valuation

Context beyond numerical analysis

- Previous AA
Insights not reflected in the data yet.
- Motor Underwriting Team
Risk appetite, claims handling & business strategy
- Peer Reviewer Finding

~ Give Assurance & Recommend Reserve

Addressing Management & Board

~ Focus of Senior Management

Financial Implications

- Short term profitability
- Financial Stability & Capital Position
 - ~ Reporting, Capital Adequacy
- Business planning considerations
 - ~ Projection, budgeting & growth opportunities
- Share Price

Implications on Stakeholders

- Regulator
 - ~ Supervisory Action
- Reinsures
 - ~ Impact on securing favourable terms
- Credit Rating Agencies
 - ~ Impact on Credit Rating

~ Address concerns

Addressing Management & Board

- Presenting concerns to the Board
 - *consistent & well supported*
- Catering to primary focus
 - Financially sound
 - Regulatory compliant
- Presenting without delving into the finer details
 - Discrepancies ~ visuals & comparisons
 - Impact of adjustments ~ solvency & profitability
 - Alignment with External benchmarks, Regulatory Queries & Peer
- Assuring the Board & answering queries

Addressing Management & Board

~ *Extreme Scenario*

- Seek guidance from senior members of the profession
- Margin in my reserve estimates
- Reinforcing that I will not sign-off on Reserves below my Best Estimate
- Seek Forbearances from the Regulator
- Draw attention of the Board to APS & AA Regulation
- Final Escalation to the Regulator

Dealing with Motor Underwriting Head (previous AA)

Approach the situation with a blend of tact, clarity, and professionalism
Critical to establish a collaborative and transparent working relationship

Following steps could be taken:

- Clarify the Importance of Sharing Information
- Foster Trust and Build Relationships
- Set Clear Expectations
- Collaborative Approach
- Highlight Consequences
- Explore Underlying Reasons
- Formal Action Plan

Importance of Sharing Information

- Transparency and open communication in the business, could help in creating a healthy, efficient, and productive environment
- Help in holistic assessment of current situation, could better reflect following trends :
 - Sourcing corrections / business mix changes
 - Claims cost control including initiatives taken on improving fraud detection & prevention
 - Claims inflation observed in past and expectation for future
- Better-informed decisions, meeting business objectives in the longer run
- Appointed Actuary Regulation and APS 34 requirements

Foster Trust and Build Relationships

- If there's any existing tension or hesitation, take the time to build a stronger working relationship.
 - Acknowledge the Tension, Active listening , Set small positive goals together, find common ground, show appreciation , be patient
- Engage in one-on-one conversations to understand his concerns and establish a sense of mutual respect
- Regular catchup meetings :
 - Clarifying any dynamic strategies and adjusting assumptions over time.
 - Fostering collaboration and making the data exchange part of a routine process.
 - Building trust and showing that I am aligned with the broader business goals

Set Clear Expectations

- Sometimes, understanding the "why" behind the ask can make a difference
- Define the expectations around sharing business-critical information from the start, including of what's needed, why it's needed, and by when



Collaborative Approach

- Involve him in decision-making processes and ask for his input in relevant discussions
- Could lead to him becoming more open in sharing information, as his opinions and insights are taken seriously
- Work out impact of information withheld : business mix changes , frequency / severity reductions, claims / judicial / medical inflation
- Discuss outcomes of above scenarios on reserving / liability valuations with him and impact on future business budgeting and sourcing

Highlight Consequences

- Through what if scenarios using assumptions/ proxy for missing information
- Impact on reserves, solvency and overall business profitability
- If the reluctance continues, gently remind him of the potential negative consequences
- Regulatory reporting and submission could be impacted

Explore Underlying Reasons

- Try to understand if there are any deeper reasons for his reluctance
- It could be a fear of losing control, past negative experiences, or a lack of confidence in sharing certain information
- Identifying these concerns can help you address them more effectively

Formal plan of Action

- Communication with the Management
- Escalation to the Board or Audit Committee
- Qualification of Actuarial Reports
- Refusal to Sign Actuarial Reports
- Reporting to the Insurance Regulatory and Development Authority of India (IRDAI)

THANK YOU