

45th India Fellowship Seminar

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Consulting Actuary in an IPO Scenario

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Case Study Overview

Case Study

Professional Profile

- You are a **Consulting Actuary** practicing through sole proprietary within the Indian life insurance industry.
- Extensive history of assignments including:
 - Peer Reviewer to Appointed Actuaries.
 - Acting as a With Profits Actuary.
 - Actuarial due diligence for M&As.
 - Reviewing Embedded Value (EV) methodologies and assumptions for internal reporting.
- This is viewed as a high-stakes, prestigious, and commercially significant assignment.

Case Study..(1)

The Opportunity

- A large life insurer is preparing for an **Initial Public Offering (IPO)**.
- The insurer has issued a Request for Proposal (RFP) to consulting actuaries to act as a **"Reporting Actuary"**.

The Bidding Process

- The selection involves an initial proposal evaluation followed by **"Reverse Bidding."**
- Shortlisted participants will compete in a **30-minute online window** to submit and lower their commercial proposals (fees) in real-time response to competitor bids.

Case Study (2)

The Competency & Capacity Gap

- You have **no prior experience** specifically acting as a "Reporting Actuary" for an IPO.
- You **do not currently have a team** large enough to handle the workload required for an IPO.

The Rationale & Strategy

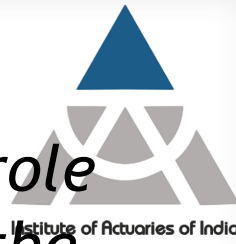
- You believe your **familiarity** with the insurer's business, internal systems, and processes based on previous assignments will help in executing this project to a certain extent.
- You intend to participate in the RFP. If you win, you plan to **quickly assemble a team of actuarial students** from the market to execute the work.

Agenda

1. Professional Consideration in responding to the RFP.
2. Professional and Legal consideration in participating in Reverse Bidding process.
3. Professional Consideration in Project Planning.
4. Professional Consideration in Project Delivery.
5. Conclusion

Section 1: Professional Considerations while Responding to Request for Proposal (RFP)

Requirement for Relevant Experience



APS 10, Section 3.2 explicitly states that “Before accepting the role to act as either the Reviewing Actuary or the Reporting Actuary, the Actuary should consider if he / she has the relevant experience to carry out such a valuation. If the Reporting or Reviewing Actuary does not have the relevant knowledge and experience to prepare such a valuation, it is essential that the Actuary seek, on a formal and professional basis, the co-operation and guidance of an actuary who does.”

PCS, Section 4.2 “mandates that in accepting an assignment, an actuary “must ensure that he or she is qualified to do so as per requirements of professional guidance”.

Requirement for Relevant Experience..(1)



Consideration:

- The role of Reporting Actuary for an IPO carries significant responsibilities and compliance obligations.
- Acknowledge the lack of prior experience in the specific role.
- Prior experience in peer reviews and reviewing embedded value is relevant but not sufficient on its own.
- Recognize the challenges of handling the assignment independently.
- Suggest collaboration with an external mentor or partner with relevant IPO experience. Ensure appropriate resourcing and support arrangements are in place including engaging with an experienced actuary.

Scope, Effort, and Fees



APS 34, Section 1.5.2 “Nothing in an APS should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work (Principle of Proportionality)”.

Consideration:

- The bidding fee must reflect the scope, complexity, and intended use of the actuarial work.
- Work undertaken must remain proportionate to the assignment, ensuring that effort and resources are commensurate with the value and benefit expected by the intended users.
- The actuary should avoid undertaking tasks that exceed or fall short of what is necessary, thereby maintaining efficiency, fairness, and compliance with the principle of proportionality.

Transparency

APS 34, Section 2.1.1(d) “When providing actuarial services, the actuary should confirm with the principal the nature and scope of actuarial services to be provided, in identifying the schedule and expected cost or resources needed (especially if they are substantial)”



Consideration:

- The proposal must set out a transparent framework for the actuarial services to be delivered
- The basis of the fee should be explicitly defined, (e.g., estimated hours, team composition etc)
- A detailed budget should be prepared at the outset and monitored throughout the project to ensure adherence
- Any assumptions regarding scope, timelines, or deliverables
- Contingencies for additional work or scope changes

Efficient Engagement



Consideration:

- Prior experience ensures immediate understanding of data, history, and business operations.
- Ability to start effectively from Day 1 without extended familiarization.
- The insurer's internal teams benefit from reduced effort in data provision and validation, as the actuary can leverage prior understanding to streamline requests and ensure efficient collaboration

Section 2: Analyzing the Professional and legal Consideration in reverse bidding process

Reverse Bidding

- Reverse bidding is a procurement method in which shortlisted bidders are invited to submit and revise their professional fee quotes in real time, typically over a **short window**, with the objective of identifying the most **commercially competitive** proposal after **technical eligibility** has been established.

