

45th India Fellowship Seminar

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The Premium Discount Dilemma – Professional Case Study

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Agenda

The Case Study - Background & Overview

Issues and Considerations

Course of Action

Reference to Professional Conduct Standards & Regulations

Technical Considerations

Impact Assessment of 25% Discount Level

Considerations of Alternatives

Conclusion

Case Study: Group 9

1 Business Objective

We represent Pricing Actuary of a well-established market player ABC Insurance, responsible for setting premiums for personal lines products and driving segment growth. The key objective is to strengthen Company's competitive position while maintaining profitable expansion, supported by fair, risk-adequate pricing and full compliance with regulatory and professional standards.

Case Study: Group 9

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Background

- ABC Insurance uses advanced actuarial models for motor pricing to achieve both competitiveness and profitability
- The Sales team has proposed an additional 25% discount across the motor portfolio to attract new customers
- Newly available data shows higher expected claims and suggest the discount levels lower than current discount levels.
- It also indicates that an additional 25% discount would lead to unsustainable loss ratios.
- Competitive pressure persists, with some market players offering even steeper discounts
- A colleague's suggestion to rely on outdated data raises ethical and regulatory concerns regarding the integrity of pricing decisions.

Case Study: Group 9

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Task in Hand - Work Requirement

- How will you address the request of your sales head?
- How will you balance amongst
 - Need for actuarial accuracy in premium setting
 - Customer acquisition
 - Treating customers fairly as discount designed to capture market share may not reflect the true risk
- What regulatory challenges you foresee and how will you handle those if any

Issues and Considerations

Expectations

- Expectation of Sales head of further 25% discount
- Colleague suggestion to continue using old data

Technical Accuracy

- Determination of fair premium by true **risk** assessment
- Suitability of experience basis **latest data** in determining future price.

Potential Conflict

- Compliance with **professional standards** and **regulatory requirements**
- Considerations of professional **ethics** and **conduct**

Regulatory Challenges

- Understanding the regulatory requirements around **pricing**, **product filing procedure** and **protection of policyholder interest**.

Course of Action

Way forward to deal with the situation in hand

Reference to Professional Conduct Standards & relevant Regulations

Technical Accuracy by advance analytics

Impact Assessment of additional 25% discount

Consideration of Alternatives

Course of Action: Professional Standards

Professional conduct Standards



These provides generic guidance on conduct of an Actuary and applies to all members.

Actuarial Practice Standards



Mandatory to all Members.

- APS 21: Applicable to AA of GI company
- APS 33: Peer review of AA work
- APS 34: General Actuarial Practice

Actuaries Act, 2006



Foundation of Institute of Actuaries of India and applicable to all members.

Course of Action: Professional Standards



Professional Conduct Standards

Section 2.1	Actuarial profession has the obligation to serve the public interest within the context of building and promoting confidence in the work of the Actuaries in the Actuarial profession. Individual member must maintain and observe highest standard of conduct. The standing of Actuarial profession depends on the judgement of individual members;	Every member including the pricing Actuary of ABC, is equally responsible for the standing of Actuarial profession and must observe highest standards of conduct.
Section 2.2	Members have the duty to Actuarial profession and clients and must always act honestly and with integrity.	The pricing Actuary should act honestly and assess the latest data as well rather relying on colleague's suggestion.
Section 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	The pricing Actuary Should not compromise the professional judgement to entertain sales head request and not follow the colleague's suggestion.

Course of Action: Actuarial Practice Standards



APS 34: General Actuarial Practice

Section 2.2	Actuary should have or obtain sufficient knowledge and understanding of data, information, relevant history, processes, nature of business operations, law, and business environment to be appropriately prepared to perform the actuarial services.	The Pricing Actuary should assess the latest data and exercise professional judgement in deciding which data set is appropriate for use.
Section 2.5.1	Actuary should consider whether sufficient and reliable data are available. Data are sufficient if they include appropriate information; reliable if substantially accurate. If sufficient and reliable data not available, must follow guidance in subsequent paragraphs.	The pricing Actuary should evaluate both old and new data for sufficiency and reliability.
Section 2.5.2	Actuary should take reasonable steps to review consistency, completeness, and accuracy of data used. Steps might include reconciliations, testing against external data, internal consistency testing, and comparing with prior periods. Should describe this review in any report	The pricing Actuary should use data after appropriate checks for trends and reconciliations.

