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Professional Standards in Investments & Finance : Rashmi's Dilemma

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Agenda

- Case Overview
 - Background
 - Scenario
 - Key Concerns
- Applicable PCS/APS
- Relevant Regulations
- Action Plan
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Case Study Background

- *Rashmi*, an experienced actuary at *SecureLife Insurance*, is responsible for reviewing the investment portfolio for the company's Non-Participating Life Insurance Fund.
- She discovered a high-risk investment that exceeded the company's internal risk limits and violated established professional standards for prudent investment management

Scenario Overview

- Rashmi's non-actuary supervisor pressures her to approve the investment to meet short-term financial targets.
- Approving would violate company' risk management principles and breach professional responsibilities (e.g., Actuarial Standards of Practice) as an Actuary
- Rashmi faces a conflict between professional integrity and organizational pressure.

Rashmi's Key Concerns

- Professional Responsibility: Breaching ethical standards and undermine professional integrity.
- Compliance: Risk of violating regulatory requirements and facing penalties.
- Long-Term Impact: Potential damage to the company's financial strength and stakeholder trust.
- Organizational Culture: Fear of setting a precedent for unethical practices.

Applicable PCS/APS



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.
- *Additional Reference IFoA Actuaries' Code (2023) - Principle 1 Integrity: "Members must act honestly and with integrity."*

Professional Conduct Standards (PCS)



- **Standard for 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.
- **PCS 4.2:** In accepting an assignment and when performing the assignment, an actuary must ensure that he or she is qualified to do so as per requirements of professional guidance and other guidance.

Professional Conduct Standards (PCS)



- **Professional Standard**

- **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.
- *Additional Reference IFoA Actuaries' Code (2023) - Principle 5 Speaking Up: "Members should speak up if they believe, or have reasonable cause to believe, that a course of action is unethical or unlawful."*

Professional Conduct Standards (PCS)



- **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 the undue influence of others.
- **PCS 6.7:** Financial rewards which are large in relation to the professional time spent, including success related or contingency fees, can threaten objectivity and thus contravene the general requirements of the Professional Conduct Standards. Accordingly, actuaries are advised to exercise extreme care in determining whether to accept such rewards or fees and must ensure that they are appropriate in the circumstances of the advice given and that there is no conflict with the requirements for professional objectivity.

- *Additional Reference IFoA Actuaries' Code (2023) Principle 3 - Impartiality*

Professional Conduct Standards (PCS)



- **Compliance with Standards**

- **PCS 5.1:** Non-compliance with the Act and Rules & Regulations made thereunder, professional guidance and other guidance shall constitute misconduct as per section 31 of The Actuaries Act, 2006 and could attract initiation of disciplinary procedures as per the Act and the relevant Rules. Members therefore have a responsibility to familiarize themselves with and comply with the Act and Rules & Regulations made thereunder, professional guidance and other guidance as ignorance or lack of proper understanding cannot be grounds for justifying any misconduct.
- **PCS 5.4:** A member found guilty of misconduct will be liable to disciplinary action as specified in sections 30, 37 and 38 of The Actuaries Act, 2006.
- *Additional Reference IFoA Actuaries' Code (2023) - Principle 4*

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)



- **Confidentiality**

- **PCS 3.2:** There are, however, circumstances in which, despite the normal duty of confidentiality, an actuary might in law be:
 - 3.2.1 obliged to disclose confidential information, either by virtue of statutory or judicial authority or by virtue of other guidance by which the client is bound, or
 - 3.2.3 An actuary may wish to seek legal advice before invoking this provision.

APS-34 : General Actuarial Practice



- **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.

- **2.5.1 Sufficient and Reliable Data**

- The actuary should consider whether sufficient and reliable data are available to perform the actuarial services. Data are sufficient if they include the appropriate information for the work. Data are reliable if they are substantially accurate.

APS-34 : General Actuarial Practice



- **2.5.2 Data Validation** - The actuary should take reasonable steps to review the consistency, completeness, and accuracy of the data used. These might include Undertaking reconciliations against audited financial statements, trial balances, or other relevant records, if these are available; Testing the data for reasonableness against external or independent data; Testing the data for internal consistency and consistency with other relevant information; and Comparing the data to those for a prior period or periods. The actuary should describe this review in any report.
- **2.11.1: Process Controls** - The actuary should consider to what extent, if any, the procedures used to carry out the work should be controlled, and if so, how.

APS-34 : General Actuarial Practice



- **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.
 - **2.3.4:** 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.

