

45th India Fellowship Seminar

Date: 18th and 19th December 2025

Group - 1

Health Insurance Professional Case Study The Actuary's Balancing Act

Presented By :

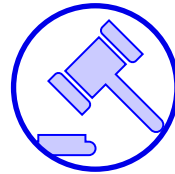
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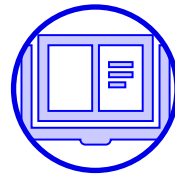
Agenda



Case Study Overview



Applicability of APS/GN and PCS



General Actuarial Principles of Pricing



Approach towards handling the scenario



Managing Stakeholders' Expectation

Section 1: Case Study Overview



Case Study - Overview(1/2)

The Actuary's Balancing Act



You have taken over as Appointed Actuary of a new standalone health insurance company. Currently insurer's market share in retail health insurance market is quite low. The insurer wishes to grow at a pace faster than the industry health insurance growth rate.

In the meantime, Union government has decided to slash GST on individual health insurance policies from 18% to 0%. The Regulator has clearly indicated that the entire reduction of GST has to be passed to policyholders.

Case Study - Overview(2/2)

The Actuary's Balancing Act



The senior management of the company sees this an opportunity and request you to reduce the premium rates (in addition to reduction on account of GST) with an underlying objective to increase the market share of the company in retail policy segment.

While reviewing the current premium rates you found that they are quite low and there is no further scope to reduce the premium except to the extent of reduction in GST.

You have received a call from the CEO to please set premium rates in such a way so that the insurer's growth becomes higher than health insurance sector.

Case Study - Questions



You have to make a presentation to senior management in the next week.

1. Applicability of relevant APS/GN in this regard
2. General Actuarial principles need to be followed while pricing the products.
3. What would be your approach towards handling this scenario?
4. How would you manage key management or stakeholders' expectations considering the professionalism expected from AA.
5. Any other aspect other than the above.

Case Study Synopsis

Current Position

- New Standalone Health Insurance Company
- Quite low market share in retail health insurance
- Newly Appointed Actuary

Government/ Regulatory Action

- GST reduction from 18% to 0%
- Entire benefit to be passed to policyholder

Insurer/CEO Ask

- Grow faster than industry average
- To set premium rate in a way to increase market share

Appointed Actuary Analysis

- Reviewed current premium rate
- Understood that the premium rate is already quite low
- No scope to reduce further premium(beyond GST reduction)

The Actuary's Balancing Act

“Respect, reliability, and results—that’s **Professionalism**”



“**Regulations** set the minimum standard—professional judgment sets the higher one.”



“**Appointed Actuary** acknowledge business needs but emphasize professional and legal obligations.”



Section 2: Applicability of relevant APS/GN and PCS



Actuarial Practice Standard (APS) 21

Section 2

Duties and Obligations



2.1. 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, who is appointed under the AA Regulations, shall include **ensuring the Solvency of the Insurance Company** to which he is so appointed.

2.3. The **essence of the profession lies in upholding its standards, technical and ethical, in the public interest**. As a member of the Institute of Actuaries of India (IAI), every Actuary has the responsibility to maintain the **highest professional standard envisaged by the IAI**. Any Appointed Actuary, who is uncertain as to the proper course of action to adopt in relation to a potentially significant matter, is strongly advised to seek the help and the advice from the IAI.

Actuarial Practice Standard (APS) 21

Section 5

The duties of the Appointed Actuary



5.1. The Appointed Actuary shall ensure that the premium rates of the insurance products are fair and that the actuarial principles have been used in the determination of liabilities, complying with relevant regulations.

5.3. The Appointed Actuary shall also perform those duties as may be called upon by the Authority (IRDA) from time to time

5.4. The Appointed Actuary must have regard to all aspects likely to affect the financial condition of the company, including but not limited to the following;

- 5.4.1. 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;
- 5.4.2. Ensuring that overall pricing policy of the insurer is in line with the overall underwriting and claims management policy of the insurer;
- 5.4.3. Ensuring adequacy of reinsurance arrangements;
- 5.4.5. The current and likely future level of expenses including compliance with limitation of expenses provision in the Act;

Actuarial Practice Standard (APS) 21

Section 6

Premium rates and policy conditions



6.1. The Appointed Actuary must satisfy himself that premium rates for business (new, renewal etc. as applicable) are fair, i.e., are neither excessive nor inadequate, that is to say sufficient in due course to enable the company to meet its liabilities both in tariff and non-tariff classes of business. If in future, such business is likely to be written on inadequate terms, it will require support from the free assets in the Shareholders' fund.

