

44th India Fellowship Seminar

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Case Study: Health Insurance Professional

Presented By Group 1:

1. Aashi Gupta
2. Siddhi Jain
3. Gulshan Baid
4. Sivaram Ganeshan



Agenda

- Case Study Overview
- Questions to address
- Key Points of Case Study
- Question 1: Interpretation of the circular and its implication on current work
- Question 2: Actuarial Judgement and Internal Difference of opinion
- Question 3: Balancing Professional Duty and Management Expectations
- Question 4: Approach to Launch Profitable Products
- Q&A

Case Study Overview: Circular on price hike for Senior Citizen

“You are an Appointed Actuary of a 8 years old mid-sized standalone health Insurance Company offering retail & group products and on your way to move out of the Company.

Your Company is still making underwriting losses and for last few years shareholders are pressurising the management to start delivering underwriting profits.

In view of this, your management had asked you to re-look at pricing strategy of the Company and design profitable products for the Company.

Your team is undergoing repricing exercise for retail indemnity products along with pricing a new product which will help to generate some profit.

While you were about to file all these products, a new circular comes in where Regulator has imposed restriction of 10% price hike for senior citizens.”

Questions to address

- What is your view on the above circular and how does it affect your current work?
- You and the underwriting head, who is also an Actuary by qualification have different interpretation of this circular. He is insisting you to consider his interpretation as he feels that will be more profitable for the Company. How will you address this?
- Your management is pushing you not to consider the circular as of now for existing pricing work as your distribution head has got some market information that other companies are opposing the idea and may reach out to Regulator for scrapping it. How would you professionally deal with such situation?
- Considering your situation and the pressure of launching profitable products quickly what would be your approach?

Key Points of Case Study

1. Company Background

- Mid-sized standalone health insurer, 8-9 years old
- Offers both retail and group health insurance products
- Currently facing underwriting losses over the past few years
- Appointed Actuary preparing to move out of the company

2. Current Actuarial Work

- Repricing exercise ongoing for retail indemnity products
- New product being priced with the aim of generating profits

3. Regulatory Development

- Just before filing, a new IRDAI circular is issued
- Circular imposes a 10% annual cap on premium increase for senior citizens.

Note: It is assumed that the 10% premium cap mentioned in the case study refers to the IRDAI circular titled “Review of Revision in Premium Rates under Health Insurance Policies for Senior Citizens” dated 30th January 2025 (Ref: IRDAI/HLT/CIR/MISC/27/1/2025), with no subsequent changes issued.

Question 1:

Interpretation of the circular and its implication on current work

Highlights of IRDAI circular

Objective:

The circular ensure affordability & protection for senior citizens under health insurance policies.

Key Directives:

- **Premium Cap:** The annual premium increase for senior citizens will be capped at 10% for individual indemnity products.
- **IRDAI Approval:** If the premium increase exceeds 10% or insurer withdraws any product affecting senior citizens, IRDAI's approval will be required.
- **Public Disclosures:** Insurers are required to actively communicate and promote all benefits and measures being taken for senior citizens.
- **Hospital Cost Control:** Insurers are encouraged to collaborate with hospitals and set standard treatment rates like PMJAY package rates.

View on the circular

Why Regulation is necessary?

- Health insurance premiums for senior citizens have risen 30-50% YOY.
- A surge in customer complaints about sharp and unaffordable premium hikes highlighted the need for regulatory intervention.
- Senior citizens rely on pensions, savings or fixed income making them highly sensitive to premium hikes.
- Senior citizens have high healthcare requirements making insurance essential for them.
- Steep premium hikes force senior citizens to drop their policies leaving them uninsured unless supported by other family members or group health policies.

Advantages of the New Regulatory Guidelines

Premium Protection for Senior Citizens

- Capping premium will help to reduce the financial strain for senior citizens and will ensure smooth progression of the premiums amount.

