



Reserving for General Insurers

– Current Challenges and Future Opportunities

SEMINAR



Institute of Actuaries of Australia

Friday, 22 September 2006

SHANGRI-LA HOTEL 176 CUMBERLAND ST, THE ROCKS, SYDNEY

Reserving and the Code of Professional Conduct

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Overview

- Limit to professional responsibility
- The Code
- General
- Actuarial Advice
- Actuarial Reports
- External Peer Review

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Limit to professional responsibility

- The Law
- IAA Constitution
- Code of Professional Conduct
- IAA Professional Standard
- That's it – even for defining public interest

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The Code

- Can be characterised as:
 - Short
 - Principles-based
 - User-friendly, but ‘subtle’
- Full of ‘must considers’
- I will cover the three main sections and focus on areas which are either new, or particularly relevant to us

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General

- The general section applies to *all* Members
- A Member's professional conduct is his/her own responsibility
- Code recognises that *honest differences of opinion* can occur. Particularly relevant for EPR
- If in doubt about what is professional conduct – ask for help

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General

- Must act to address breaches of the Code/PS
- Confidentiality must be respected, but obligations may require it to be breached
- Must act to prevent misuse of advice

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Actuarial Advice

- Members provide Professional Services, only Actuaries provide Actuarial Advice (AA). Most GI reserving will be AA
- Additional requirements apply to AA
- AA is the responsibility of an Actuary unless part of it relies upon the advice of another expert, who takes responsibility for their part

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Actuarial Advice

- AA must be impartial (full stop)
- If there is the *perception* of partiality. The Actuary cannot advise unless:
 - Full disclosure to Principal, who has agreed
 - Disclosure included in report
 - Disclosure to affected third parties

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Actuarial Advice

- If the Actuary receives remuneration based on the financial results of the Principal
 - Must be disclosed in the Actuarial Report, and steps taken to disclose to affected third parties
- For statutory roles, new Actuary must talk to previous Actuary. New Actuary must explain differences in advice to the Principal

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Actuarial Reports

- Formal report to be used for statutory advice, advice under a PS, and all material advice
- Report must include enough detail so that another Actuary can say whether the PS has been followed
- Report must include enough information to enable Principal to form a view on the reasonableness of the recommendations

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Actuarial Reports

- Actuary must exercise his/her **own** judgement on all material matters, although.....if not:
 - Prominent qualification
 - Implications explained
- Uncertainties must be communicated. Not new for us, but new to the Code

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Actuarial Reports

- Where AA provided in piecemeal fashion
 - Must consider whether a report should draw all AA together
- Draft report to have an expiry date
- Must notify Principal if report is no longer relevant

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External Peer Review

Some observations on the experience so far:

- Has been mixed – still wide variation in approach
- Review not always tailored to degree of risk involved
- Common sense needed in interpretation of PS100
- Timing an issue

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External Peer Review

- Egos interfere with the process
- Some way to go before we can say that EPR is a complete success



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