6.2. Whether the premium rates are appropriate is a probability statement and hence the Appointed Actuary must exercise his / her judgment. This judgment needs to be based on the use of sound techniques and the Appointed Actuary should also consider, among others.

- 6.2.1. types of products and product mix
- 6.2.2. claims costs including claims handling expenses
- 6.2.3. the adequacy of the provision for expenses and acquisition costs
- 6.2.4. the impact of future inflation
- 6.2.5. Implication of any legislative amendments, which may not have been fully, reflected in the claims data

Actuarial Practice Standard (APS) 21

Section 6

Premium rates and policy conditions



6.3. Premium Rate Components - The Appointed Actuary should also **analyze the insurer's own claims experience** and, where possible, **compare it with the industry experience**. The analysis should consider both **claims frequency and claim size**. The Appointed Actuary should consider, as far as is practical, the extent to which the insurer's and industry's / reinsurers' claims experience is influenced by:

- 6.3.1. Data Quality
- 6.3.2. Claims Management Policies
- 6.3.3. Portfolio Mix
- 6.3.4. Marketing and Underwriting Strategies
- 6.3.5. Case Reserving
- 6.3.6. Infrequent large losses; and random variations

Actuarial Practice Standard (APS) 34

Section 2

Appropriate Practices



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. Data Quality

- 2.5.1. Sufficient and Reliable Data - The actuary should consider whether **sufficient and reliable data** are available to perform the actuarial services.
- 2.5.2. Data Validation - The actuary should take reasonable steps to review the **consistency, completeness, and accuracy of the data** used.

2.7 Assumptions and Methodology Set by Actuary

- 2.7.1. Selection of Assumptions and Methodology
- 2.7.2. Appropriateness of Assumptions
- 2.7.3. Margins for Adverse Deviations
- 2.7.7. Alternative Assumptions and Sensitivity Testing

Actuarial Practice Standard (APS) 34



Section 2

Appropriate Practices

2.10. Model Governance - The actuary involved in using the models should:

- 2.10.1. Be satisfied that the **model risks** have been identified, assessed, and that there are appropriate actions to mitigate these risks such as adequate model validation, documentation, and process controls.
- 2.10.3. **Understand the model**, the **conditions under which it is appropriate** for the model to be used including any limitations of the model for the intended use, the context in which the model will be used, how model inputs will be provided, and how the actuary expects the results of the model will be used.

Section 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.

Professional Conduct Standards



Section 2

Professional Standards

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**. The standing of the actuarial profession depends on the judgment of individual members.

2.2. Members have a duty to the actuarial profession and clients and must always **act honestly and with integrity**.

Section 4

Standards For Advice

4.1. An actuary is expected to use **best judgment in formulating advice** and must have proper regard to any **relevant professional guidance or other guidance**.

Professional Conduct Standards



Section 5

Compliance with Standards

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 Act 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.

Section 6

Impartiality

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.**

Section 3: General Actuarial Principles of Pricing



IRDAI (Insurance Products) Regulations, 2024



Chapter II (Section 4)

Principles of product development, pricing and design

(1) As part of product design and development cycle, every insurer shall ensure that

a. evolving risk coverage needs of the customer are taken into account while developing new products and revising existing products;