Stronger Regulatory Oversight

- Ensures insurers follow transparent pricing practices through increased requirement of IRDAI approvals.

Transparent Policy Communication

- Boosts policyholder trust with clear communication and proactive disclosures.

Reduced Portability Pressure

- Reduced need to port insurers due to affordability issues. Portability regulations are covered under master circular on health insurance business, 2024.

Improved Policy Penetration & Retention

- Affordable pricing may increase the product penetration and reduce the chances of policy lapses, among senior citizen policyholders.

Disadvantages of the New Regulatory Guidelines

Reduced Pricing Flexibility

- Insurers can't fully reflect risk-based pricing for older age groups for indemnity products leading to losses.

Threat to Product Viability

- Price hike limits may affect long-term sustainability, and insurers must serve all age groups as per IRDAI (Insurance Products) Regulations, 2024.

Impact on Innovation

- Strict pricing limits can discourage development of new or enhanced products.

Risk due to Transition

- Repricing will be impacted since appointed actuary is moving out. The transition may lead to delays.

Impact on Product Offerings

- Insurers may push less comprehensive or lower-value products to manage risk and maintain profitability.

Impact of circular on current work

Implications of Circular

Scenario 1: 10% cap significantly affects current work

The current pricing plans proposed premium increases >10% for senior citizens

- **Repricing and Assumption Rework:** Need to revisit pricing assumptions, update models, and incorporate the 10% cap to ensure compliance with circular as required by section 5.1 of PCS.
- **Diversification of Product Focus:** Insurer may shift focus to non-indemnity products which are not subject to cap or introduce co-pay/deductibles to maintain profitability and pricing flexibility.
- **Delayed Product Filing:** Products near finalization must be reassessed for regulatory compliance which may cause delay in product filing.
- **Regulatory Compliance Requirement:** The circular will demand documentation to be shared with IRDAI for justification in case of premium hikes more than 10%.
- **Cross-subsidization:** Constraints on risk-based pricing may lead insurers to rely on cross-subsidization from other product segments; however, such practices must remain aligned with prevailing market practices.

Implications of Circular

Scenario 2: 10% cap does not have material impact on current work

In recent years, insurer may have already increased premiums significantly for senior citizen products. As a result, the insurer may now be at a pricing level where further hikes beyond 10% are not immediately required.

- **No Immediate Repricing Required:** Existing product pricing can continue as planned, saving time and effort on rework.
- **Regulatory Compliance Maintained:** There won't be a requirement to seek IRDAI's consultation, as the product naturally adheres to the 10% cap.
- **Focus Shifts to Monitoring Experience:** Resources can be redirected to ongoing experience analysis and improving profit margin tracking.
- **Plan to Update Models and Pricing Tools:** Time should be allocated before the next pricing cycle to update assumptions, pricing cap, models in line with the new regulatory capping.

Question 2:

Actuarial Judgement and Internal Difference of opinion

Resolving Professional Disagreements

A new IRDAI circular has imposed a cap of 10% price hike for senior citizens. During the repricing of retail indemnity products and pricing of a new product aimed at profitability, a difference in interpretation arises between the Appointed Actuary (you) and the Underwriting Head (who is also an actuary by qualification). The Underwriting Head suggests an interpretation that allows for a more profitable pricing strategy. However, as the Appointed Actuary, you interpret the circular differently.

Resolution Framework

Resolving Professional Disagreements

❑ Refer to Professional Conduct Standards issued by the IAI and Health Insurance Circular Guidelines by IRDAI

- PCS 2.4 states
 - *“Healthy debates and expressing different opinions on matters of professional interest are good for the betterment of the actuarial profession. However, such debates and opinions must demonstrate due respect and must not bring disrepute to the actuarial profession or other members or the professional body. Members must be aware of any requirements of confidentiality and must respect the same.”*
- The IAI Professional Code of Conduct mandates independence of judgment, integrity, and placing the **public interest and policyholder protection** above commercial interest.
 - *Section 2.2 states “Members have a duty to the actuarial profession and clients and must always act honestly and with integrity.”*
 - *Section 6.1 states “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.”*
- While it is healthy and even encouraged to entertain differing views, the ultimate accountability to the Regulator lies with the **Appointed Actuary**.