Process -

- ✓ RFP initiated by the life insurer
- ✓ Technical evaluation and shortlisting of consulting actuaries
- ✓ Real-time competitive fee bidding within a fixed time window
- ✓ Final selection of the consulting actuary

Reverse Bidding (contd.)

- During the bidding process -
 - Competing bidders can **see the relative position** of their bid
 - Bidders are allowed to revise their fees downward **multiple** times
 - The process will occur over a short **30-minute** window

Reverse bidding introduces commercial pressure in a public-interest assignment and can create pressure to prioritise winning over professional judgement

Professional Considerations



PCS Section 2.1: The actuarial profession has an obligation to serve public interest within the context of building and promoting confidence in the work of the actuaries and actuarial profession.

- Actuary's **primary duty** is to:
 - The profession
 - Regulators and public interest
- *While participating in reverse bidding, the Actuary should exercise professional judgement such that commercial objectives are balanced with, and do not outweigh, professional standards and responsibilities.*

Professional Considerations (contd.)

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

- Key considerations before bidding -
 - The bid reflects the nature of assignment based on realistic scope and effort
 - The actuary is prepared with the price break up of the bid and the possible revisions it may have to make during bidding, so that informed decision can be made
 - Enter the bidding with a realistic minimum acceptable fee to ensure quality delivery

Professional Considerations (contd.)

PCS Section 6.1: Actuaries must ensure that their professional judgement is not compromised by any bias, conflict of interest or undue influence of others

- During the reverse bidding, Actuary must ensure:
 - Fee revisions are based on objective assessment of scope, resources, risks, and timelines and do not fall below threshold
 - Decisions are guided by professional standards, not competitor actions or future assumptions
 - Maintain professional dignity and be prepared to withdraw if competitive pressures force a compromise on standards

Professional integrity must prevail over competition

Legal Considerations

Contractual Obligations -

- Submission and acceptance of a bid creates a legally binding contract under the Indian Contract Act, 1872
- The Actuary is obligated to proceed with the engagement once the auction concludes
- Withdrawal or non-performance after bid closure may result in breach of contract and legal consequences

No Variation in Terms -

- Post-bid, the Actuary is legally and professionally bound by the submitted terms
- Fee, scope of work, timelines, and deliverables cannot be altered

Legal Considerations

Assignment scope must clearly define:

- Scope of work and deliverables
- Responsibilities with the various stakeholders
- Confidentiality and reliance clauses

Reverse bidding pressure must not lead to:

- Acceptance of unrealistic or compressed timelines
- Vague, ambiguous, or open-ended contractual commitments
- Fee levels that are inadequate or disproportionate to the scope and risk

Legal review of engagement terms is advisable, particularly for a sole practitioner, to ensure contractual clarity and risk management

Section 3: Professional Considerations while Planning the assignment

Resources and Capability Considerations



APS34 2.1.2 (c) *“Have reasonable assurance of time, resources, access to relevant employees of the principal and other relevant parties, access to documentation and information, and the right of the actuary to communicate information, as may be necessary for the work”*

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”*

Resources and Capability Considerations



Assessing Available Resources

- A comprehensive evaluation of current staffing levels and expertise is necessary to determine if additional resources, such as hiring actuarial students/analysts, are required to meet the demands of the assignment.
- The Actuary should assess the resource requirements for the assignment and ensure appropriate resourcing and support are in place.
- Also needs to consider the loss of time as in when the actuarial resources come on board will delay the product execution and/or quality of deliverables

Resources and Capability Considerations



New Resource/Hiring

- Listing down the minimum criteria for the support actuarial staff to carry out the responsibilities.
- Newly hired resources are likely to lack IPO experience. Ensuring that the junior staff work under direct supervision.
- Consider external support on consulting basis for specialized areas.

Project Planning and Governance

PCS 2.2: *“Members have a duty to the actuarial profession and clients and must always act honestly and with integrity”*

APS 34 (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 (2.14): *“Retention of documentation: Maintain detailed documentation for audit, regulatory review, and future reference. Include rationale for assumptions, sensitivity tests, and any deviations from standard practice.”*

Project Planning and Governance

Project Management

- A detailed project plan with scope, realistic timelines, and deliverables, giving due consideration to key stakeholders, ensures project success.
- Given the large-scale and time-sensitive nature of the assignment, establishing robust maker-checker processes is critical to ensure the quality and accuracy of all deliverables. Implement feedback loops for continuous improvement.

Project Planning and Governance

Project Management

- Having checklist & escalation matrix in place of all the regulatory & professional requirements in place to ensure that all areas are covered.
- Ensuring protection of all the sensitive data shared by the client. Handling of confidential data & restricted access within the team.
- Throughout the assignment, it is essential to ensure results remain objective and free from any undue influence.

