



Institute of Actuaries of India

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09 September 2017

To

All Members

Dear All

**Subject:- Issuance of APS 33 on Peer Review of Appointed Actuary's work in -
General and Health Insurance / Reinsurance .**

The Council in its meeting held on 19th August 2017 approved APS 33: Peer Review of Appointed Actuary's work in - General and Health Insurance / Reinsurance after following the due process as per Principles and Procedures for issuance of Guidance Notes (GNs)/Actuarial Practice Standards (APSs) (Version 4.00 /24 08 2012).

The said APS 33 is a Practice Standard i.e., mandatory and will be effective from 1st December 2017.

Yours Sincerely,

**Sanjeeb Kumar
President**



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APS 33: Peer Review of Appointed Actuary's work in - General and Health Insurance / Reinsurance

1. Classification: Practice Standards

2. Legislation or Authority:

- 2.1. The Insurance Act, 1938 including The Insurance Laws (Amendments) Act, 2015 (hereinafter referred to as the Act) and amendments thereto including the Insurance Regulatory and Development authority Act, 1999.
- 2.2. The Insurance Rules 1939 (hereinafter referred to as the Rules) and amendments there to.
- 2.3. Insurance Regulatory and Development Authority (Appointed Actuary) Regulations 2000 (hereinafter referred to as AA Regulations) and amendments there to.
- 2.4. The Actuaries Act, 2006 and Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margins of Insurers) Regulations, 2000 and amendments there to.

3. Application:

The IAI standards would require Peer review to be a standard element of professional practice for all annual statutory actuarial valuations carried out by an Appointed Actuary of a non-life insurer or non-life reinsurer and all Actuaries working as peer reviewers of such Appointed Actuaries.

The overall scope of APS 33 is described in Section 10 of this document.

4. Status:

Issued by the Institute of Actuaries of India (IAI) under Due Process in accordance with the "Principles and Procedure for issue of Guidance Notes (version 3.00/ 27 06 2009)."

5. Version: 1.00

6. Effective: 01 12 2017



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7. Introduction

The actuarial profession or actuaries in general are achieving increasing visibility amongst policyholders and regulators alike. Actuaries also face a rapidly changing economic environment and increased regulatory complexities. To ensure that public are receiving high-quality professional services from our members, the profession has promulgated actuarial standards of practice. Peer review is seen as another plausible method for actuaries to maintain the quality of the work that they perform.

At its simplest, peer review is the use of a second pair of eyes to review and validate some or all of the work of the person who performed that work. More generally, peer review provides a mechanism to test the work and the decisions taken.

The objective of the peer review is to lead to an opinion by the reviewing actuary (the peer reviewer) that the work of the Appointed Actuary is in conformity with the generally accepted actuarial principles and practices. Further, it serves to provide reassurance to the actuaries and the users of actuarial work that the work has been performed up to relevant technical and ethical standards, and in so doing to reduce the consequential risk caused by the users of actuarial work. Specifically, this also ensures that the regulatory requirements of IRDA, requirements of relevant Actuarial Practice Standard (APS) and Professional Conduct Standards (PCS) have been fulfilled.

It is the responsibility of the peer reviewer and the Appointed Actuary to ensure high standards in the performance of the peer review to help demonstrate the commitment of the IAI to act in the interests of the policyholders in particular and the public in general.

This guide addresses a number of factors, that may assist members when deciding (a) whether peer review should be applied to a piece of work; and (b) how the peer review should be carried out. The issues considered in this guide are:

- Section 10 : Scope of peer review
- Section 11 : Choice of Peer Reviewer
- Section 12 : Method of Operation of Peer Review
- Section 13 : Communication
- Section 14 : Resolution of peer review issues



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- Section 15 : Output of peer review

8. Definitions

8.1. For the purpose of this Actuarial Practice Standard the following definitions will apply;

- Appointed Actuary is a fellow member of the IAI, as defined under sub-regulation (2) of regulation (3) of AA Regulations.
- external peer review is a collaborative and collegiate peer review process where
 - o the peer reviewer is independent of and external to the insurer.
 - o an actuary working as an employee of the insurer or of any of the group companies of the insurer will not be treated as external.