Resolving Professional Disagreements

❑ Technical Disagreement Resolution

To professionally manage the disagreement:

- **Document Both Interpretations:** Lay out the differing interpretations in writing, detailing:
 - The literal and purposive interpretation of the circular
 - Implications of each view (in terms of risk, profitability, regulatory exposure)
 - Assumptions and definitions used
- **Engage in Constructive Discussion:**
 - Conduct a **joint review** of the circular text, any accompanying FAQs or press notes from IRDAI.
 - Refer to precedents: How has IRDAI enforced similar limits earlier?
 - Leverage examples from other regulatory interventions, such as past price control measures in senior segments
- **Seek Clarification from Regulator (if ambiguity is high):**
 - **Legal/Regulatory liaison** team for formal query to IRDAI
 - Draft a pre-filing query (non-binding), seeking interpretation guidance from IRDAI – which also demonstrates compliance-centric intent

Resolving Professional Disagreements

☐ Use Governance Forums Effectively

- Table the issue before the **Product Management Committee (PMC)** or the **Risk Management Committee**, both of which are standard forums in health insurers as per Corporate Governance Guidelines.
- If required, present both views to the **Board-appointed Audit & Risk Committee** and record your professional advice.

This approach shows that:

- Disagreements are handled within a **professional, transparent and governance-led** framework.
- Adhered to the **Appointed Actuary's duty** to advise independently and escalate when needed.

Resolving Professional Disagreements

☐ Peer Actuarial Discussions (Cross Company Insights)

- Reach out to actuaries in other companies (Appointed Actuaries, pricing leads, etc.) for an understanding of how they're interpreting the circular.
- Understand the regulatory ambiguity
- May reveal how others are adapting product strategy within the constraints of the circular
- Do not share internal proprietary pricing, assumptions, or portfolio data.

Resolving Professional Disagreements

☐ Highlight the impact of non-compliance of the regulation

If the interpretation is incorrect or not aligned with the Regulator's intent, it may:

- Trigger regulatory scrutiny
- Lead to reputational risk
- Penalty
- Put the professional credibility as an Appointed Actuary at risk

Resolving Professional Disagreements

☐ Final Professional Judgment

If disagreement persists even after discussions:

- As per IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024 the final accountability on product pricing and regulatory compliance rests with the **Appointed Actuary**.
- You may **record a professional dissent** and note the same in Board/PMC minutes if there's pressure to adopt the underwriting view.
- However, under no circumstances should the Appointed Actuary **sign off a filing** that does not align with their **own regulatory interpretation or ethical standards**.

Resolving Professional Disagreements

Scenario: Appointed Actuary Accepts the Underwriting Head's Interpretation

☐ Assessment and Acceptance of Alternative View

- The AA, after exercising professional judgment and reviewing supporting evidence (data, market practice, legal/regulatory consultation), may conclude that the Underwriting Head's interpretation is **reasonable, compliant, and not harmful to policyholders.**

☐ Documentation of Reasoning and Decision

- *Section 2.8.1 of APS 34 states “If the actuary is willing to support the prescribed assumption or methodology, the actuary may disclose the party who prescribed the assumption or methodology and the actuary's support in any report.”*
- Even if there's agreement now, it must be:
- **Clearly documented** in internal files
- Include the **rationale for the adopted interpretation**
- Mention any **assumptions or constraints**
- Disclose this appropriately in board or PMC meetings (if material)

