The actuarial profession in India has witnessed a sea change in the decade after insurance liberalization. It has gone from being described as a “moribund profession” to being a “dynamic and lucrative” one. BY SANCHIT MAINI

The membership statistics below (see growth chart) show the increase in interest level of those wishing to pursue the actuarial exams.

The growth in student numbers has not yet led to a similar growth in fellows and associates and this has led to a paucity of qualified actuaries available to support the growth in the financial services industry, in particular the insurance industry. Most of the actuaries still work in the traditional fields of life insurance, pensions and employee benefits, and general insurance to a smaller extent.

In 2006, the profession witnessed a transformation when The Actuaries Act made the Actuarial Society of India a chartered institute. The key objective of the act is “to provide for regulating and developing the profession of actuary and for matters connected therewith or incidental thereto.” An actuary, as defined by the act, is someone who is a fellow of the Institute of Actuaries of India. In order to regulate the profession, the Act provides for a council to manage the affairs of the Institute with a membership of between nine and 12 members. The Act requires external nominees: one to represent the Ministry of Finance; one to represent the Insurance Regulatory and Development Authority (IRDA); and up to two persons nominated by the Central Government with backgrounds in life insurance, general insurance, finance, economics, law or accountancy. The Act also provides for a disciplinary committee.

The most significant element of The Actuaries Act is not to allow any company (defined as “any corporate body and includes a firm or other association of individuals”), whether incorporated in India or overseas, to engage in actuarial practice. That means that only partnership structures are allowed to carry out actuarial practice. A fellow member of the Institute must manage each office of an actuarial firm.

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**Growth Chart**

<table>
<thead>
<tr>
<th>31ST MARCH OF</th>
<th>FELLOWS</th>
<th>AFFILIATES</th>
<th>ASSOCIATES</th>
<th>STUDENTS</th>
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<tbody>
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<td>2002</td>
<td>204</td>
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<td>2003</td>
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<td>1,905</td>
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<tr>
<td>2004</td>
<td>204</td>
<td>24</td>
<td>120</td>
<td>2,815</td>
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<td>2005</td>
<td>203</td>
<td>18</td>
<td>136</td>
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<td>2006</td>
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<td>2007</td>
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<td>27</td>
<td>135</td>
<td>6,200</td>
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<td>2008</td>
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<td>18</td>
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<td>2009</td>
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<td>2010</td>
<td>216</td>
<td>16</td>
<td>130</td>
<td>10,216</td>
</tr>
<tr>
<td>2011</td>
<td>238</td>
<td>17</td>
<td>137</td>
<td>11,786</td>
</tr>
</tbody>
</table>

SOURCE: INSTITUTE OF ACTUARIES OF INDIA
Foreign direct investment (FDI) in insurance companies is currently restricted to 26 percent, although there has been a long-standing debate to increase this to 49 percent. The matter, along with other legislative matters to amend the regulations introduced in 1999/2000, will be covered in an Insurance Amendment Bill, although there is significant opposition towards any increase in FDI amongst several political parties. Another significant change under consideration is to allow reinsurance companies to set up branch licenses in India. All foreign reinsurers currently reinsure business with overseas legal entities and their Indian operations provide sales, marketing and service support. None of the foreign reinsurers have as yet incorporated a company in India.

The IRDA, along with the Securities and Exchange Board of India (SEBI, the capital market regulator) have introduced draft regulations to allow life insurers who have completed 10 years to raise capital through initial public offerings. IPOs would lead to interesting work for actuaries, besides strengthening corporate governance in insurers as a result.

The Indian insurance market has seen tremendous change in the last decade due to a multitude of factors ranging from the opening up of the market to private participation and subsequent regulatory reforms; robust economic and equity market growth; increase in household savings rate; and cultural changes amongst others. This decade of change has had a significant impact on the actuarial profession as well. This article focuses on the changes in the life insurance industry and its impact on the actuarial profession in India.

**MARKET STRUCTURE**

The life insurance market consists of 23 private players and the state-owned Life Insurance Corporation of India (LIC). It contributes just more than 4.4 percent of India’s GDP with a per capita premium income of US$56. Later in this article we will cover some of the recent regulatory changes that have affected growth and resulted in penetration dropping in 2010 compared to 2009. (See chart on page 19.)

The growth in life insurance density may well be a reflection of the high inflationary environment whereas penetration has slowed down considerably since 2006.

**PRODUCTS**

Before 2000, the LIC mainly sold savings-oriented traditional participating insurance in the form of endowments and anticipated endowments. A favorable tax regime, with life insurance premiums deductible from taxable income up to a limit, a low rate of tax applied to the LIC (12.5 percent compared to a company tax rate of 30 percent) and tax-exempt maturity benefits meant tax efficiency was a key driving force for life insurance sales. As a result, protection-oriented products without any savings elements were not really popular. The opening up of the market brought a host of new insurance products with unit-linked products becoming the main product category over the last decade.