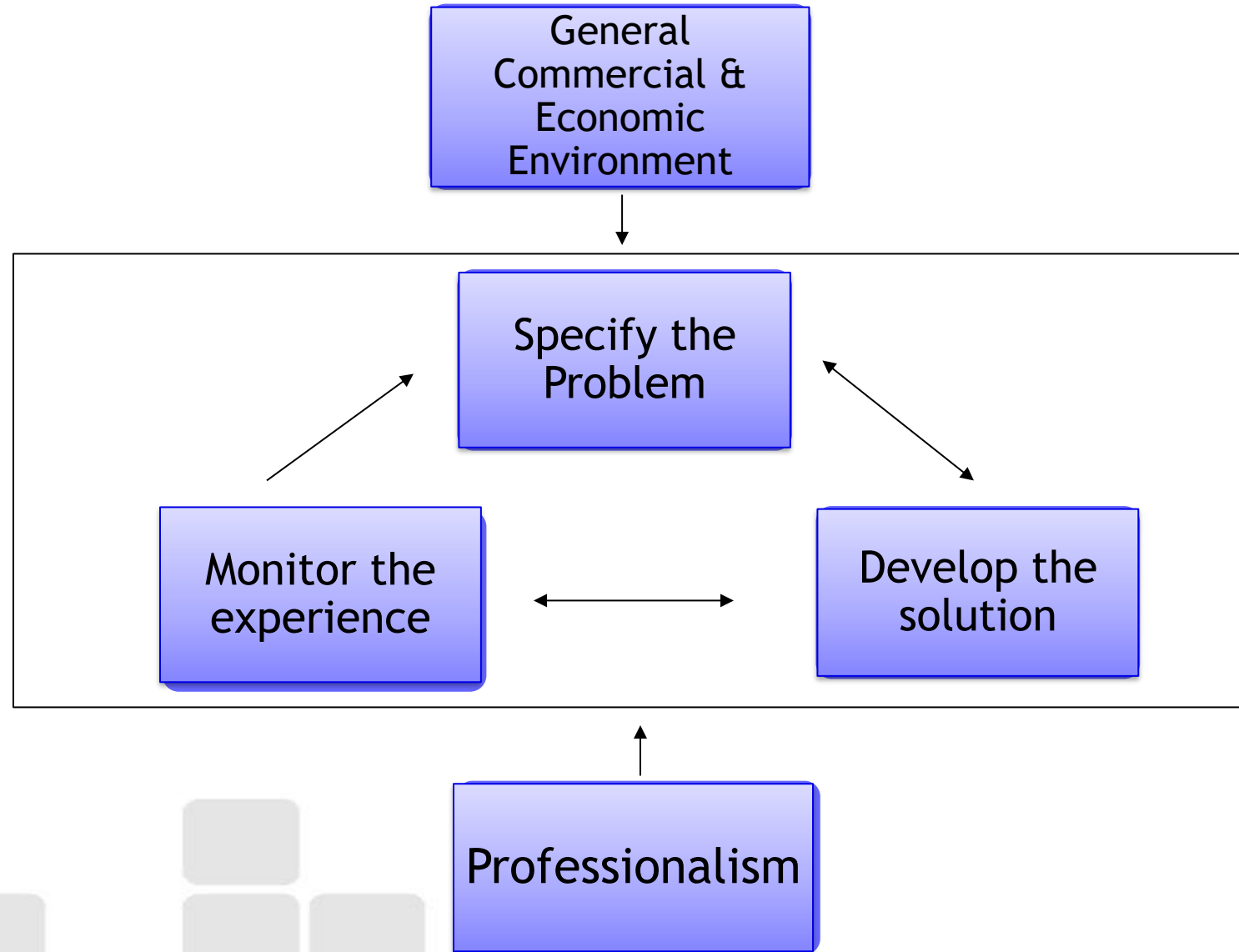
b. product **covers an insurable risk** with an underlying risk transfer;

c. the products offered are **simple to understand and not complex**;

- d. there is **transparency and clarity in wordings, terms, coverage, exclusions and conditions**;
- e. **policyholder's interests** are protected;
- f. the basic principles of insurance like insurable interest, indemnity, utmost good faith, proximate cause, contribution clause, salvage and subrogation etc. are adhered to;
- g. all the risks relevant to the products are appropriately considered in the pricing;

- h. the premium rates are **fair and not excessive, inadequate**, unfairly discriminatory and provide value for money;
- i. all relevant factors such as **risk appetite, capital availability, claim experience, reinsurance costs, guarantees, options** are considered;
- j. products are **viable** and **self-sustainable**;
- k. market conduct practices are appropriate and fair;
- l. appropriate systems, procedures relevant to the product, such as underwriting, pricing, reinsurance, claims management are in place

