

## **Exposure Draft on “Guidelines for Independent Assessment of Statutory Actuarial Valuation”**

Ref No: IRDAI/ACTL/MISC/IASAV/09/2017

25/9/2017

The insurers carrying out Life, General and Health insurance business need to value their insurance business liability every year by Appointed Actuary of the insurer. This is also applicable to the Reinsurers operating reinsurance business. As per the existing Assets, Liabilities and Solvency Margin Regulations the Appointed Actuaries of the insurers are solely responsible for the insurance liability number incorporated in the Balance Sheet. The number determined for insurance liability is an outcome of assumptions used, model set and judgment of the Appointed Actuary. This number is usually directly adopted by the external Auditors by providing a qualifying statement in the Audit report that the Appointed Actuary of the insurer is responsible for the same. As a result, there is no statutory review of the insurance liability figures by an independent assessor to avoid any error, fraud, material misstatement in the reported liability figure, when such liability figure constitutes significant part of the Balance Sheet of the insurer. There appears to be a gap in existing norms. To address this, the Authority has prepared “Exposure draft on Guidelines for Independent Assessment of Statutory Actuarial Valuation”.

All stakeholders are requested to offer their comments/ suggestions on the draft guidelines for consideration of the same by the Authority. The comments/ suggestions in MS-WORD format should reach us by 13.10.2017 in the format attached to the undersigned by e-mail at [pankajk.tewari@irda.gov.in](mailto:pankajk.tewari@irda.gov.in).

  
**Member (Actuary)**

PKT

Encl: As above

**FORMAT FOR SUGGESTIONS ON**

**Exposure Draft on "Guidelines for Independent Assessment of Statutory Actuarial Valuation"**

Change suggested by

Date

**Note** It is suggested that ONE Page may be used for one change. This will enable us to group all the suggestions and take a decision on the changes suggested

<b>Page No</b>	<b>Section No</b>	<b>Comments/Suggestions</b>	<b>Reasons</b>

## **Exposure Draft on “Guidelines for Independent Assessment of Statutory Actuarial Valuation”**

### **1. Purpose**

1.1. These guidelines will provide an additional comfort to the Board of the insurer and to the Authority about credibility and fairness in determination of insurance liabilities in compliance with the existing laws, guidelines, actuarial practice standards and generally accepted actuarial practice. So that, the financial statement shows a true and fair view in all material aspects of the insurer's financial position.

1.2. The objective of the guidelines is to acquire an independent opinion over the adequacy and sufficiency of the Mathematical Reserves/IBNR (including IBNER and PDR) calculated by the Appointed Actuary.

### **2. Applicability**

The independent review of insurance liability will be applicable to the insurers (life, general and standalone health) and reinsurers registered in India and satisfying one or more of the following criteria:

2.1. The insurer/reinsurer completed 10 years of operations since the date of incorporation till the end of last financial year. There are 24 life insurers and 31 general insurers (including stand-alone health insurers) and 2 general re-insurers registered as on date. Out of them, 17, 18 and 1 respectively qualify the criteria.

2.1.1. The list of insurers which falls under this criterion is provided in the paragraphs below:

#### **2.1.1.1. Life Insurers**

- 2.1.1.1.1. Life Insurance Corporation of India
- 2.1.1.1.2. Bajaj Allianz Life Insurance Company Ltd.
- 2.1.1.1.3. Birla Sunlife Insurance Company Ltd.
- 2.1.1.1.4. Exide Life Insurance Company Ltd.
- 2.1.1.1.5. HDFC Standard Life Insurance Company Ltd.
- 2.1.1.1.6. ICICI Prudential Life Insurance Company Ltd.
- 2.1.1.1.7. Kotak Mahindra OM Life Insurance Company Ltd.
- 2.1.1.1.8. MaxLife Insurance Company Ltd.
- 2.1.1.1.9. PNB Metlife India Insurance Company Ltd.
- 2.1.1.1.10. SBI Life Insurance Company Ltd.
- 2.1.1.1.11. TATA AIA Life Insurance Company Ltd.



