

44th India Fellowship Seminar

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Group - 10

Investment - Professional

Addressing Governance and Professionalism Concerns in Investment Decisions

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Agenda



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- **IAI Professional Guidelines**
 - Overview
 - Reference to Questions and Problem Statements of Case Study.

Case Study



Overview

An appointed actuary of a life insurance co. is preparing for an upcoming board of directors meeting including the investment committee meeting in the coming days.

Key Situation

- Board meetings processes are not digitized; agenda and minutes of meeting are circulated manually.
- Summary of an investment committee meeting held that AA has no prior knowledge nor its decisions.
- The Investment meeting never actually took place.

Case Study

- The Chief Investment Officer(CIO) is seen as the sole decision maker for Investments.
- Investment committee rarely meets formally.
- Decisions are made informally based on CIO's advice.
- CIO holds private discussions with the committee Chairman.
- The Chairman is comfortable with these informal arrangements.
- The limited engagement and input from other committee members have resulted in decisions being routinely endorsed without thorough deliberation.

Case Study

Problem Statements

- The above situation raises serious corporate governance and professionalism issues such as:
 - Lack of Transparency
 - No Proper documentation or formal deliberation
 - Risk regulatory non - compliance
 - Compromises financial reporting integrity.
 - Damages stakeholder trust.
- Appointed actuary need to recommend how to address the above concerns.
- The primary focus is to promote Professionalism, Transparency, and responsible governance.

Applicable APS, PCS and Regulations



- Professional conduct Standards
- APS 1,2,3 and 34
- Acts and Regulations
 - The Insurance Act, 1938 (Including amendment by the Insurance(Amendment) Act, 2021.
 - IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024.
 - IRDAI (Corporate Governance for Insurers) Regulations, 2024.

Professional Conduct Standards (PCS)



➤ Professional Standard (PCS 2.1)

- 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 judgement of the individual members.

Professional Conduct Standards (PCS)



➤ Professional Standard

- **PCS 2.2:** Members have a duty to the actuarial profession and clients and must always act honestly and with integrity.
- **PCS 2.3:** Clients are entitled to have absolute confidence in the skill , objectivity and integrity of any member.
- **PCS 2.4:** 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 the requirements of confidentiality and must respect the same

Professional Conduct Standards (PCS)



➤ Confidentiality

- PCS 3.2.2: Free to disclose confidential information if it is in the public interest to do so, in some circumstance, if it is for the actuary's own protection.

➤ Standards of Advice

- PCS 4.1: An actuary is expected to use best judgement in formulating advice and must have proper regard to any relevant professional guidance or other guidance.

Professional Conduct Standards (PCS)



➤ **Compliance with standards (PCS 5.3): Misconduct**

- Non compliance with the Act and Rules and Regulations shall constitute misconduct.

➤ **Impartiality**

- PCS 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 undue influence of others.

APS-1:Appointed Actuary and Life Insurance Business



3.5. The Appointed Actuary must have right of access to the Board of Directors in general and the Principal Officer in particular and should have access to all relevant information so that the full range of duties and obligations can be carried out satisfactorily. This must be explicit in the appointment letter of the Appointed Actuary. Such access will be facilitated if the Appointed Actuary is a senior member of the management of the insurer. Where there is a group structure, the Appointed Actuary should bear in mind any possible implications on his/her right to information and ensure a right of direct access to the relevant decision-making bodies and/or persons.

APS-1:Appointed Actuary and Life Insurance Business



5.2. The Appointed Actuary while carrying out the valuation of liabilities for the purpose of schedule II-A of Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers), Regulations, 2000 must ensure consistency with the methodology prescribed and valuation carried out in respect of the assets.

5.5. The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company:

- iii. the existing investments and continuing investment policy including the use of derivative instruments.

APS-1:Appointed Actuary and Life Insurance Business



5.6. The Appointed Actuary must have the above information made available to him/her and he/she must make sure that the company understands the necessity of this information and makes suitable arrangements to ensure that the information is made available.

