



Institute of Actuaries of India

Issues involved in the Peer Review of Appointed Actuary work

By

Ramanuj Bhangdia

Prashansa Jain

Keyur Parekh

Guide: Mr. P K Dinakar

21st India Fellowship Seminar

Indian Actuarial Profession
Serving the Cause of Public Interest

- ▶ Introduction
 - ▶ Definition
 - ▶ Objective
 - ▶ Scope
 - ▶ Benefits
- ▶ Issues/ Challenges
 - ▶ Generic
 - ▶ Appointed Actuary Perspective
 - ▶ Reviewing Actuary Perspective
 - ▶ Profession Perspective
- ▶ UK Practice
- ▶ Next Steps
- ▶ Questions

Introduction

Definition of Peer Review

“Process by which a piece of work (or one or more parts of a piece of work) for which a Member is responsible is considered by at least one other individual(s), having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question.”

Source: UK Peer Review Draft Guidance for APS X2

Objective of Peer Review

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 generally accepted actuarial principles and practice.
- ▶ Specifically this means that the regulatory requirements of
 - ▶ IRDA,
 - ▶ Requirements of relevant Actuarial Practice Standard and
 - ▶ Professional Conduct Standards have been fulfilled.
- ▶ It is the responsibility of the peer reviewer and the Appointed Actuary to ensure a high standard 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.

Scope of Peer Review

Actuarial work relating to annual statutory actuarial valuation,

Including:

- ▶ Data collection and verification
- ▶ Selection of assumptions
- ▶ Methodology for calculation of statutory liability
- ▶ Results and conclusions
- ▶ Further systems, processes and controls related to the above

Benefits of Peer Review

- ▶ Part of quality assurance arrangement for the users
- ▶ Use of a second pair of eyes to review work
- ▶ Instills confidence in overall framework to AA, regulator, shareholders, policyholder, market at large
- ▶ Works as audit evidence for statutory and internal audit (or for anyone who doesn't have the "real" qualification to judge an AA's work)
- ▶ Become aware of best practices in the industry
- ▶ Part of self regulatory framework of IAI

Issues/ Challenges

Issues/Challenges (1)

Eligibility of Peer Reviewer

- ▶ Para 4.2.1 – “sufficient experience to be capable of contributing to **all** technical aspects..” –
 - ▶ Para 3.2 Professional Code of Conduct – actuary to be satisfied with personal competence in the relevant matters
 - ▶ Differing actuarial work requires differing skill sets
- ▶ Avoid conflict of interest and maintaining confidentiality –
 - ▶ Engaging firm of peer reviewer in advisory capacity
 - ▶ Para 4.2.3 – frequency of changing peer reviewer.....but Firm?
 - ▶ Insurer and Reinsurer (doing business) - employing same peer reviewer

Issues/Challenges (2)

Depth of review

- ▶ Para 4.1.1 – “cover all relevant and significant aspects..including..”

v/s

Para 4.3.2 – “peer review intended to be high level..”

- ▶ Lack of in-depth auditing of actuarial liability
- ▶ Difficulty and complexity of piece of work e.g -
 - ▶ Significance of portfolio
 - ▶ High Guarantee
- ▶ Reasonable expectations of stakeholders involved

Issues/Challenges (3)

Availability of talent for peer review

- ▶ Cap on assignments of peer review that an individual/firm can take
- ▶ Is sufficient talent available in the market to review AA work?
- ▶ Can the with profit actuary double up as peer reviewer?

Timing of review

- ▶ Para 4.3.4 – “will often be spread over a period of time..”
- ▶ Report made available in time to be - Capable of influencing the conclusions and output of the work
- ▶ Thus to engage PR fairly in advance

Issues/Challenges (4)

Access to relevant information

- ▶ May require access to relevant work – system set up, models etc

Frequency of review

- ▶ Higher frequency than just annual?
- ▶ Ability to cover all significant areas in detail

Issues/Challenges (5)

Opinion difference between AA and PR

- ▶ Para 4.3.1 – “AA and PR **jointly** responsible for appropriate reviewing methodology..”
- ▶ Para 5.5 – “retain the final say on whether his work needs to be changed” however, they may accept to disagree and document the same

Recipients of the report

- ▶ Presented to board – not necessarily experts in actuarial domain
- ▶ Statutory liability to be read in conjunction with the PR report?

UK Practice

UK Practice

Scope

- ▶ Employ peer review where
 - ▶ Material judgment or analysis involved
 - ▶ Consequences are reasonably expected to be significant
- ▶ Also involves review of clarity and/or quality of communication associated with a piece of work

Timing of review

- ▶ Should be undertaken at a time when able to influence conclusions and output of work
- ▶ Ongoing process – hence ensure adequate time before work finalised

Resolution of issues

- ▶ Resolve through iterations of comments and clarifications
- ▶ Highlight any outstanding difference prominently to the users of the report
- ▶ Obtain opinion of third party in case of material difference

Next Steps

Next Steps

Standardisation

- ▶ Setting appropriate standards for investigations and review to achieve the objective of PR – through GN?
- ▶ Format of peer review output
- ▶ Benchmarking – Standards of Peer Review

Expand Scope of Peer Review

- ▶ If required, AA could engage a Peer Reviewer for more tasks than provided in scope
- ▶ Review of quality and clarity of communication

Seek advise from third party

- ▶ In case of disagreement and further clarity is sought

Questions?