APS-34 : General Actuarial Practice



- **2.4 Materiality** - In case of omissions, understatements, or overstatements, the actuary should assess whether the effect is material. If the effect of any of these is material, the actuary should disclose this in any report to which it is relevant. The threshold of materiality under which the work is being conducted should be determined by the actuary unless it is imposed by another party such as an auditor or regulator or the principal. When determining the threshold of materiality, the actuary should:
 - **2.4.1:** Assess materiality from the point of view of the intended user(s), recognizing the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations

APS-34 : General Actuarial Practice



- **3. Communication**
 - **3.1 General Principles** - Any communication 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.
 - **3.2.2 Disclosure** - The actuary issuing a report should disclose in that report, if applicable:
 - (b) Any reliance on information prepared by another party for which the actuary disclaims responsibility (2.3.3.);
 - (c) Any material omissions, understatements, or overstatements (2.4.)
 - (d) Any data validation (2.5.2.), adjustments (2.5.3.), modification (2.5.4.), and deficiencies (2.5.5.);

Relevant Regulations



Relevant Regulatory Framework



Rashmi's situation at SecureLife Insurance is directly relevant to following regulatory frameworks issued by the Insurance Regulatory and Development Authority of India (IRDAI):

- **IRDAI (Corporate Governance for Insurers) Regulations, 2024**
- **IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024**

Master Circular on Corporate Governance for Insurers, 2024 & Schedule III of IRDAI (Actuarial, Finance & Investment Function of Insurers) Regulations, 2024



- Corporate Governance is understood as a system of financial and other controls in a corporate entity and broadly defines the relationship between the shareholders, Board of Directors and management.
- In case of the financial sector, where the entities accept public liabilities for fulfillment of certain contracts, the relationship is fiduciary; with enhanced responsibility -
 - to protect the interests of all stakeholders with a high level of care, loyalty, and prudence
 - to ensure that entities' actions are guided by integrity, transparency, and accountability

Action Plan



Key Actions available to Rashmi

- Rashmi must act keeping in mind the professional, ethical and regulatory standards.
 - She must uphold the **IAI Professional Code of Conduct** where actuaries need to fulfil their duties with integrity and in public interest.
 - Comply with **Actuarial Practice Standards** which provide guidance on investment and financial reporting.
 - Follow IRDA regulations which sets exposure norms and **mandates prudent investment practices**.
 - Maintain professional stance on objectivity especially when faced with **internal/external pressure** from stakeholders.

Key Actions available to Rashmi

- **Investigate the case**
 - Assess the reasonability and accuracy of the data used to review the investment portfolio [APS-34 (2.11.2)],
 - If data used is reasonable, investigate the materiality of the breach and its extent.
 - High-risk assets may be non-admissible potentially weakening the company's solvency position.
 - Investigate how SecureLife invested in such high-risk investment in the first place breaching the internal risk limits. Is there any documentation/communication available from the Investment Committee/Risk Management Committee in this regard?

Key Actions available to Rashmi

- Maintain Documentation:
 - Prepare detailed records of analysis, concerns, professional judgements and all relevant communications.
 - [APS-34 (2.14)] - Actuaries must maintain appropriate documentation for audit and justification. This supports future regulatory or disciplinary inquiries.
 - Prepare a formal documentation detailing violation of the investment policies and standards.

Key Actions available to Rashmi

- Discussion with Supervisor
 - Schedule a formal discussion with the supervisor to clearly communicate professional concerns
 - Highlight specific areas of potential non-compliance with professional standards and violation of regulatory standards
 - Highlight potential consequences for SecureLife and Rashmi as a consequence of approving the investment

Key Actions available to Rashmi

- **Propose Alternatives:**
 - Suggest alternative options that meet both performance and compliance goals.
 - **IRDAI Investment Regulations** - Suggest asset classes within prudent limits which could fulfil goals of all stakeholders.
 - Suggest investing into **lower-risk instruments** (e.g., high-grade corporate bonds, government securities). Recommend diversification to spread risk across compliant sectors or assets.

Key Actions available to Rashmi

- Escalate a formal concern:
 - Present findings to AA or equivalent senior actuary detailing the level of breach and seek guidance on the existing situation.
 - Rashmi can persuade AA to advise the Board on risk-bearing practices and compliance (Appointed Actuary Regulations, 2022). Escalation through AA ensures governance-level attention
 - If required, escalate internally to CRO, Risk Committee, or Investment Committee if supervisor ignores concerns.

Key Actions available to Rashmi

- **Refuse to Approve:**
 - Refuse approval of the investment if adequate evidence ensuring compliance is not available.
 - Referencing the insurer's Board-approved Risk Appetite Statement strengthens her argument for rejecting the investment and proposing compliant alternatives.
 - Withhold approval till further communication is received from seniors.
 - If internal and regulatory escalation fail, consider withdrawal of services.

Key Actions available to Rashmi

- Whistle blow (If Required):
 - In case concerns remain unresolved with the AA, Rashmi can escalate through the Whistleblower Policy to the Board Chairperson and/or Investment Committee
 - As per Corporate Governance guidelines [master circular on corporate governance for insurers, 2024], insurers shall put in place a “whistle-blower” policy, where-by:
 - mechanisms exist for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters.
 - any employee can report in confidence directly to the Chairperson of the Board or of a Committee of the Board or to the Statutory Auditor

Questions & Answers