Course of Action: Actuarial Practice Standards



APS 34: General Actuarial Practice

Section 2.5.3	When setting assumptions, actuary should consider using organization-specific data where possible. Where such data not available, relevant, or credible, should consider industry data, comparable sources, population data, or published data, adjusted appropriately. Data used and adjustments made should be described in any report.	The pricing Actuary should evaluate the latest organisation specific data.
Section 2.5.5	Actuary should consider possible effect of data deficiencies (inadequacy, inconsistency, incompleteness, inaccuracy, unreasonableness) on work results. If deficiencies not likely to materially affect results, need not be considered further. If cannot find satisfactory resolution, should either decline assignment, work with principal to modify services/obtain additional data, or perform services as possible and disclose data deficiencies including potential impact.	The Actuary should evaluate the reasonableness and appropriateness of both latest and historical data and evaluate the impact on work results.

Course of Action: Actuarial Practice Standards



APS 21: Appointed Actuary and General, Health or Reinsurance

Section 2.1	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;	Evaluation needs to be made whether 25% discount leading to unsustainable loss ratio can deteriorate solvency of the company.
Section 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.	Colleague's suggestion to directly blame discount for adverse LR is unethical. Decision to be made after all considerations.

Course of Action: Actuarial Practice Standards



APS 21: Appointed Actuary and General, Health or Reinsurance

Section 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, i.e. calculation of reserves for incurred but not reported claims (IBNR) and other reservescomplying with relevant regulations.

Section 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.....context of how much capital is required and should inform the Board of Directors accordingly

Careful assessment of both the datasets is required to determine the fair discount levels. Also, It must be assessed that whether applying 25% additional discount will lead to inadequate premium.

Course of Action: Actuarial Practice Standards



APS 21: Appointed Actuary and General, Health or Reinsurance

Section 6.2	Whether the premium rates are appropriate is a probability statement and hence the Appointed Actuary must exercise his / her judgment. This judgment...should also consider.. - Claim cost and Claim handling expenses...	An assessment needs to be made whether premium after 25% discount will be able to cover the future claim cost.
Section 6.3	AA 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. AA must consider extent to which insurer's and industry's claims experience is influenced by: Data Quality...	It should be assessed whether worsening in new data is consistent with industry experience or its just organizational specific impact.
Section 8.3	AA should be satisfied as far as possible that the data are accurate, reliable and consistent. 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	Accuracy and reliability of data needs to be assessed before taking any decision.

Course of Action: Actuarial Practice Standards



APS 33: Peer Review

Section 7.1	Peer review must ensure work is in conformity with generally accepted actuarial principles and practices, IRDAI requirements , APS and PCS standards.
Section 10.1.4	Peer review scope includes review of reasonableness of the results.
Section 10.1.5	Peer review scope includes review of extent to which work has been carried out in accordance with Professional Conduct Standards , Actuarial Profession Standards and other applicable regulatory and legislative requirements

APS 33 mandates an independent peer review of the annual statutory valuation to ensure compliance with IAI PCS, APS and IRDAI Regulations.

In case any trends or data observation pointed out by peer reviewer, it needs to be considered.

Course of Action: The Actuaries Act, 2006



Section 2(a)

"Actuary" means a person skilled in determining the **present effects of future contingent events** or in finance modelling and risk analysis in different areas of insurance or calculating the value of life interests and insurance risks, or designing and **pricing of policies**, working out the benefits, recommending rates relating to insurance business, annuities,and the expression "actuarial science" shall be construed accordingly;

This makes the Actuary responsible and accountable for pricing and hence should ensure risk appropriate pricing using revised data.

The Schedule, Part I: An Actuary in practice shall be deemed to be guilty of professional misconduct:

Clause
(15)

if he is **grossly negligent** in the conduct of his professional duties...

Pricing Actuary should not be negligent about new data and the trends it suggests.

Course of Action: The Actuaries Act, 2006

The Schedule, Part I: An Actuary in practice shall be deemed to be guilty of professional misconduct:

Clause (13)	if he fails to disclose a material fact known to him in a valuation report or a financial statement, but disclosures of which is necessary to make the valuation report or the financial statement not misleading where he is concerned with such valuation report or the financial statement in a professional capacity	The Pricing Actuary should disclose that new data suggests discounts should be lower than current level and additional discounts will make business unsustainable.
Clause (16)	if he fails to obtain sufficient information to warrant the formation of an opinion regarding any matter contained in any valuation report or financial statement prepared by him or on his behalf;	The Pricing Actuary should take all the material information including latest data under consideration to decide the discount levels.
Clause (17)	if he fails to invite attention to any material departure from the generally accepted procedure or professional work applicable to the circumstances...	The actuary must formally highlight that deep discounts violate generally accepted actuarial pricing principles.