8.2. The data used should be accurate. If there are any doubts on the data, the Appointed Actuary is expected to seek assurance from the company as to their accuracy and completeness. The Appointed Actuary should also be satisfied that the company is correctly carrying out appropriate valuation procedures and that adequate documentation exists in respect of them.

APS-1:Appointed Actuary and Life Insurance Business



8.7. Responsibility for investment policy and the value placed on the investments in any balance sheets rests with the company's Board of Directors. However, the Appointed Actuary's assessment of the rate of interest to be used in the valuation of the liabilities is affected by his/her estimate of the likely future proceeds of the existing assets and the rate at which future investment will be possible.

The first requires an assessment of the nature of the company's investments and consideration of the rate of return, in terms of both capital and income likely over the future lifetime of the liabilities. The Appointed Actuary must have regard to the relationship between the term of the assets and of the corresponding liabilities in carrying out his/her investigations.

APS-1:Appointed Actuary and Life Insurance Business



8.9. The Appointed Actuary must judge and decide whether the investment policy pursued by the company is appropriate having regard to the nature and term of the liabilities. If it is not, the company must be informed of any constraints on investment policy needed to protect the interests of policyholders and additional reserves, which may need to be set up.

8.10. The Appointed Actuary must advise the company that it must give appropriate guidelines to its investment managers regarding the use of derivative instruments and that appropriate procedures should be in place to monitor the company's exposure to loss through their use.

APS-2: Additional Guidance for Appointed Actuaries and other Actuaries



3.7 Sub-clause 5 (5) (a) (ii) of Schedule II-A of the ALSM Regulations requires adjustment to the yield on assets to consider the possibility of default. The Appointed Actuary shall make suitable provision for this taking into account any implicit or explicit provision for default in the statutory value placed on assets, and the manner in which the statutory value and the yield have been determined.

6.1 The Appointed Actuary shall, in terms of sub-regulation 8 (a) to 8 (e) of the AA Regulations, suitably advise the Directors to ensure that the company is at all times able to meet the solvency requirements as prescribed in section 64VA of the Act. He has to ensure that the company's available assets can provide explicit cover for the amount of required solvency margin.

APS-3: Financial Condition Report



2.1 The Financial Condition Report should normally include:

2.3.3 Effects of any known or planned changes in the life office's method of operation.

2.3.4 Any use made by the life office of derivatives, its purpose and its financial significance.

APS-3: Financial Condition Report



3. The Appointed Actuary needs to be vigilant about the factors that might affect the life office, such as:
- i. Concentration of assets in particular risk areas;
 - ii. Derivatives;
 - iii. Assets containing unusual provisions which may be susceptible to risks;
 - iv. Sources of new business which have unusual characteristics;
 - v. Impending major claims or litigation that might affect the life office;
 - vi. Risks arising out of product literature or policy documentation;
 - vii. Loss of a distribution channel.

2.2 Knowledge of Relevant Circumstances -

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 the assignment.

2.3. Reliance on Others - The actuary may use information prepared by another party. This information may include data, opinions of other professionals, and supporting analyses. The actuary may select the party and information on which to rely, or may be given the information by the principal. The actuary may take responsibility for such information, or the actuary may state that reliance has been placed upon the source of this information and disclaim responsibility.

2.3.1. If the actuary selects the party on whom to rely, the actuary should consider the following:

- a. The other party's qualifications;
- b. The other party's competence, integrity, and objectivity;
- c. The other party's awareness of how the information is expected to be used;

APS-34:General Actuarial Practice



- d. Discussions and correspondence between the actuary and the other party regarding any facts known to the actuary that are likely to have a material effect upon the information used; and
- e. The need to review the other party's supporting documentation.

2.3.2 If the actuary uses information prepared by another party without disclaiming responsibility for that information, the actuary:

- a. Should determine that the use of that information conforms to accepted actuarial practice in the jurisdiction(s) of the actuary's services;
- b. Should establish appropriate procedures for the management and review of the information that the actuary intends to use; and
- c. Does not need to disclose the source of the information.