Section 4: Professional Considerations while Delivering the assignment

Assumption setting & Validation



APS 10 (Methodology Requirements) requires selection of appropriate and justifiable assumptions consistent with purpose of work

APS 34 (Para 2.11.1) requires robust analysis of assumptions, including comparison with Past experience, industry benchmarks and justification for deviation

APS 34 (Para 2.14.1(c)) requires actuaries to retain sufficient documentation of assumptions of any recurring assignment for reasonable sufficient period where such assumption is made by another actuary.

Assumption setting & Validation

Consideration :-As Reporting Actuary with a newly assembled team, the rigor in assumption setting becomes the greatest risk area.

Actions: -

- Carry out cross- checks against EV/FR results to highlight inconsistencies
- Perform independent experience studies for various assumptions
- Document all the assumptions adopted along with justifications for all selected assumptions including external benchmarks

Model Governance & Verification

APS 34 (Para 2.10) requires thorough model checks, verification and confirmation that model is fit for the purpose. This includes the following: -

- Be Satisfied that appropriate model risks have been identified, assessed and actions have been taken to mitigate it (Para 2.10.1)
- Be Satisfied that appropriate model validations has been taken in effect during assessment. (Para 2.10.2)
- Be Satisfied that appropriate documentation exist for the model design, construction and operation (Para 2.10.3)
- Be Satisfied that appropriate controls exist for model assess risks.

Model Governance & Verification

Consideration: - Since the team is comprising of new members and there is both time pressure as well as complex IPO reporting models are required, there is an increased modelling error risks

Actions: -

- Independent model runs by separate team members
- Reconcile starting positions with audited financial statements and prior EV numbers
- Document all changes made to the model and stress tests and movement analysis to be performed for reasonableness

Data Governance and Controls

APS 10 (Para 4) outlines typical sources of data that actuary might rely upon for the purpose of undertaking actuarial investigations

APS 34 (Para 2.5) requires Actuaries to ensure adequate data is available to perform actuarial services and such data should be validated and reviewed to ensure completeness, consistency and accuracy of the data.

Data Governance and Controls

Consideration: - IPO valuation involves large volumes of policy-level data along with other financial reports and the new team working on stressed deadline might not have sufficient time to do relevant data checks.

Actions: -

- Create formal data validation checklist
- Reconcile data to policy admin systems and financials
- Document data issues and management representations formally

Maintaining Independence & Objectivity



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.

Consideration :-Given the high-profile IPO context and reliance by multiple stakeholders, maintaining demonstrable objectivity through the delivery phrase is critical to preserve credibility of reporting actuary's opinion.

Maintaining Independence & Objectivity



Actions: -

- Document all management interactions
- Keep a clear paper-trail of all areas, where professional judgement has been exercised
- Demonstrate safeguards: independent reviews, separate decision logs. No compromise on such checks or documentation
- Avoid agreeing to any scope creep without formal terms (PCS 4.1)

Regulatory Compliance

Consideration: - As a Reporting Actuary, my professional responsibility is to ensure that:

- Actuarial work is consistent with these frameworks;
- All assumptions & methods withstand regulatory scrutiny;
- Disclosures in my actuarial report are aligned with information used in offer documents;
- Areas of regulatory reliance, uncertainty or inconsistency are clearly documented
- Conflicts of interest are transparently declared (PCS v4.0).

Final Reporting and Documentation sign off



APS 10 requires care in how the actuarial opinion is described in final reports.

APS 34 (3.1-3.5): Reporting must

- Present methodologies , assumptions , data checks, stress tests, caveats, reliance and limitations clearly.
- Provide Sensitivity analysis
- Disclose uncertainties
- Appropriate for intended users
- Not be misleading in any form

Final Reporting and Documentation sign off

Consideration: the Final reporting actuary certificate forms a part of the IPO filling documents and is scrutinized by regulators (IRDAI, SEBI) , Merchant bankers and investors. Such report also requires coordination with Legal counsels, Appointed Actuary, CFO and Finance teams. Any documentation lapse can lead to delays or regulatory queries.

Section 5: Conclusion

Conclusion

Responding to RFP

- Prior work enables smooth transition & faster onboarding
- Ensure qualifications & adequate resources before acceptance
- Bridge IPO experience gaps via collaboration/team assembly
- Clearly define scope, timelines, resources, and fee basis
- Fees must reflect complexity while safeguarding independence
- Sole proprietary structure offers agility & accountability

Reverse Bidding Process

- Uphold professional integrity over commercial pressures
- Ensure legal, contractual & regulatory compliance

Planning & Delivery (Post-Win)

- Early assessment of capability/resource gaps
- Realistic budgeting under reverse bidding constraints
- Governance & structured project planning
- Quality assurance & documentation discipline
- Align with regulations & ensure robust final reporting

Thank you