Course of Action: Regulatory Framework

IRDAI Guidelines on Product Filing Procedures for GI Products

Section 6(n)	The pricing of products should generally be based on appropriate data and/or technical justification. Insurers while pricing both individual and commercial products have to factor in risk exposure, experience, reinsurance, reserves, all expenses etc. and a reasonable amount of surplus. The premium rates shall not be excessive or inadequate or unfairly discriminatory	It has to be assessed whether additional 25% discount will make the premium inadequate.
Section 6(o)	The pricing and design of the product, as far as possible, should aim at making the product to stand of its own, generating a reasonable margin and without any cross subsidization from any other product. This should be in line with the underwriting policy of the insurer	Discounting must be determined considering product's standalone commercial viability.
Section 6(v)	Insurer should take necessary steps in ensuring that competition will not lead to unprincipled rate cutting and other improper underwriting practices	The Actuary should ensure that additional 25% discount will not lead to unprincipled rate cutting.

Course of Action: Regulatory Framework

IRDAI Guidelines on Product Filing Procedures for GI Products

Section 8	Products being filed must include Technical Note duly signed by the Appointed Actuary, Rate Chart with discount and Loading features, and Certificate by Appointed Actuary (Form C) confirming rates are determined on technically sound basis and sustainable basis of information and claims experience.	While certifying, the Appointed Actuary should ensure that discount levels are sustainable and technically sound and all the considerations has been made.
Section 9(a)	If, at any time it appears to Authority that a product being offered by an insurer is not appropriate for any reason or does not carry rates , terms and conditions that are fair between the parties or the documents used with the product are in any way not satisfactory, notwithstanding the fact that Authority may have had no subsisting queries in respect of that product when it was originally filed, it may express its concerns and call upon the insurer to answer the concerns with regard to that product, within the time specified by Authority	High unfiled discounts can invite IRDAI questions and concerns about the product.

Course of Action: Regulatory Framework

IRDAI Guidelines on Product Filing Procedures for GI Products

Section 9(b)	The Authority may require an insurer to justify the rates, terms and conditions of insurance cover offered to a particular client or to a class of clients or for a particular product, within the time specified. A mere statement that the risk is rated “ on merits ” will not be acceptable unless the quantification of the merits can be objectively demonstrated to the satisfaction of the Authority. After hearing the insurer, the Authority may issue such directions as appropriate in relation to that insurance or that product, as the case may be	The Actuary should determine the discount levels in a manner that is justifiable to authority, hence considerations needs to be made on new data as well.
Section 9(c)	If the insurer is not able to satisfy the Authority in the matters referred above, insurer may be required to suspend the sale of that product until it is modified in a manner acceptable to Authority or withdraw the product from the market. Where a product is withdrawn from the market under this provision, the insurer shall neither use the same name for any other product nor use the same product in any other name.	Unapproved discounts put the entire product at risk of suspension or forced withdrawal, creating major business impact

Course of Action: Regulatory Framework

IRDAI Guidelines on Product Filing Procedures for GI Products

Section 16 The **pricing flexibility** may be allowed by Appointed Actuary to the extent as filed as part of the filing subject to Authority's approval to such variation and an overriding condition that the **combined ratio** of the product should always remain **below 100%**. The pricing deviation allowed shall be **reviewed** by Appointed Actuary every year and the PMC be informed to take necessary corrective measures including a decision to withdraw/ modify the product, if the combined ratio of the product exceeds 100%.

Even if flexibility in pricing is allowed, there is an absolute condition that the combined ratio must remain below 100%. Hence, the decision of additional discount should consider the same.

Schedule II Role of Appointed Actuary
(a) Ensure **due diligence** on product development and **pricing** in accordance with regulatory stipulations;
(b) Document assumptions used in pricing...

Due diligence on pricing requires using accurate and adequate data and setting discount levels that lead to sustainable loss ratios.

Course of Action: Regulatory Framework

IRDAI Guidelines on Product Filing Procedures for GI Products

Section 17(b) Every insurer should market the product strictly in accordance with the terms and conditions and other features of the product as noted by the Authority. The Insurers shall quote the rates strictly within the range filed with the Authority. It should be ensured that **no premium quotation** is given which is **outside the range filed** with the Authority and a rate which the Appointed Actuary and underwriter did not approve.