APS-34: General Actuarial Practice



- 2.3.3 If the actuary states reliance on the information prepared by another Party and disclaims responsibility for it, the actuary should:
- a. Disclose in any report that fact (including identifying the other party);
 - b. Disclose in any report the nature and extent of such reliance;
 - c. Examine the information for evident shortcomings;
 - d. When practicable, review the information for reasonableness and consistency; and
 - e. Disclose in any report the steps, if any, that the actuary took to determine whether it was appropriate to rely on the information.



APS-34: General Actuarial Practice



2.3.4 If the information was prepared by the other party under a different jurisdiction, the actuary should consider any differences in the law or accepted actuarial practice between the two jurisdictions and how that might affect the actuary's use of the information.

3. Communication - Any communications should be appropriate to the particular circumstances and take the skills, understanding, levels of relevant technical expertise, and needs of the intended user into consideration to allow the intended user to understand the implications of the actuary's communication.

(Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024



SCHEDULE - I: ACTUARIAL FUNCTIONS

Part II

6. Powers of Appointed Actuary

1. An Appointed Actuary shall have access to all such information and documents in possession or under control, of the insurer if the same access is necessary for the proper and effective performance of the functions and duties of the Appointed Actuary.
2. The Appointed Actuary may seek any information for the purpose of clause 6(1) of Part II of Schedule-I of these regulations from any officer or employee of the insurer.

(Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024



3. The Appointed Actuary shall be entitled 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.
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.

(Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024



5. No provision of the letter of appointment of the Appointed Actuary, shall restrict or prevent his or her duties, obligations and privileges under these regulations.

7. Duties and obligations of Appointed Actuary

In particular, and without prejudice to the generality of the foregoing matters, and in the interests of the insurance industry and the policyholders, the duties and obligations of an Appointed Actuary of an insurer shall include:

- (1) Ensuring that all the requisite records have been made available to him or her for the purpose of conducting actuarial valuation of liabilities and assets of the insurer;
- (2) Rendering actuarial advice to the management of the insurer, in particular

(Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024



2. 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.
3. Identifying and monitoring the risks associated with insurers ability to maintain solvency at all times and reporting those risks to the Board of the insurer where the Appointed Actuary believes that there are material concerns which may adversely affect the solvency of the insurer.
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;

(Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024



10. Contributing to the effective implementation of the risk management system.

14. Informing the Competent Authority in writing of his or her opinion, within a reasonable time,

- (i) any contravention of the Act or any other Acts by the insurer is of such a nature that it may affect significantly the interests of the Policyholders or beneficiaries of policies issued by the insurer;
- (ii) whether the directors of the insurer have failed to take such action as is reasonably necessary to enable him or her to exercise his or her duties and obligations under these regulations; or
- (iii) whether an officer or employee of the insurer has engaged in conduct in order to prevent him or her exercising his or her duties and obligations under these regulations.

Professional Concerns & APS Violations



3.1 APS 1: Appointed Actuary and Life Insurance Business Clause 3.5 & 5.5: Access to all relevant information and obligation to assess investment policy.

3.5. Investment decisions by the Investment committee are frequently taken without consulting the Appointed Actuary. The information which is required for appointed actuary to perform his responsibilities is not consistently shared by CIO/Investment committee. This practice compromises the Appointed Actuary's ability to independently assess the company investment policy and overall financial condition.

Professional Concerns & APS Violations



5.5. The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company:

- iii. the existing investments and continuing investment policy including the use of derivative instruments.

APS 4: Peer Review

Lack of formal governance jeopardizes the integrity of actuarial review and may impede accurate peer review.

3.3 APS 34: General Actuarial Practice

Objectivity, Communication, Documentation: Breach in maintaining proper records and failing to communicate key risks violates general actuarial professionalism.

Regulatory Violations



Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority), Regulations 2025

Schedule I Provisions Applicable to Insurers:

12. Every insurer shall maintain the records with respect to the following documents:

iii.

- a) Copies of the minutes of the meetings of all internal committees reporting to the Board;
- b) Reports submitted by such internal committees, and
- c) Action taken reports of all decisions with reference to each meeting;

Regulatory Violations



iv.