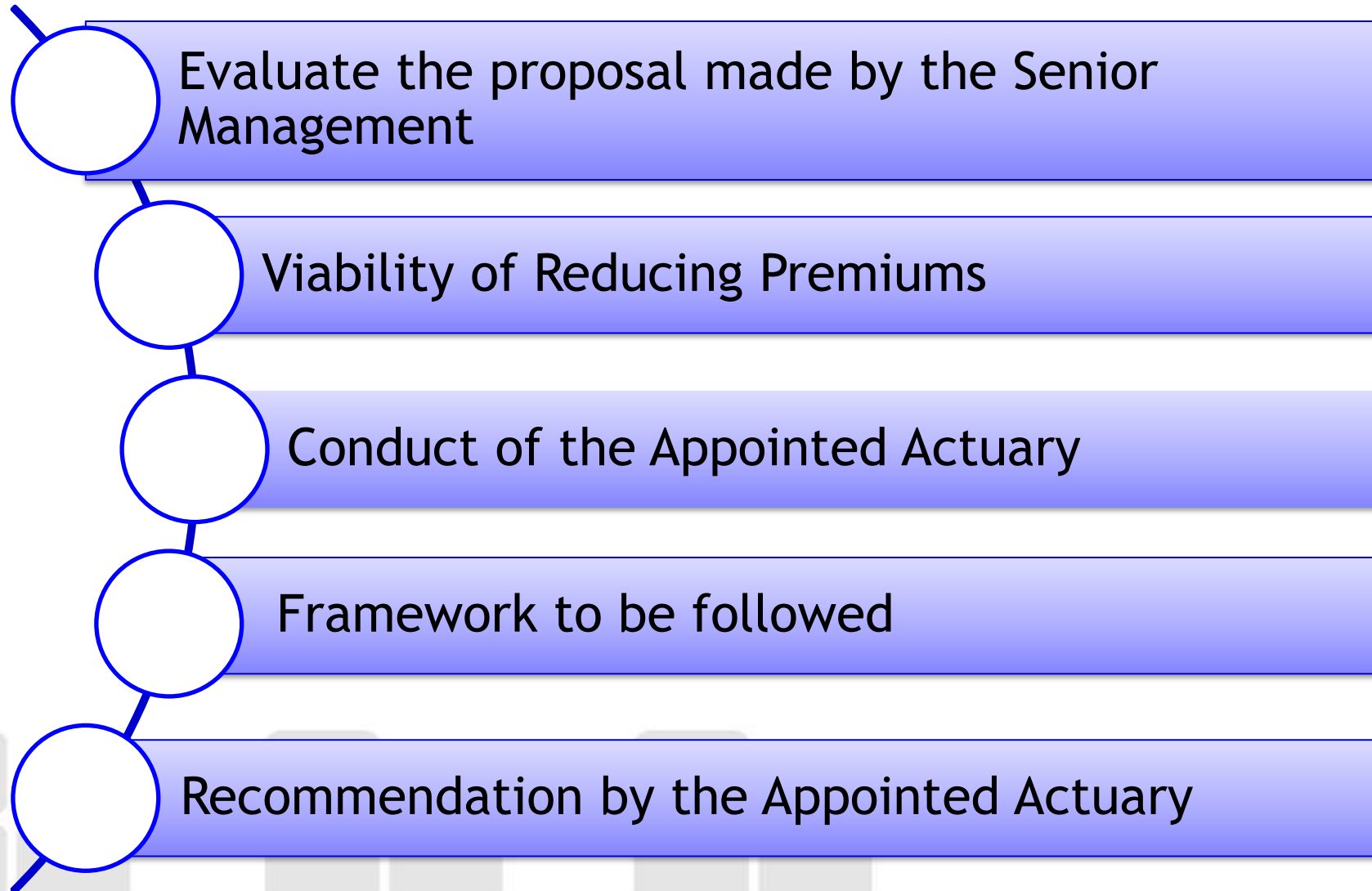
Actuarial Control Cycle



Section 4: Approach towards handling the Scenario



Step by step approach to cater the current scenario



Evaluation of the Proposal

Needs of the Company

- Achieve higher Growth than Market
- Capture Market Share at the earliest
- Increase Volume of Business
- Achieve Target as per the Business Plan

Possible Reasons for Low Market Share

- Consumers do not find the Product attractive
- Premiums are high in comparison to the Industry
- Marketing of the Product is ineffective
- Lack of Awareness amongst Consumers
- Incentive for the Distribution Channel is not competitive
- Inappropriate Distribution Channel used

Aspects to be observed...

- Union government's motive to slash GST on Individual Health Insurance policies from 18% to 0%.
- Senior Management of the Company sees this as an opportunity to capture Market Share by reducing premiums beyond GST.
- Policyholder Grievances and Market feedback on the product.

Viability of Reducing Premium Rates

The Appointed Actuary has reviewed the premium rates and found that they are already low and there is no further scope to reduce premiums further.