- 2.1.1.1.12. Aviva Life Insurance Company Ltd.
- 2.1.1.1.13. Reliance Nippon Life Insurance Company Ltd.
- 2.1.1.1.14. Sahara India Life Insurance Company Ltd.
- 2.1.1.1.15. Bharti AXA Life Insurance Company Ltd.
- 2.1.1.1.16. Shriram Life Insurance Company Ltd.
- 2.1.1.1.17. Future Generali Life Insurance Company Ltd.

**2.1.1.2. General Insurers**

- 2.1.1.2.1. National Insurance Company Ltd.
- 2.1.1.2.2. The New India Assurance Company Ltd.
- 2.1.1.2.3. United India Insurance Company Ltd.
- 2.1.1.2.4. The Oriental Insurance Company Ltd.
- 2.1.1.2.5. Export Credit Guarantee Corporation of India Ltd.
- 2.1.1.2.6. Bajaj Allianz General Insurance Company Ltd.
- 2.1.1.2.7. HDFC ERGO General Insurance Company Ltd.
- 2.1.1.2.8. ICICI Lombard General Insurance Company Ltd.
- 2.1.1.2.9. IFFCO Tokio General Insurance Company Ltd.
- 2.1.1.2.10. Reliance General Insurance Company Ltd.
- 2.1.1.2.11. Royal Sundaram General Insurance Company Ltd.
- 2.1.1.2.12. TATA AIG General Insurance Company Ltd.
- 2.1.1.2.13. General Insurance Corporation of India
- 2.1.1.2.14. Cholamandalam MS General Insurance Company Ltd.
- 2.1.1.2.15. Agriculture Insurance Company of India Ltd.
- 2.1.1.2.16. Star Health & Allied Insurance Company Ltd.
- 2.1.1.2.17. Future Generali India Insurance Company Ltd.
- 2.1.1.2.18. Apollo Munich Health Insurance Company Ltd.

**2.1.1.3. Reinsurers**

- 2.1.1.3.1. General Insurance corporation of India

2.2. Any Advice or instruction from the Authority, depending on the risk profile of the insurer/reinsurer as determined by the Authority time to time.

**3. Effective Date**

3.1. These guidelines shall come into force from financial year ending on 31 March 2018.

**4. Appointing Authority**

4.1. On recommendation of the Appointed Actuary, the Board shall appoint the independent assessor of actuarial valuation.

4.2. Insurer shall inform the Authority full details of the independent assessor within one week from the date of appointment by the Board. At the time of appointment

of independent assessor, the Board should ensure that the independent assessor is in compliance with the regulatory requirements and there are no conflicts of interest in his / her appointment.

4.3. If the appointed independent assessor does not comply with eligibility criteria, The Authority may cancel the appointment and the insurer will be liable for appropriate action from the Authority.

## **5. Eligibility Conditions**

5.1. The independent assessor should be Fellow Member of Institute of Actuaries of India.

5.2. The independent assessor should hold Certificate of Practice (CoP) in relevant subject issued by Institute of Actuaries of India.

5.3. The independent assessor should have passed specialisation subject:

5.3.1. The independent assessor should have passed Paper SA2 for reviewing the Actuarial Valuation of Life insurance companies.

5.3.2. The independent assessor should have passed Paper SA3 for reviewing the Actuarial Valuation of Non-Life and Reinsurance companies.

5.3.3. The independent assessor should have passed Paper SA1 or SA3 for reviewing the Actuarial Valuation Health insurance companies.

5.4. The independent assessor should have Relevant Experience as under:

5.4.1. The independent assessor reviewing the Actuarial Valuation of Life insurance companies should have at least 10 years of relevant experience; and out of these 10 years, the independent assessor should have 5 years of experience since obtaining Fellow member from the concerned institute.

5.4.2. The independent assessor reviewing the Actuarial Valuation of Non-Life insurance and Reinsurance companies should have at least 10 years of relevant experience; and out of these 10 years, the independent assessor should have 5 years of experience since obtaining Fellow member from the concerned institute.