A key regulatory change in 2002 regarding surplus transfer rules from the policyholder fund to shareholders fund made...
unit-linked products quite attractive for shareholders.

REGULATIONS
The IRDA was set up in 1999 and promulgated regulations in 2000 to open the insurance sector to private participation, including foreign ownership restricted to 26 percent. Since then the IRDA has been actively playing its dual role of supervision and development of the insurance industry in India.

Follows is a description of some of these regulations and their impact in shaping the life insurance industry.

IRDA Regulations, 2000
The key elements of the initial set of regulations focused on opening up the industry to private participation, including foreign ownership. The IRDA specified minimum capital requirement of INR100 Crore (cUS$22m); foreign ownership restricted to 26 percent through foreign direct investment; single license for operating in the entire country. The regulations introduced the appointed actuary role as a statutory position with significant responsibilities. The IRDA was particularly progressive in its regulations surrounding products with virtually no restriction on the types of products that companies could launch. All products required the appointed actuary to certify the premium rates, terms and conditions as being fair and adequate.

Distribution of Surplus, 2002
The LIC is governed by the LIC Act, 1956, when more than 250 insurance companies were folded into the state company. The LIC Act restricted surplus distribution to shareholders to 5.0 percent for all funds including participating and non-participating funds. The IRDA Regulations in 2000 allowed transfer to shareholders of up to 10 percent (thus creating the so-called 90:10 gate for distribution of surplus between policyholders and shareholders). This restricted the development of non-participating business, including unit-linked business. The Distribution of Surplus Regulations, 2002, allowed a 100 percent surplus transfer from non-participating funds to shareholders thereby creating a favorable regulatory regime for launching unit-linked business. Although the LIC had launched unit-linked business prior to the opening...
up of the sector to private players (and the 
Unit Trust of India had launched mutual 
funds with insurance wrappers even be-
fore that) this regulation made unit-linked 
products attractive from a shareholder val-
ue creation viewpoint and subsequently 
led to the launch of several products.

**Unit-Linked Guidelines**
The period between 2002 and 2006 saw 
the development and growth of unit-
linked business and, coupled with the 
strong equity markets in India, became 
a dominating product form in India. The 
transparency of benefits and charges, to-
gether with the ability to participate in 
equity markets, proved to be a potent for-

tula of success for unit-linked business 
in India.

Despite the introduction of the Unit-
Linked Guidelines in 2006, one of the 
key objectives of which was to ensure 
fair treatment for customers, there were 
mounting concerns surrounding the ap-
propriateness of unit-linked products 
being sold to the broad market. The Unit-
Linked Charge Cap introduced in 2009 
ensures that customers will receive a 
minimum maturity benefit by capping the 
amount of reduction in yield due to the 
levy of all charges at a hypothetical inter-
est rate of 10 percent. The minimum ma-
turity yield has been set at 7.0 percent for 
contracts up to a duration of 10 years and 
7.75 percent for durations greater than 10 
years. There is no cap for surrender values 
except for the requirement of surrender 
values to equal the account value from 
year six onwards. This focus of the guide-
lines on maturity values led to many unit-
linked product designs that were arguably 
tontine, given the high lapse rates preva-
lent across the industry.

Early 2010 saw the mutual fund and life 
insurance industry turf war take an unpre-
cededent turn with SEBI (the mutual fund 
regulator) issuing notice to 14 life insurers 
and asking them to register all unit-linked 
products with the SEBI in addition to the 
IRDA. It asked for new sales to be stopped at 
short notice. This regulatory turf war went 
on for a few months and finally the matter 
was resolved through a Presidential Order 
giving the sole regulatory rights of unit-
linked products to the IRDA.

Soon after this, the IRDA announced a 
revised set of unit-linked regulations that 
extended the net reduction in yield caps 
to all durations from six onwards and in-
cluded surrender charge caps from years 
one to five.

These changes have led to a fundamen-
tal shift in the life insurance industry 
and companies have been forced to re-
vise their business strategies. The initial 
changes evident since these regulations 
came into force include increased focus 
on bancassurance while companies con-
sider changes to the agency channel, in-
creased focus on traditional and single 
premium products, reductions in com-
missions and costs, and an enhanced fo-
cus on persistency. It remains to be seen 
whether the changes will lead to M&A; 
this being complicated with private play-
ers typically having two shareholders. For-
egn insurers may also bide time until the 
FDI caps are increased to 49 percent.

The impact of these far-reaching regula-
tory changes will no doubt create a stron-
ger, more resilient and customer-friendly 
insurance industry.

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Group of the Institute of Actuaries of India. He can 
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**ENDNOTES**

1 The first level of employees in the agency 
structure who directly recruit and develop 
agents. The Life Insurance Corporation of 
India and some private life insurers use 
the title of Agency Development Manager 
or Development Manager for this position, 
which describes the role more accurately.