Resolving Professional Disagreements

Scenario: Appointed Actuary Accepts the Underwriting Head's Interpretation

❑ Continued Accountability Still Rests with the Appointed Actuary

- Even if the Underwriting Head is correct and the AA agrees, the final accountability still lies with the Appointed Actuary to:
- Ensure regulatory compliance
- Certify the product filing
- Act in the interest of policyholders
 - *Section 2.1 of PCS states “The actuarial profession has an obligation to serve the public interest within the context of building and promoting confidence in the work of actuaries and in the actuarial profession. Collectively it seeks to do so by informed contribution to debate on matters of public interest and by influencing those with power to protect and enhance the public interest. Individually members must maintain and observe the highest standards of conduct. The standing of the actuarial profession depends on the judgment of individual members.”*

Question 3:

Balancing Professional Duty and Management Expectations

Key Question

- Distribution head suggests **other insurers are resisting the circular.**
- Management asks not to consider **the circular for now** for existing pricing work.
- Belief - the circular may be **withdrawn** if industry pushes back
- **How to professionally deal with such situation ?**

Relevant Regulations, Professional and Actuarial Standards

- IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024
 - Regulation 6 and 7
- IRDAI (Insurance Products) Regulations, 2024
 - Regulation 4 and 7
 - Schedule III - Specific Provisions applicable for Health Insurance Products
- Master Circular on Health Insurance Business, 2024
- Master Circular on Corporate Governance for Insurers, 2024
- Professional Conduct Standards (1, 2.1, 2.4, 5.1)
- APS-21 (Section - 2.3, 5.1, 5.4.2, 6.2.5)
- APS-34 (Section - 2.7, 2.9, 3)

Regulatory and Professional Duties

- Appointed Actuary's statutory duties **overrides** commercial pressure.
- **Regulation 7, Clause (7) of the IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024** mandates the Appointed Actuary to comply with the directions issued by the Authority from time to time.
- **Regulation 4 and 7 of IRDAI (Insurance Products) Regulations, 2024** requires insurers and actuary to protect the interest of the policyholders.
- Professionals Conduct Standard (PCS) (issued by IAI) sets out the ethical framework for all actuaries. One of the foundational duties that an actuary needs to follow is **“Compliance”**(with Act and Rules & Regulations).
- **Section 2.3 of APS 21 and Section 2.1 of PCS** requires an actuary to **act in public interest** and to hold the **highest professional standard** envisaged by the IAI.

Professional and Regulatory Considerations

- **Acknowledge business needs** but emphasize legal and professional obligations.
- IRDAI Circulars are **binding** unless officially **withdrawn or amended**.
- Clearly communicate to the stakeholders that non-compliance is **not** an option.
- Non-Compliance would lead to **regulatory action** from IRDAI (penalties, scrutiny, directives etc.) and would have an adverse reputational impact.
- Ensure premium rates for insurance products are fair and should comply with relevant regulations including any amendments thereof (**Section 5.1 and 6.2.5 of APS 21**).

Professional Response

- Encourage **open and constructive dialogue**, welcoming **differing professional views on the circulars**, in accordance with **Section 2.4 of PCS**.
- Engage internally with **Peer actuaries, Chief Compliance Officers, product/legal teams**. This helps to interpret the circular in the context of company operations.
- Seek clarification from the **regulator** regarding the potential withdrawal/scrapping up of the circular.
- Seek appropriate guidance from the **professional body (IAI)** regarding the potential withdrawal or scrapping of the circular, by raising legitimate concerns about lobbying pressure from the industry (**Section 1 of PCS**).