Advantages of Reducing premiums as per the Management

- Premium becomes very Competitive
- Opportunity to Grow volume of Business
- Benefit from Economies of Scale
- Attracts wider Population from all segments
- Reduced Premium beyond GST reduction becomes a Marketing strategy for the Company

Viability of Reducing Premium Rates



Disadvantages of Reducing premiums as per the Appointed Actuary

- Sustainability in the long run
- Can burden the Solvency Position of the Company
- Exposure to Anti-Selection of risk
- In future, persistency ratio might drop
- Unethical if the actual experience of the product does not support reduction of premium

Conduct of the Appointed Actuary

Appointed Actuary(AA) is appointed by the Insurer in accordance with Actuarial, Finance and Investment Functions of Insurers, Regulations 2024.



Duties of the Appointed Actuary

- AA to ensure premium rates of insurance products are **fair and reasonable**
- **Protect** interests of the **Policyholders**
- Rendering **actuarial advice** to the management in areas of product design and pricing
- Identifying and **monitoring risks** associated with Insurers ability to **maintain solvency** at all times.
- **Review experience** of insurance products from time to time to ensure financial viability, emerging risk and experience under the product
- Provide **Clear Communication** to the Management

Framework to be followed

- Action should be well thought and brainstormed
- Aspects of “WHY” the product is not taken up well in the Market should be analyzed thoroughly
- Validity of the circumstances under which the product was initially priced should be validated:
 - Consideration on the quality of data available to test these assumptions
- Pricing or Product changes must comply with IRDA guidelines & Actuarial standards of practice
- Robust risk assessment before implementing premium changes

