

Actuarial Society of India

Guidance Note 4 (GN 4): Peer Review

Classification: Practice Standard

Legislation or Authority: Not applicable

Application: All Appointed Actuaries (AAs) of Life Insurance and Life Reinsurance companies and all members working as Peer Reviewers of such AAs.

Status: Issued under Due Process in accordance with the “Principles and Procedure for issue of Guidance Notes (adopted by EC on 16.11.1997).

Version: 1.00

Effective: For the annual valuations to be made by an AAs for the financial year ending on or after 31.03.2004

1. Introduction

1.1 The objective of the peer review is to lead to an opinion by the reviewing actuary (the peer reviewer) that the work of the AA is in conformity with generally accepted actuarial practice. Specifically this means that the requirements of Professional Conduct Standards, relevant Guidance Notes and regulatory requirements of IRDA have been fulfilled. Completion of the Peer Review to a high standard will help to demonstrate ASI's commitment to act in the public interest.

1.2 This Guidance Note applies to the work of Appointed Actuaries of insurance and reinsurance companies in connection with their formal annual valuations.

1.3 This Guidance Note describes recommended best practice.

2. Definitions

2.1 For the purpose of this Guidance Note the following definitions will apply;

- *actuarial audit* is a validation check process after the actuarial work is signed-off and states whether the actuarial work was carried out in accordance with laid down procedures and processes. Actuarial audit

- may be adversarial as against collaborative and collegiate, and is carried out by an individual actuary or a team of actuaries after the work in question has been completed.
- ❑ *Appointed Actuary* is a fellow member of the Actuarial Society of India, and as defined under sub-regulation (2) of regulation (3) of IRDA (Appointed Actuary) Regulations, 2000.
 - ❑ *external peer review* is a collaborative and collegiate peer review process – where the peer reviewer is independent of and external to the insurer.
 - ❑ *insurer* means a life insurer, a general insurer, or a reinsurer carrying on business of life reinsurance and /or general reinsurance, as the case may be.
 - ❑ *internal peer review* is a collaborative and collegiate process under which an individual assists the author of and reviews his or her an actuarial report before that report is signed-off by the AA. The peer reviewer is an employee of or a consultant to the insurer, or an employee of or a consultant to a company related to the insurer.
 - ❑ *Peer reviewer* is a member of the Actuarial Society of India performing the work of peer review in terms of this Guidance Note.

3. ASI Standards

3.1 ASI recommends that internal or external peer review should be a standard element of professional practice for all annual valuations carried out by an Appointed Actuary of an insurer.

3.2 ASI welcomes the application of peer review if an Appointed Actuary wishes to apply it to other significant elements of his or her work.

3.3 It is for the Appointed Actuary to determine whether internal or external peer review is appropriate.

3.4 ASI does not recommend actuarial audit as a general part of professional practice, although it will be appropriate in some circumstances.

4. Internal peer review

4.1 Scope

4.1.1 The peer review process should apply to all annual valuations made by the Appointed Actuary.

4.2 Choice of peer reviewer

4.2.1 Since internal peer review is a collaborative and collegiate process, the selection of the peer reviewer should be made by the Appointed Actuary, who will often liaise with the senior actuary of his company, group or firm and / or with potential peer reviewers.

4.2.2 The chosen peer reviewer should be a fully professionally qualified actuary and must have sufficient experience to be capable of contributing to the technical aspects of the work, and to have sufficient independence to be able to be objective. It would, therefore, be most unusual, though not impossible, for an individual who is junior to the Appointed Actuary to be suitable to conduct an internal peer review.

4.2.3 If the work being reviewed is carried out in order to meet a regulatory requirement (such as appointed actuary work) for which the author must have a certain qualification (such as possession of an appropriate certificate of practice) then the peer reviewer must be of sufficient experience and maturity to be capable of operating at the general level implied by that qualification. It is not required in such circumstances that the peer reviewer actually holds the relevant qualification.

4.3 Method of operation of Peer review

4.3.1 The precise form of operation will vary from case to case, and the Appointed Actuary jointly with the Peer Reviewer are responsible for making sure that appropriate review methodology has been used.

4.3.2 The peer review should cover all relevant and significant aspects of the actuarial work, including data collection and verification, selection of assumptions, selection of analytical method(s), calculations, results and conclusions. Nevertheless, the peer review is intended to be of high level, and so, for example the review of the calculations could be confined to reviewing the results for reasonableness rather than carrying out specific checks.

4.3.3 It is not necessary that the author and the peer reviewer should necessarily meet face to face. It is required that the author 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.

4.3.4 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. It is generally recommended that, unless there are specific reasons for doing otherwise, the same individual should be the peer reviewer for all elements of the review.

4.3.5 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, and in particular it would be expected that he would not delegate activities and processes concerned with reviewing results and conclusions.

4.4 Communication

4.4.1 An Appointed Actuary should state in his or her report whether the work has been the subject of peer review in accordance with this Guidance Note, and should specify any areas in which ASI guidance has not been followed, together with the relevant reasons.

4.4.2 It would not be normal for the peer reviewer to be identified by name in the report on the work that he has reviewed.

5. External peer review

5.1 In certain circumstances the Appointed Actuary may determine that it is appropriate to arrange an external peer review. This may happen where the insurance company may not have an appropriate peer reviewer, or where such an individual is not available at the time required, or for other reasons.

5.2 In these circumstances the Appointed Actuary should arrange the scope of the external review to meet the standards set out in the preceding section covering internal peer review.

6. Overseas Actuarial Bodies

6.1 Appointed Actuaries who are carrying out work that will form a part of a wider exercise that in turn must meet the requirements of overseas actuarial professional bodies, must ensure that the peer review requirements of the relevant overseas actuarial professional body are satisfied.

6.2 In such circumstances the internal peer review process recommended in this Guidance Note can form the foundation for any further review activity that is required.

7. Discretion

7.1 The peer reviewer should submit a brief report addressed to the Appointed Actuary stating that the peer review has been carried out within the framework laid down by relevant ASI Guidance Notes, and describing the nature of work reviewed.

7.2 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 report final. However, to the extent that any material difference remains unresolved, the same should be mentioned in the peer review report.

7.3 The report of the Peer reviewer is confidential between the peer reviewer and the Appointed Actuary.

7.4 The Appointed Actuary retains entire responsibility for his or her work in compliance with IRDA (Appointed Actuary) Regulations, 2000 and in conformity with the provisions of the Professional Conduct Standards and Guidance Notes of the Actuarial Society of India. 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. Appointed Actuaries are therefore advised to use their discretion in this area with care, and to discuss any problems with the Chairperson of the Life Insurance Board in the first instance and /or with the President. However, if after discussion, the peer reviewer remains of the opinion that the final document contains a material breach with relevant professional guidance, he or she should then discuss the matter with the Chairperson of the Life Insurance Board and /or with the President in the first instance.