Professional Response

- **Actively participate in stakeholders and Product Management Committee meetings to ensure:**
 - **Policyholders' reasonable expectations are considered.**
 - **All pricing decisions comply with Regulatory Circulars and expectations under Regulation 6 of IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024 read with the Master Circular on Health Insurance Business, 2024.**
- **Propose a Dual-Track Strategy**
 - **Recommend full compliance with the circular.**
 - **Also developing an alternative pricing scenario that enhances profitability using permissible levers (e.g., product design modifications, network discounts, co-payment structures etc.) that don't rely on senior citizen premium hikes.**
 - **This shows business sensitivity and commercial awareness without compromising the ethics.**

Escalation and Governance

- Formally escalate the matter to the Board or Risk Management Committee if undue pressure continues, using appropriate governance channels.
- Maintain a **written actuarial opinion and internal documentation** clearly outlining the professional rationale for compliance, ensuring it is sufficiently detailed to support future reference.
- Reinforce actions with reference to the IAI Code of Conduct, particularly principles of **integrity, objectivity, and duty to the public interest and the profession.**
- If management fails to act appropriately, consider reporting the matter to IRDAI in writing under **regulation 7 of (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024.**
- Be prepared to **whistle-blow**, if the insurer **does not take appropriate action** to implement IRDAI circulars or violates any regulatory directives. (as per Section 11.3 of Master Circular on Corporate Governance for Insurers, 2024).

“As Appointed Actuary, professional integrity and regulatory compliance are paramount. Short-term business gains must not override long-term credibility, policyholder protection, and ethical standards.”

Question 4:

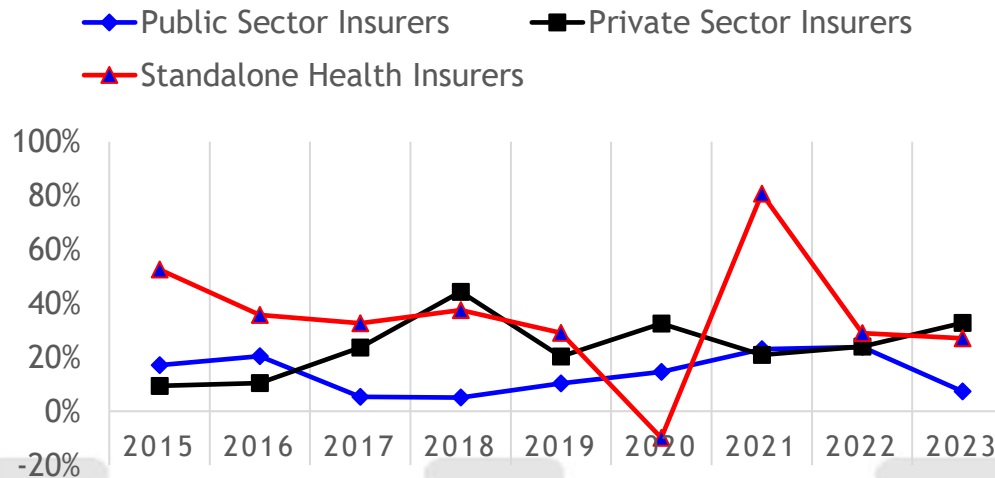
Approach to Launch Profitable Products

Approach to Launch Profitable Products

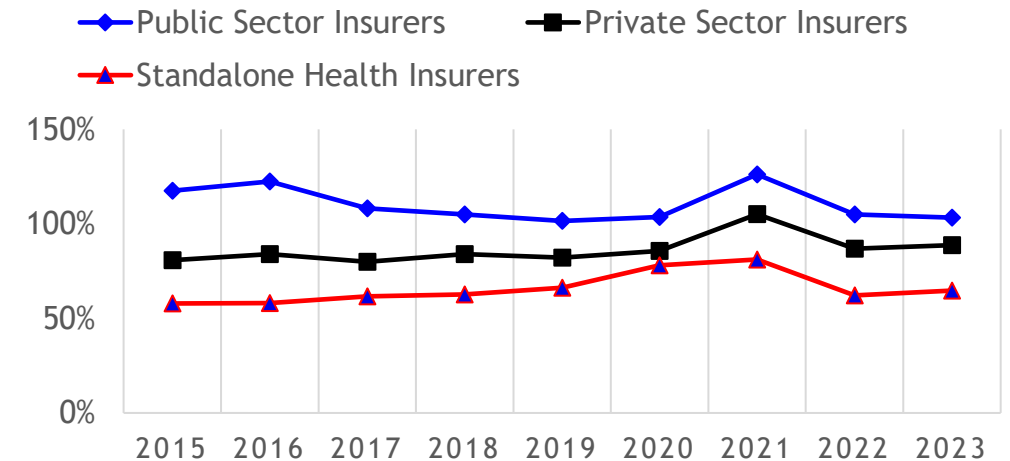
Industry Overview

- Premium Growth - going up consistently for the past few years.
- Claims ratio - In the range of 60 - 70% for a standalone health insurer