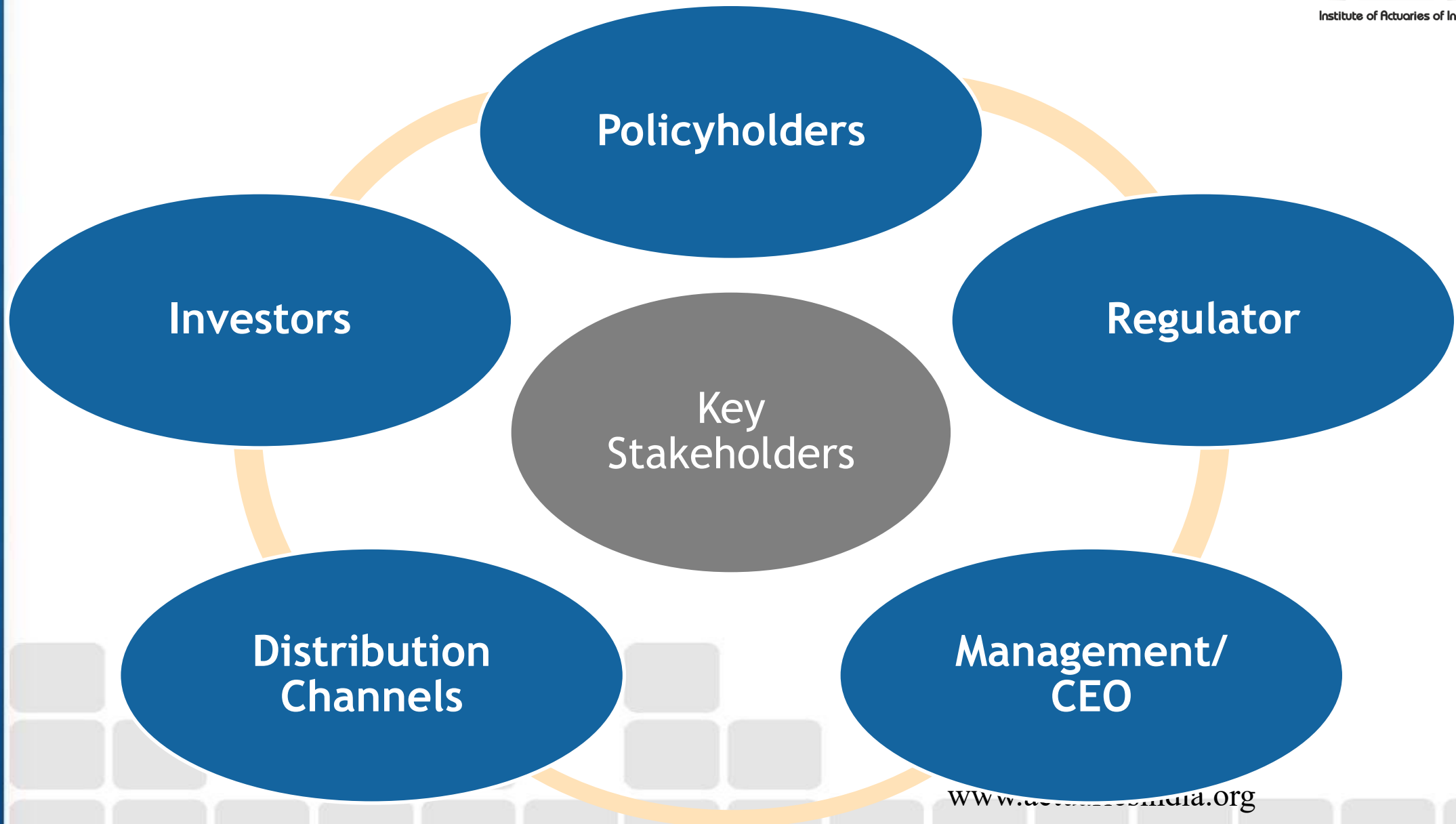
Recommendation by the Appointed Actuary

- Identify the root cause and develop solution catering to it
 - Product Innovation: Comparison of Product Features with the competitor
 - Comparison of Prices charged in Industry for similar benefits
 - Demand of the Policyholders
 - Reach the Target Market via appropriate Distribution Channel
 - Achieving Operational Efficiency
- Move away from traditional premium structure
 - Try to use unconventional Rating Factors if data supports
 - Innovate mechanism to Incentivize policyholders for better experience
- Experience Monitoring of the Product at regular intervals to understand how the pricing assumptions are varying.

Section 5: Managing Stakeholders' Expectation



Stakeholders



Policyholder

- Policyholder Protection

- Ensure full and transparent GST pass-through
- Maintain premiums that are fair, adequate and sustainable to support claims paying ability

- Continuity of Coverage

- Prevent short-term pricing actions that lead to premium shocks or benefit dilution

- Fair treatment and mis-selling prevention

- Fair and equitable treatment of policyholders
- Prevent unsustainable pricing and misleading affordability narratives

Management / CEO

- Clear communication
 - Translate actuarial and regulatory constraints into business-relevant language
 - Support management in taking informed decisions.
- Sustainability and solvency awareness
 - Highlight risks of further premium reduction on solvency and long-term claims paying capability
 - Explain trade-offs between growth, margins and capital consumption
- Premium stability
 - Promote pricing stability and continuity of coverage
 - Explain volatile pricing may prejudice policyholder interests and invite regulatory intervention

Regulator

- Policyholder Protection

- Ensure premiums remain fair, adequate and not prejudicial to policyholders
- Implement full and transparent GST pass-through

- Actuarial assurance

- Provide actuarial certification for pricing and product modifications, as required
- Demonstrate compliance with applicable product and pricing regulations

- Ongoing Monitoring

- Monitor claims experience, lapses and morbidity trends
- Identify emerging risks at an early stage

Regulator

- Governance and documentation
 - Maintain clear documentation of actuarial advice and decisions
 - Ensure a robust audit trail aligned with regulatory expectations
- Structured escalation
 - Discuss with management first, then document follow up with actions
 - Consider regulatory intimation where issues remain unresolved and material

Other Stakeholders

Distributors

- Provide **periodic training** on product design and regulation changes like GST changes
- **Reduce mis-selling** risk by ensuring consistency between pricing intent and customer-facing communication

Investors

- Communicate **implications of pricing decisions** on solvency, capital adequacy and profitability
- Promote **long-term sustainable growth**

Maintaining Professionalism

- Integrity and objectivity
 - Act in accordance with Professional Conduct Standards
 - Place public and policyholder interest at the centre of advice
- Independent judgement
 - Resist undue commercial influence
 - Provide unbiased, evidence-based actuarial advice
- Quality and care
 - Base advice on sufficient analysis and sound professional judgement
 - Clearly articulate risks, uncertainties and limitations
- Governance discipline
 - Distinguish clearly between actuarial advice and management decisions
 - Ensure appropriate documentation for governance and audit.
- Professional responsibility
 - Recognise and fulfil escalation obligations where concerns remain unresolved

Thank You!!



Questions?