Section 21(b) The insurers offering premium rates outside the range filed with the Authority, discounts in premiums not specified in the filing, **discount** in the premium **without** specific **approval** for the same from the **PMC** and offer enhanced benefits on the products without charging any premiums shall be considered to be **violations** of these guidelines.

If the insurer premium after discount should not fall outside the filed range otherwise it may lead to regulatory action.

Course of Action: Regulatory Framework



IRDAI Actuarial, Finance and Investment Functions of Insurers 2024

Duties of Appointed Actuary include:

Section 7(ii), Schedule 1(ii)	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	The Pricing Actuary should disclose all the facts and information available such as availability of new data.
Section 7(13)(i)	Ensuring that premium rates of insurance products are fair	Fair premiums require pricing based on accurate data reflecting actual risk.
Section 7(8), Schedule 1(ii)	Ensuring that overall pricing policy of the insurer is in line with the overall underwriting and claims management policy of the insurer.	The determination of discount levels should follow the underwriting policies.
Section 5(ii)	Insurers shall have Board-approved policies for actuarial, finance and investment functions	The determination of discount levels should follow the board approved policies.

Course of Action: Regulatory Framework



IRDAI Actuarial, Finance and Investment Functions of Insurers 2024

Section 4(2), Chapter II	Solvency margin of insurer is ensured at least at the control level at all times	Assessment needs to be made whether additional discount levels will impact solvency of company.
Section 7(3), Schedule I, Part II	Duties of Appointed Actuary include: Identifying and monitoring the risks associated with the insurer's ability to maintain the 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 with recommendations on actions to be taken for rectification of solvency position and informing the Competent Authority, if the insurer fails to take necessary steps to rectify the situation.	If revised data indicates the discount leads to solvency concerns, especially in high-accident regions, the Appointed Actuary should highlight the same to Board of the company.

Course of Action: Regulatory Framework

IRDAI Master Circular on General Insurance Business

Section 1.4 (Chapter 3)	The pricing of products should generally be based on appropriate data and/or technical justification. Insurers while pricing both retail and commercial products have to factor risk exposure, experience (allowing for unusual heavy (or low) experience due to natural catastrophes or large losses), reinsurance costs, reserves, expenses etc. and a reasonable amount of surplus. The premium rates shall not be excessive or inadequate or unfairly discriminatory	Discounting below technical premium may make rates inadequate and unfairly discriminatory.
Section A.1	All insurers shall have: a Board Approved Underwriting Policy and follow the stipulations as laid down therein	Sales offering unapproved discounts violates the Board-approved underwriting policy.

Course of Action: Regulatory Framework

IRDAI Protection of Policyholders Interests 2024

Section 7 (1)	Every insurer shall have in place a Board approved policy for protection of policyholders' interests and review it annually	The board approved policy might suggest considering and evaluating the latest information available.
Section 2 (2)	Ensure insurer's conduct is not prejudicial to policyholders' interests; ensure sound and responsive management practices with adequate due diligence	Attracting business by excessive discounts might impact Claim capability of other LOB as well.
Section 7 (2) (iv)	Measures must be taken to prevent mis-selling and unfair business practices by building suitable conduct measures including appropriate grievance redressal framework	Pricing Actuary should ensure unfair business practice are not followed and appropriate consideration needs to be made on all the available information.