- a. Board approved policy for each of the function of the insurer, as applicable under various Acts, Regulations and Guidelines from time to time, and
- b. Standard Operating Procedures and implementation manuals with respect to the Board approved policy for each function of the company along with details of delegation of authority at each level;

Regulatory Violations



Master Circular on Corporate Governance for Insurers, 2024

2.5 Control Functions

d) The Heads of Control Functions shall have access to all such information and documents in possession or under control, of the insurer, if such access is necessary for the proper and effective performance of the control functions.

4.2 Investment Committee (mandatory)

- (a) The Board of every Insurer shall set up an Investment Committee comprising of at least two Non-Executive Directors, the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer and **the Appointed Actuary**.
- (h) Requires quarterly meetings.

Regulatory Violations



4.9 Meetings, Appointment/ Removal of Members and Quorum

(b) The quorum shall be two members or one-third of the members of the Committee, whichever is greater. In case of, independent director(s) is/ are mandated to be in any of the Committees, at least one such independent director or his alternate director, should necessarily be present to form the quorum.

5: Establishes independence and oversight obligations for control functions, including actuarial.

Regulatory Violations

8.2 Disclosures about Meetings of the Board and its Committees

- (a) Insurers shall ensure compliance with the provisions of the Companies Act and the Secretarial Standards issued by the ICSI from time to time as regards conduct of the meetings of the Board of Directors and their committees.
- (b) In addition to the above, all insurers shall disclose the following in the Director's Report:
 - (i) Number of meetings of the Board of Directors and Committees mandated under this Master Circular, in the financial year
 - (ii) Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, field of specialization, status of directorship held etc.

Regulatory Violations



(iii) Number of meetings attended by the Directors and members of the Committee in the Corporate Governance Section of Annual Report.

Summary

Issue	Violation	Regulatory Reference
False circulation of minutes	Misrepresentation and governance failure	APS 34, IRDAI Governance Circular
Exclusion of Appointed Actuary	Breach of mandatory committee composition	IRDAI Governance Circular
No formal meetings	Non-compliance with governance frequency norms	IRDAI Governance Circular
Unilateral CIO decision-making	Over-centralization of power	Corporate Governance Principles
Lack of documentation	Failure to meet peer review and risk communication standards	APS 4, APS 1
Regulatory and solvency risk	Absence of actuarial oversight on investments	IRDAI Master Circular on Actuarial and Investment functions

Recommended Actions



6. Recommended Professional Actions

6.1 Internal Documentation

- Record all communication about the fabricated minutes and informal processes.

6.2 Consult with previous Actuary

- Discuss with the previous appointed actuary on how the decisions were made in the past.
- If the situation was the same, how he tried to resolve the situation and did he raise it with the management & IRDAI.

Recommended actions



6.3 Formal Escalation

- Raise the issue with the Board and Audit Committee in writing.
- Highlight breaches of APS and IRDAI standards.

6.4 Governance Recommendations

- Reinstate regular, documented Investment Committee meetings.
- Propose digitization of agendas and minutes.
- Ensure actuarial involvement in all investment discussions.

Recommended actions

6.5 Communicate Risks

- Submit a detailed risk note to the Board addressing:
- Solvency implications
- Regulatory non-compliance
- Impact on policyholder reasonable expectations
- Focus on Long term implication of current practice on Investment decision

6.6 External Reporting

- If unresolved, escalate to IRDAI as per Actuarial Master Circular.
- Prepare to resign if duties are persistently obstructed, per APS 1 responsibilities.

Real World Examples

1. HIH Insurance (liquidated 2001, Australia)

- **Poor Corporate Governance:** The HIH board failed to adequately monitor management, and there was a lack of independence among directors.
- **Dominant CEO:** Ray Williams, the CEO, exerted significant influence over the board and decision-making, contributing to a culture of risk-taking.

2. Executive Life Insurance Company(liquidated 1991, US)

- Executive Life heavily invested in junk bonds, a high-yield, high-risk type of investment, which was a major factor in its downfall.
- Asset decisions were driven by fraudsters—not actuaries or sound risk management.

Thank You