In the instance that an individual was an Appointed Actuary and/or employee of the non-life insurer there should be a one year cooling-off period before the individual can become a peer reviewer of the company concerned from retirement or termination of service.

- o an actuary working as a consultant or advisor for the insurer will not be treated as external for this purpose except as mentioned below,
- o a registered partnership firm or registered sole practitioner or registered sole proprietor is engaged by a non-life insurance company as a consultant or an advisor, then the sole practitioner, sole proprietor or the partner of the partnership firm, can be treated as external only if he is not associated in any other assignment with the non-life insurance company whilst providing the peer review support. However, in case of partnership firm, the partner actuary who undertakes the work as peer reviewer, should declare that arrangements were in place to ensure separation of the people and the work relating to the different assignments and to ensure the independence and objectivity of the peer review.
- o a retired employee of the insurer, even if he is a pensioner of the



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insurer will be treated as external to the insurer provided that he is a registered sole practitioner or a registered sole proprietor or a partner in a registered partnership firm.

- o Appointed Actuary and Peer reviewer should not be from same firm.
- Insurer means a non-life insurer or a reinsurer carrying on the business of non-life insurance or non-life reinsurance as the case may be.
- Peer reviewer is a fellow member of the IAI performing the work of external peer review in terms of this Actuarial Practice Standard.

9. IAI Standards

- 9.1. External Peer review should be a standard element of professional practice for all annual statutory actuarial valuations carried out by an Appointed Actuary of a non-life insurer or non-life reinsurer.

10. Peer review - Scope

- 10.1 The peer review should cover all relevant and significant aspects of the actuarial work relating to the annual statutory actuarial valuation. The following non-exhaustive list includes some of the activities that might be carried out as a part of the peer review process:

- o Reviewing the reasonableness of the checks applied on the data to ensure that it is sufficient and credible (data accuracy checks) for the work to be carried out.
- o Reviewing the reasonableness of the checks applied on the calculations.
- o A review of the methodology and assumptions underpinning the work.
- o A review of the reasonableness of the results.
- o A review of the extent to which the work has been carried out in accordance with the - Professional Conduct Standards by IAI, Actuarial Profession Standards and other applicable regulatory and/or legislative requirements.
- o A review of the clarity and/or quality of communication



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- associated with the piece of work; and/or
- o A review of the extent to which the work is suitable for the needs and reasonable expectations of the user of the work or of the user of the outputs to which it gives rise

11. Choice of Peer Reviewer

- 11.1. The Appointed Actuary will choose a peer reviewer as defined in 8.1 above, who must have sufficient experience to be capable of contributing to all the technical aspects of the work. The peer reviewer should disclose his prior commercial or employment relationships with the insurer or with group companies to the Appointed Actuary before accepting the assignment. There will be confidentiality element so it may be better to obtain a statement from the peer reviewer saying that there are no conflicts. Prior commercial or employment relationships with the insurer or with group companies should also be formally disclosed in the peer reviewer's report. Any company that has shareholding (whatever be the proportion) in the non-life insurance company will come under the purview of Group Company. However, given the confidential nature of the commercial dealings, there might be a confidentiality agreement in place. In such circumstances, the peer reviewer should disclose that there is a confidentiality agreement in place and confirm that there is no conflict of interest in accepting the peer review work .
- 11.2. The work being reviewed is carried out in order to meet a regulatory requirement for which the Appointed Actuary holds an appropriate certificate of practice. The peer reviewer of such work must also hold the appropriate certificate of practice. The peer reviewer will provide a copy of the same to the Appointed Actuary for his record.
- 11.3. The Appointed Actuary should choose the peer reviewer such that not more than three consecutive annual statutory actuarial valuations of the insurer are peer reviewed by the same actuary followed by a cooling period of at least one year.
- 11.4. Members are reminded of their obligations under principle 3.1 of the Professional Conduct Standards (PCS) *"Many assignments offered to actuaries require considerable knowledge and experience for proper completion. Requisite knowledge includes methodology, relevant legislation and, in respect of work outside India, local conditions and any professional code of*



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practice in the country concerned. Actuaries must not give advice, unless: a) satisfied of personal competence in the relevant matters, or b) acting in co-operation with, or with the guidance of, someone (not necessarily an actuary) with the requisite knowledge and experience”.