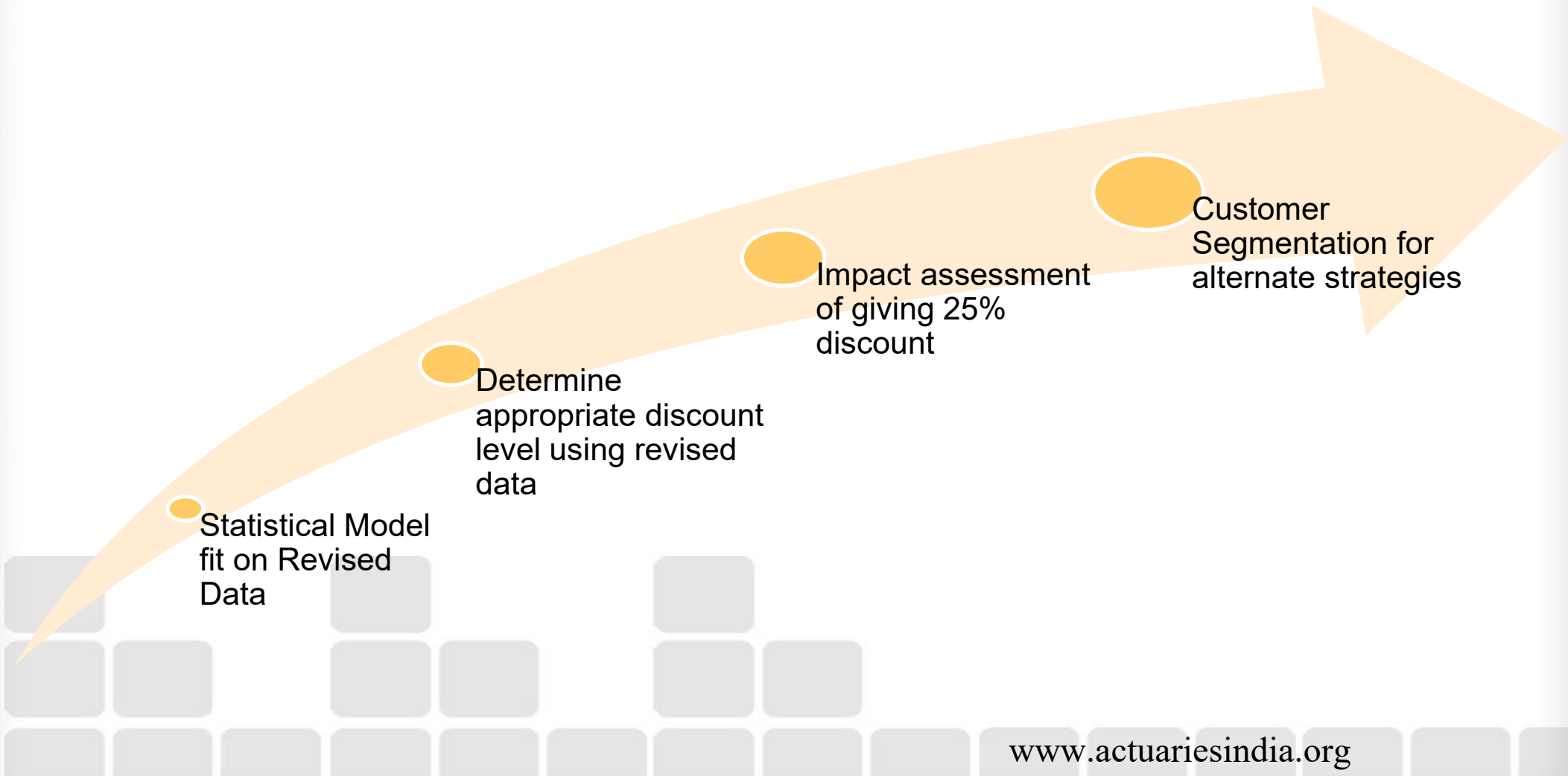
Course of Action: Regulatory Framework

IRDAI Appointed Actuary Regulation 2022

Section xiii (a)	Duties of Appointed Actuary include, ensuring that premium rates of insurance products are fair	Appointed Actuary should ensure that the determination of additional 25% discount levels follows the underwriting policies and not lead to unfair premium.
Section (viii)	Appointed Actuary shall ensure overall pricing policy is in line with underwriting and claims management policy	
Section (xvi)	Appointed Actuary shall pay due regard to generally accepted actuarial principles and practices	Actuarial practice requires using best available data and not cherry-picking data to support predetermined outcomes.