5.4.3. The independent assessor reviewing the Actuarial Valuation of Health insurance companies should have at least 10 years of relevant experience; and out of these 10 years, the independent assessor should

have 5 years of experience since obtaining Fellow member from the concerned institute.

5.5. The independent assessor should also have experience on Valuation of insurance companies as under:

5.5.1. The independent assessor should have at least 3 years of experience of valuation of insurance companies since obtaining fellowship from the concerned institute.

5.6. The independent assessor shall not be over the age of seventy-five years completed as on the date of the Actuarial Valuation Review Report.

5.7. Other conditions that the independent assessor needs to comply are as under:

5.7.1. The independent assessor should have access to additional resources to carry out the actuarial valuation review work.

5.7.2. The independent assessor should have access to expert opinion, if required.

5.7.3. The independent assessor should not be an employee and/or AA or a Board member of any insurer in India.

5.7.4. The independent assessor should not have any conflict of interest.

5.7.5. The independent assessor should not assess the actuarial valuation of more than 3 insurers in India within any financial year.

5.7.6. The independent assessor shall not be appointed/ reappointed by any insurer for more than 3 consecutive financial years. The reappointment may be allowed after 3 consecutive years of appointment after one year cooling off period.

5.7.7. The independent assessor should not be associated in any manner with the related parties of the insurer as per Companies Act during the financial year for which the independent assessment is conducted.

5.7.8. The independent assessor should not have committed any breach of professional or other misconduct.

5.7.9. The independent assessor should not have committed any violation to the Act and Regulations /other norms stipulated by the Authority in the past.



## **6. Scope of independent assessment of actuarial valuation**

- 6.1. Assessing the sufficiency and quality of the data used in the calculation of actuarial valuation reserves/liabilities.
- 6.2. Assessing the accuracy of the calculations of actuarial valuation reserves/liabilities.
- 6.3. A review of the methodology and assumptions underpinning the work which includes but not limited to examining any models used for estimation of actuarial liabilities/reserves.
- 6.4. A review of the reasonableness of the results.
- 6.5. A review to the actuarial work has been carried out in compliance with the corresponding applicable Regulations, norms issued by the Authority time to time and/other legislative requirements as well as Actuarial Professional Standards issued by the Institute of Actuaries of India.

## **7. Topics to be covered in the independent assessment of actuarial Report**

- 7.1. Introduction
- 7.2. Opinion about adequacy and sufficiency of reserves
- 7.3. Opinion about compliance to extant norms of the Authority and the IAI
- 7.4. Data Collection and Verification
- 7.5. Methodology
- 7.6. Assumptions
- 7.7. Check on results
- 7.8. Limitations
- 7.9. Confirmation that the independent assessor is not associated with the same insurance company on any other assignment during the period when the assessment was being carried on.
- 7.10. Confirmation that the independent assessor has not been appointed/ reappointed by the insurer for more than 3 consecutive financial years.
- 7.11. Confirmation that not associated as independent assessor with the insurer under consideration for more than 3 consecutive financial years
- 7.12. Disclosure of all prior commercial or employment relationships of the independent assessor with the insurer in the independent assessment report subject to non-disclosure agreement between them, if any.

## **8. Submission of report**

8.1. The independent assessor shall submit a written report on the assessment of actuarial valuation to the Board of the insurer -

8.1.1. a formal presentation by the independent assessor to the Board is preferred, in addition to the written report

8.2. The report should be submitted to the Board of the insurer before adoption of annual accounts by the Board of Directors of the Insurers

8.3. One Copy of the report should be sent to the Authority along with year-end financial reports within 15 days from the adoption of annual accounts by the Board of Directors of the Insurer

## **9. Compliance by the independent assessors of actuarial valuation**

9.1 . The independent assessors shall ensure compliance to these guidelines, Acts, Regulations and other norms issued by the Authority time to time. In particular, Assets, Liabilities and Solvency Margin Regulations and Actuarial Report and Abstract Regulations and circulars/guidelines/clarifications notified by the Authority time to time.

9.2 . The authority reserves the right to initiate necessary action for Non-compliance to the Act, guidelines and any other Regulations and/or norms issued by the Authority time to time.