PREMIUM GROWTH - HEALTH INSURANCE



CLAIMS RATIO - HEALTH INSURANCE

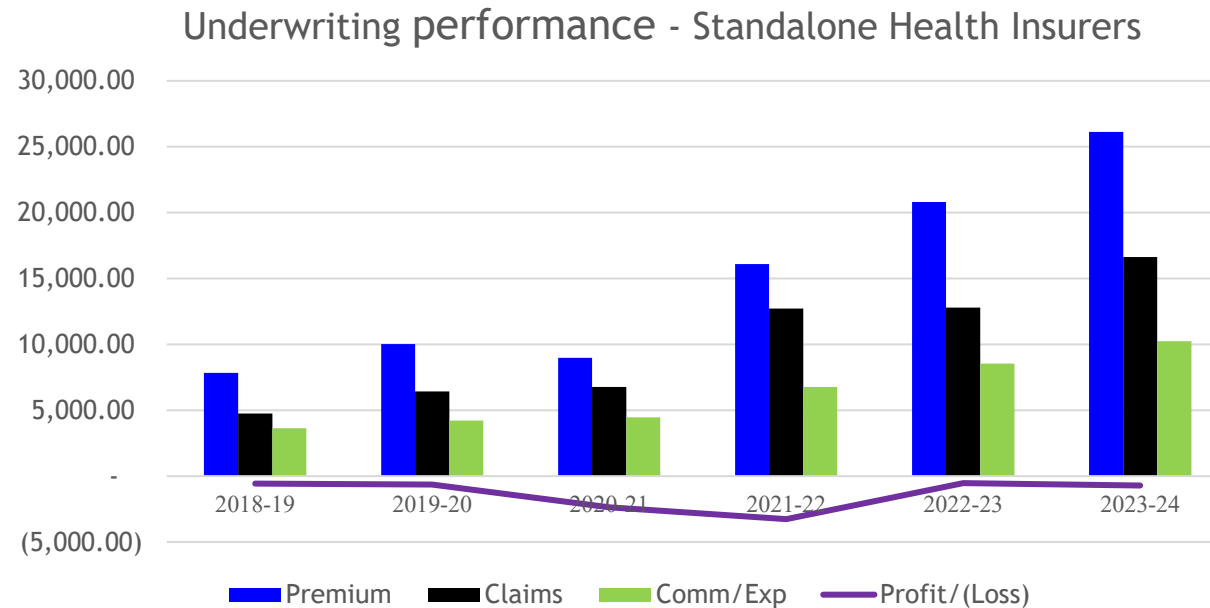


Source: Handbook on Indian Insurance Statistics 2023-24 published by IRDAI.

Approach to Launch Profitable Products

Industry Overview

- Underwriting performance of Standalone Health Insurers



Source: Handbook on Indian Insurance Statistics 2023-24 published by IRDAI.

Overall, the Industry is seeing underwriting losses due to rising commission and expense cost while claim cost has been stable.