12. Method of operation of peer review

- 12.1. The precise form of operation will vary from case to case, and the Appointed Actuary and the peer reviewer are jointly responsible for making sure that appropriate review methodology has been used.
- 12.2. It is required that the Appointed Actuary and the peer reviewer should discuss the work in appropriate depth, and that these discussions should be documented in sufficient detail to demonstrate that a professional and formal peer review has taken place.
- 12.3. The peer review process will often be spread over a period of time, in which case the requirements described above will apply to each element of the peer review.
- 12.4. It is acceptable for the peer reviewer to delegate activities in some parts of the review, but this does not remove him from being personally responsible for all elements of the review.

13. Communication

- 13.1. An Appointed Actuary should confirm in his or her peer review report that the work has been the subject of peer review in accordance with this Actuarial Practice Standard, mention the name and contact details of the peer reviewer in the report and should also specify any areas in which IAI guidance has not been followed, together with the reasons for the same.

14. Resolution of peer review issues

- 14.1. Effective peer review inevitably has the potential to involve robust challenge. Differences of opinion between the member responsible for the work and the individuals involved in the peer review may therefore arise.



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14.2. Peer review can be an iterative process which can involve the peer reviewer passing comments back to the AA and the AA responding to those comments until they are satisfied that the work has been suitably reviewed. Where there are differences of opinion between the AA and peer reviewer, these can normally be resolved through discussion or further analysis.

14.3. It is acceptable for the AA and the Peer Reviewer to disagree on a point. There can be different levels of disagreement. For example, it may be the case that the Peer Reviewer would leave it upon AA to make the decision as to how to resolve the disparity. Where the issue is material, both Peer Reviewer and AA should give sufficient prominence towards element of reasonable professional difference in their respective report. In some circumstances the disagreement might be so significant that it is preferable to obtain a third opinion.

15. Output of peer review

15.1. This guide does not prescribe the format of peer review output; however, it is suggested that, as a minimum, a record should be made of the peer review having taken place. In particular, the date and name of the individual(s) involved in the peer review should be recorded. The following is a non-exhaustive list of possible outputs:

- Record of peer review taking place;
- Record of peer review taking place and all issues having been resolved
- Record produced in the form of completed checklist of peer review issues considered; or
- Detailed record of peer review feedback and resolutions arising
- Peer Review Report should cover the aspects as listed in Annexure 1.

15.2 While standard forms and checklists can ensure all relevant aspects of the review having been completed, a more superficial 'tick box' approach should be avoided. Recording of peer review can assist the member responsible for the piece of work in the event that their work is challenged, and may also be useful when reviewing the effectiveness of peer review policies and processes.



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16. General

- 16.1. The peer reviewer should submit a report addressed to the Appointed Actuary stating that the peer review has been carried out within the framework laid down by this Actuarial Practice Standard and describing the nature of work reviewed.
- 16.2. It is expected that differences, if any, between the view-point of the Appointed Actuary and the peer reviewer should be resolved before the Appointed Actuary makes his or her final report. However, to the extent that any material difference remains unresolved, the same should be mentioned in the peer review report.
- 16.3. The report of the peer reviewer should be shared by the Appointed Actuary with the Board of the insurer.
- 16.4. Furthermore, the Appointed Actuary can share the peer review report with the regulator, if the regulator desires.
- 16.5. The Appointed Actuary retains entire responsibility for his or her work in compliance with the AA Regulations and in conformity with the provisions of the Actuarial Practice Standards and Professional Conduct Standards of the IAI. The Appointed Actuary must therefore retain the final say on whether or not any element of his or her work needs to be changed as a result of the peer review. The Appointed Actuary is therefore advised to use his discretion in this area with care.

The Peer Review Report should be submitted to the Appointed Actuary before the Appointed Actuary submit the results to the Insurer.



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Annexure 1- Minimum items that should be covered in the Peer Review Report

1. Introduction
2. Opinion
3. Data Collection and Verification
4. Methodology
5. Assumptions
6. Check on results
7. Limitations
8. Confirmation that the peer reviewer is not associated with the same insurance company on any other assignment during the period when peer review is done.
9. Disclosure of all prior commercial or employment relationships of the peer reviewer with the insurer in the peer review report subject to confidentiality agreement.