Course of Action: Technical Assessment

Journey to Pricing Sophistication



Course of Action: Technical Assessment

Statistical Model Fit on Revised Data

1. Collect and Process Data



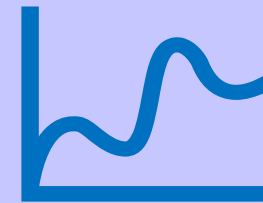
2. One-Way Analysis



4. Incorporate into Pricing Scenarios

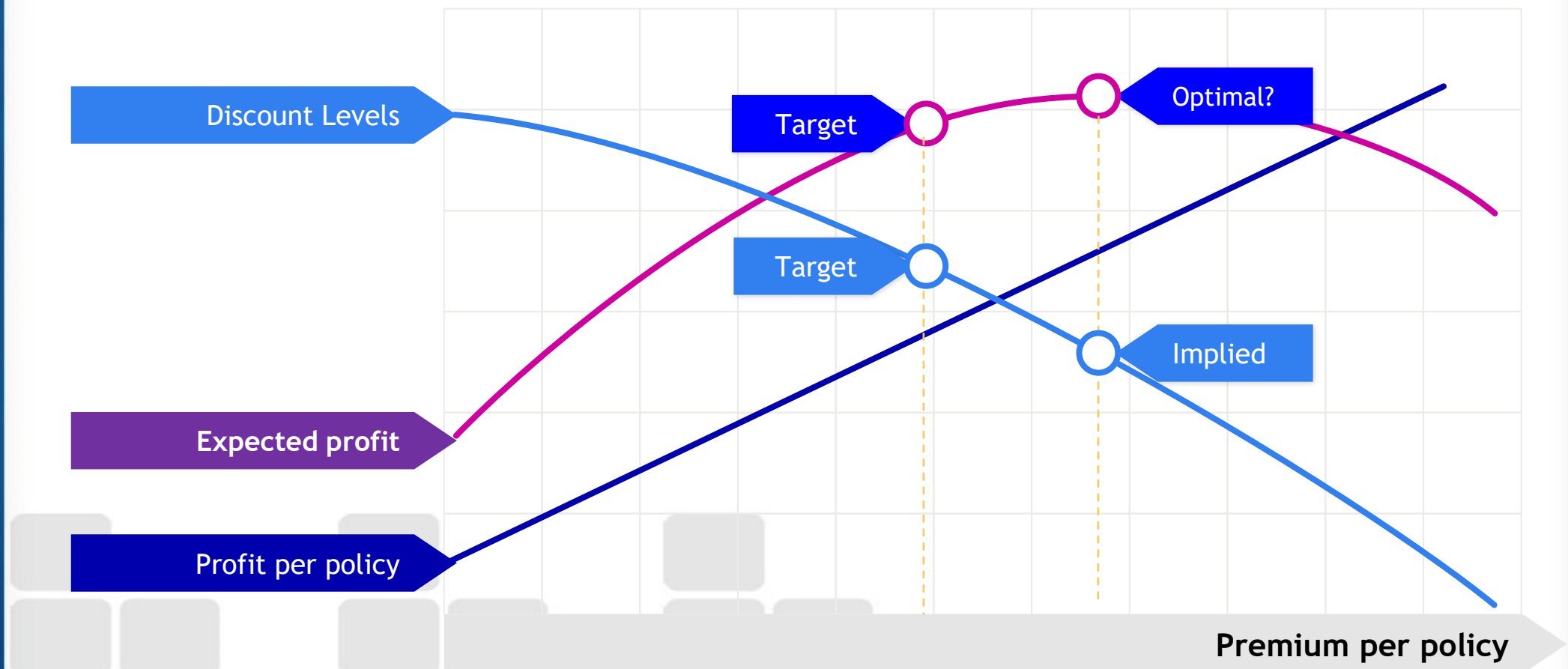


3. Statistical Modelling and Validation



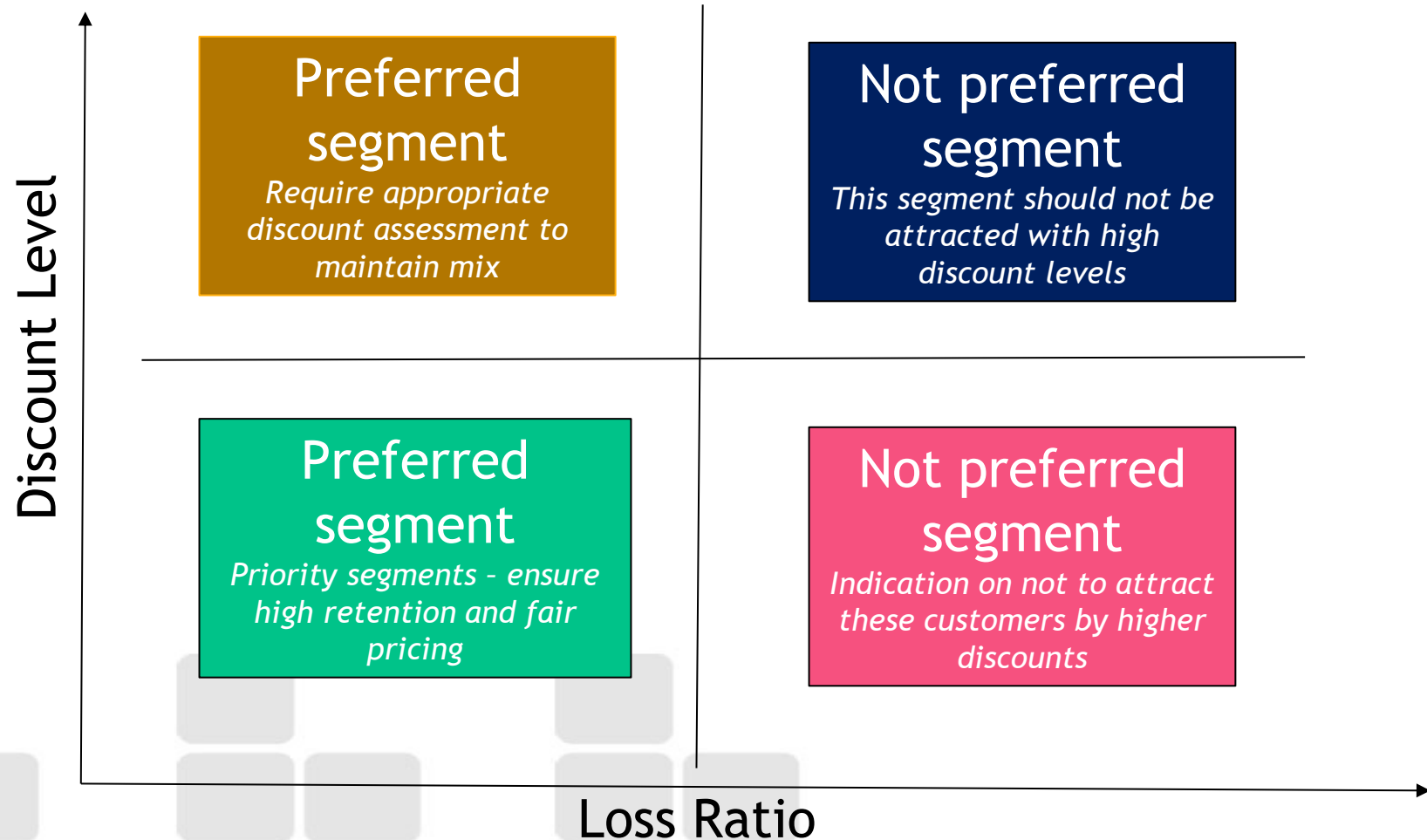
Course of Action: Technical Assessment

Determine Appropriate Discount Levels



Course of Action: Technical Assessment

Customer Segmentation



Course of Action: Impact Assessment of 25% Discount

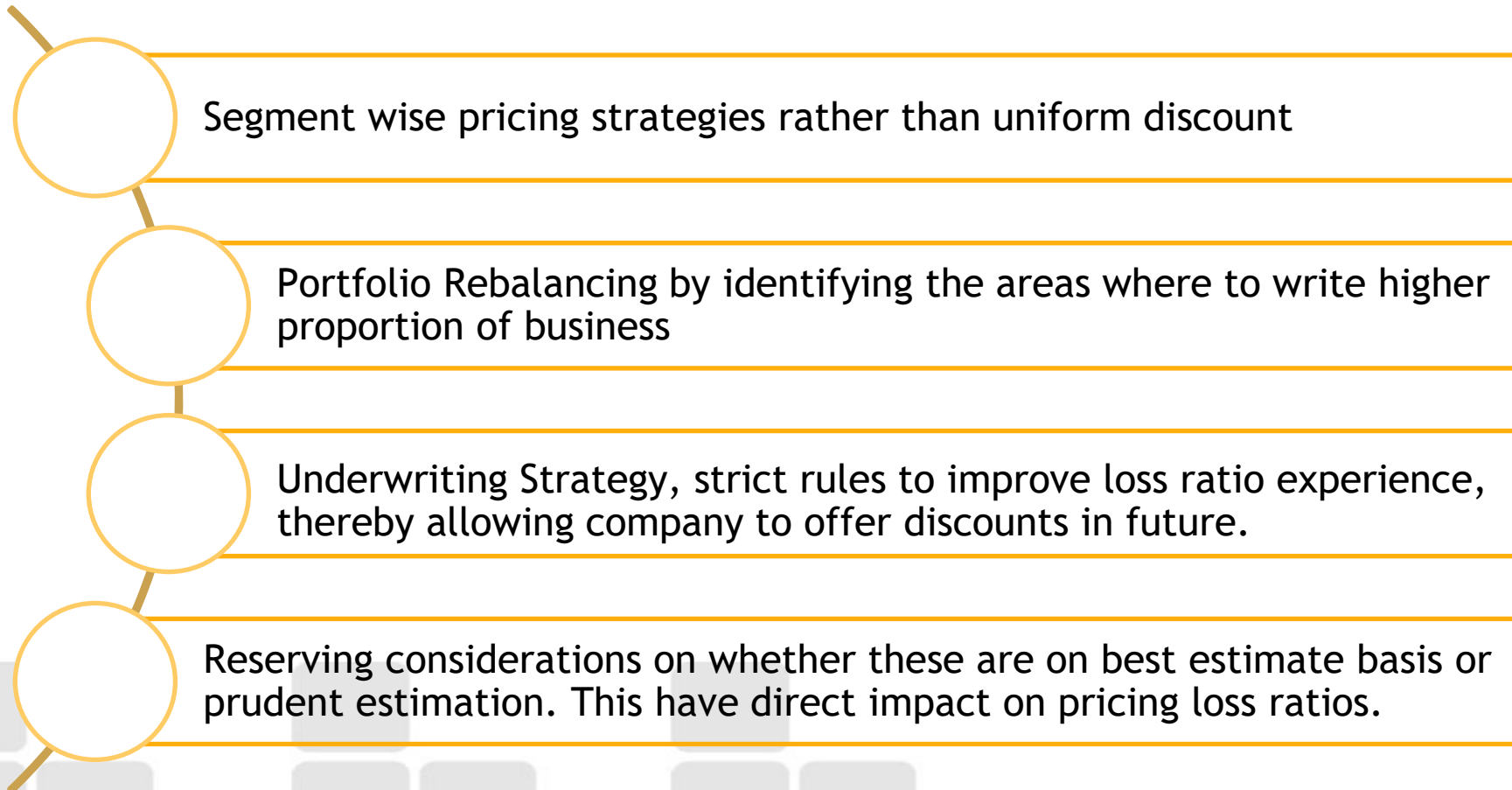
Key Considerations	Relevant Standards
Premium Adequacy	• The Actuaries Act, 2006, Section 2(a) • IRDAI Appointed Actuary Regulations, 2022, Section 8(xiii)(a) • IRDAI AF&I Functions of Insurers, 2024, Section 7(13)(i)