Approach to Launch Profitable Products

Section 6 of APS 21 - Premium Rates for new and existing products

- The Appointed Actuary ('AA') must satisfy that **premium rates** for business (new, renewal etc. as applicable) **are fair**, i.e., are neither excessive nor inadequate.
- **Sufficient** in due course to enable the company to **meet its liabilities** both in tariff and non-tariff classes of business.
- The AA must **exercise judgment using sound techniques** to determine the appropriate premium rates.
- Few of the **considerations** to be looked at are:
 - Types of products and product mix
 - Claims costs including claims handling expenses
 - The adequacy of the provision for expenses and acquisition costs
 - The impact of future medical inflation and other cost escalations
 - Implication of any legislative amendments, which may not have been fully, reflected e.g. latest circular on premium pricing of senior citizen policies
 - Consider emerging risks such as increasing chronic diseases, new treatments etc.

Approach to Launch Profitable Products

Section 6 of APS 21 - Premium Rates for new and existing products

- The AA should **analyze the company's claims experience** and compare it with the industry experience. It should also consider both claims frequency and claim size.
- AA should analyze the extent of **claims experience being influenced by:**
 - Data Quality
 - Claims Management Policies
 - Portfolio Mix
 - Marketing and Underwriting Strategies
 - Case Reserving and,
 - Infrequent large losses and random variations

Approach to Launch Profitable Products

Section 8 of APS 21 – Actuarial Investigations

- Investigations of **Expenses** including Acquisition Costs (Section 8.9) - The AA must:
 - Analyze the insurer's expenses according to fixed and variable expenses and type of Expense.
 - Examine whether or not adequate provision is made in respect of the expenses in premium rating for each product line.
 - Alert the insurer if compliance with Expense of Management Regulations.
- Review of **Reinsurance Arrangements** (Section 8.7) - The AA must:
 - Review the Reinsurance arrangements from time to time and consider alternative approaches with regard to retentions and type(s) of reinsurance arrangements.
 - The Actuary to develop necessary statistics and statistical analyses for studying actual experience and recommend possible alternatives where considered necessary.

Approach to Launch Profitable Products

Transition Plan before Leaving

Since the AA is leaving, ensure a smooth **knowledge transfer** to the incoming Actuary:

- Create a **project plan with milestone** consisting of:
 - Data & Experience Analysis
 - Pricing Methodology
 - Product Design Considerations
 - Repricing existing products
 - Refilling with IRDAI & Compliance
 - Go to Market Plan
- Prepare comprehensive **reports and documentation** on pricing strategies and rationale.
- Ensure **ongoing monitoring frameworks** are in place.
- Highlight any **regulatory filings and timelines**.
- Be available for a **reasonable period** to respond to queries from the successor AA.

Approach to Launch Profitable Products

Other Professional/Regulatory Aspects

- **Integrity and Objectivity:** The AA should provide independent, unbiased advice based on sound actuarial principles, even if it conflicts with commercial pressures. (As per Sec 2.2 of PCS)
- **Transparency:** The AA should communicate clearly with the management and the Board about the risks and assumptions involved in pricing and product design.
- **Compliance with Standards:** As per Sec 5.1 of PCS, members have to comply with the Act and Rules & Regulations and disciplinary procedure will be levied in the case of non-compliance
- **Assumptions and Methodology:**
 - As per Section 2.7 of APS 34, when assumption or methodology is set by Actuary, appropriateness, margins for any adverse deviation, discontinuities, individual vs aggregate assumption, internal consistency and sensitivity testing should be considered.
 - As per Section 2.9 of APS 34, when an assumption or methodology is mandated by law/regulation, the actuary should disclose appropriately that this approach is mandated by law. (*Reference to the new circular on premium pricing of senior citizen*)

Approach to Launch Profitable Products

Other Professional/Regulatory Aspects

- **Section 7(8)** of IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024: Ensuring that overall pricing policy of the insurer is in line with the overall underwriting and claims management policy of the insurer;
- **Solvency and Capital Adequacy:** Ensure that any pricing changes maintain solvency margins as required by IRDAI. (As per Section 2.2 of APS 21)
- Ensure **compliance** with IRDAI's Master Circular on Health Insurance Business, 2024 including - disclosure norms, customer-centric clauses and portability rules

Q&A

Thank You

