Institute of Actuaries of India

Subject
SA6 – Investment

For 2017 Examinations

Aim

The aim of the Investment Specialist Applications subject is to instil in successful candidates the ability to apply knowledge of the Indian investment environment and the principles of actuarial practice to the selection and management of investments appropriate to the needs of investors.

Links to other subjects

Subjects ST5 — Finance and Investment Specialist Technical A and CA1 — Actuarial Risk Management: provide the underlying principles upon which this subject is based.
Candidates can expect to be examined in aspects of general principles developed in these subjects as well as the India specific aspects developed in this subject.

Objectives

On completion of this subject the candidate will be able to:

(a) Demonstrate knowledge of the legislative and regulatory framework for investment management and the securities industry in India.

 (i) Describe the framework of regulation of the Indian investment industry.
 (ii) Discuss the relevant professional guidance for actuaries working in the investment field.
 (iii) Describe how members of the Institute of Actuaries of India are regulated in the conduct of business under the IRDA regulations and circulars.

(Link: Refer the IRDA investment regulations and relevant Guidance notes and APS issued by the Institute of Actuaries of India. You may also like to study the NSE document on Basics of Financial market, FIMMDA document on debt instruments, Retail Debt Market attached in the suggested reading materials section)

(b) Discuss the principles and objectives of investment management and analyse the investment needs of an India investor.

 (i) Analyse the particular liability characteristics, investment requirements and the influence of the regulatory environment on the investment policies of the following Indian institutions:

 - a life insurance company transacting mainly with profits business
 - a life insurance company transacting mainly unit-linked business
 - a general insurance company
 - a health and care insurance company
 - a self-administered defined benefit pension fund
 - a self-administered defined contribution pension fund
 - a pure fund manager

(ii) Discuss the investment vehicles which may be particularly attractive to an individual investor in India taking into account taxation, expenses and other relevant considerations.

[Link: Refer chapters 14 and 16 from SA6 Acted material and chapters 2, 3, 24 and 25 from Prasanna Chandra's book on Investment Analysis and Portfolio Management (IAPM)]

(c) Demonstrate knowledge of the investment indices which may be relevant to a global investor based in India.

[Link: Refer chapter 11 from SA6 study material and chapter 3 from Prasanna Chandra's book - (IAPM). You may also like to study the Indices in India (Nifty and others), FAQs on Indices and Index Construction available on the website of NSE and given as attachments in the suggested reading section]

(d) Demonstrate a knowledge and understanding of the principal techniques in portfolio management including risk control techniques.

(i) Describe and discuss the principal active management "styles" (value, growth, momentum, rotational).
(ii) Describe and discuss passive fund management.

[Link: Refer chapter 14 and16 from SA6 Acted material and study chapters 12 and 22 from Prasanna Chandra's book – (IAPM)]

(e) Demonstrate a knowledge and understanding of the techniques used for investment management assessment and selection.

(i) Describe and discuss methods of organising the investment management of a large portfolio.
(ii) Demonstrate knowledge of the structure of an institutional investment department.
(iii) Describe the function of a performance measurement service.

[Link: Refer chapters 12 and 13 from SA6 Acted material and chapters 22 and 23 from prasanna Chandra's book – (IAPM)]

(f) Demonstrate a knowledge and understanding of the characteristics of the principal investment assets and the markets in such assets with particular reference to the needs of an Indian investor.

(i) Outline the processes of dealing, transfer and settlement processes in equity, bond and derivative markets.

(ii) Outline the differences in the processes of dealing, transfer and settlement processes in the main overseas equity, bond and derivative markets.

(iii) Indicate the likely levels of charges, expenses and dealing spreads for an institutional investor in the Indian securities markets.

(iv) Describe the main features of the historic behaviour of markets and indices and discuss their relationships to each other and to price and earnings inflation.

(v) Display Understanding of both approaches to Security Analysis (Fundamental Analysis and Technical Analysis)

[Link: Refer chapters 3, 11, 12, 13, 14, 15 and 16 from Prasanna Chandra's book – (IAPM). You may also like to study relevant material available on the NSE website (Investor's guide to Capital Market, Online Trading, Understanding Margins). The same is mentioned in suggested reading section below and attached for your convenience]

(g) Demonstrate a knowledge and understanding of the characteristics of specialist investment assets and the markets in such assets with particular reference to the needs of an Indian investor.

- commodities
- asset-backed securities
- unquoted equities, including venture capital ("private equity") investment
- property finance and development
- derivatives markets

(h) Solve complex problems associated with:

- the influence of the liabilities on an appropriate investment strategy
- reducing asset risk relative to the liability structure
- improving investment return
- matching particular liability patterns
- analysing investment needs
- choosing investment sectors
- choosing individual investments
- investment performance measurement
- reporting on investments

and, through integrating and critically evaluating the results, draw conclusions therefrom in particular in relation to:

- the development of an asset strategy
- responding to particular investment needs
- monitoring the performance of investments

[Link: Refer chapters 20 and 22 from SA6 study material. Also study chapters 17, 18, 19, 20 and 21 from Prasanna Chandra's book – (IAPM). You may also like to study relevant material available on the NSE website (Investor's guide to Capital Market, Online Trading, Derivatives- FAQs, Derivatives Trading – FAQs, ETFs given below in suggested reading and attached herewith for your convenience]

Core Reading Material

1. Investment Analysis and Portfolio Management by Prasanna Chandra - Fourth Edition- Published by Tata McGraw Hill.
   Chapters -2, 3, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, and 25

2. SA6 Acted Material 2016 – Chapters 11, 12, 13, 14, 15, 16, 17, 20 and 22

3. IRDA investment regulations
   http://www.actuariesindia.org/subMenu.aspx?id=87&val=Addition_Core_Reading

Suggested Reading

1. NSE FIMMDA document on debt instruments
   www.nseindia.com/content/ncfm/FIMMDA.pdf

2. Materials from NSE website
   http://www.actuariesindia.org/subMenu.aspx?id=87&val=Addition_Core_Reading

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