Data Driven Pricing	• IRDAI Master Circular on GI Business, Chapter III, Section 1.4 • IRDAI Guidelines on Product Filing, Section 6(n) • APS 21 (GI Appointed Actuary), Section 6.3 • APS 34 (General Actuarial Practice), Section 2.5
Profitability and Combined Ratio	• IRDAI Guidelines on Product Filing, Section 16 • IRDAI Guidelines on Product Filing, Section 18

Course of Action: Assessment of 25% Discount

Key Considerations	Relevant Standards
Solvency & Capital Adequacy Considerations	- The Insurance Act, 1938, Section 64VA - APS 21, Section 2.1, 2.2, 7.2 - IRDAI AF&I Functions of Insurers, 2024, Section 4(2), Section 7(3)
Professional and Ethical Boundaries	- IAI Professional Conduct Standards, Section 1.4, 6.1 - APS 21, Section 2.3 - The Actuaries Act, 2006, Schedule Part I, Clause 15, 16, 17
Regulatory Compliance	- IRDAI Guidelines on Product Filing, Section 21(b) - IRDAI Protection of Policyholders Interests, 2024, Section 2(2), 7(2)(iv)

Course of Action: Consideration of Alternatives

Alternate Strategies



Appendix



1. The Insurance Act, 1938
2. The Actuaries Act, 2006
3. IAI Professional Conduct Standards
4. APS 21 General Insurance Appointed Actuary
5. APS 33 Peer Review
6. APS 34 General Actuarial Practice
7. IRDAI Actuarial, Finance and Investment Functions of Insurers 2024
8. IRDAI Appointed Actuary Regulations 2022
9. IRDAI Guidelines on Product Filing Procedures for GI Products
10. IRDAI Master Circular on General Insurance Business
11. IRDAI Protection of Policyholders Interests 2024

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The Premium Discount Dilemma – Professional Case Study

Q&A Session



Thank You