



External Peer Review: Not Just an Audit

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Background on Actuarial Peer Review

- HIF Royal Commission Recommendations
- Penrose/Morris in the UK
- Institute of Actuaries
- External Peer Review Taskforce
- EPR Professional Standard PS 100 March 2006
- APRA Legislation for General Insurance
- UK : peer review introduced for Life but not yet for General

Background cont...

In Australia

- APRA requires external peer review 'Liability Valuation Reports'
- Life insurance next but what scope ...



Life vs GI

	General Insurance	Life insurance
Statutory Role	Approved actuary	Appointed actuary
Claims liabilities calculation	75% probability of sufficiency	Best estimate
Solvency	95%	99.50%
Capital adequacy	99.50%	99.75%
Management capital requirement	n/a	99.50%
FCR	Required	Required
Pricing report	n/a *	S116
EPR	Manadatory for liability valuation report	Not yet manadatory for statutory work
Overall	Risk management focus	Risk measuring/ business focus



Opinion for ASIC Returns

In our opinion, the financial report of is in accordance with:

- (a) The Corporations Act 2001, including
 - i. Giving a true and fair view of the Company's and the consolidated entity's financial position as at [date] and of their performance for the financial year ended on that date; and*
 - ii. Complying with Accounting Standards in Australia and the Corporations Regulations 2001; and**
- (b) Other mandatory professional reporting requirements in Australia.*



Audit

- Varying degree of actuarial involvement in audit eg small companies, friendly societies...
- Required: Annual APRA / ASIC Returns
- Focused on Balance Sheet and P&L Statement, and Solvency
- Capital adequacy and target surplus left to APRA



PS100: What is EPR?

- **PS100:** *“The purpose of External Peer Review is to review and provide a conclusion on the reasonableness of the Primary Actuary’s Actuarial Advice. There must be consideration of the investigations undertaken, as well as Specified Valuation results obtained, by the Primary Actuary.”*
- *A review, but does not provide a guarantee of the Primary Actuary’s Actuarial Advice*
- **PS100:** *“Having carried out the review as described in this report, nothing has come to my attention that would lead me to believe that the Primary Actuary’s Specified Valuation results are unreasonable*
- **GPS310**

PS100: Matters for Consideration

- Scope
- Data
- Valuation methods
- Assumptions
- Controls
- Specified Valuation results reasonableness
- Comment on judgement made
- Analysis of Specified Valuation results
- Compliance with Standards



Audit vs EPR “gap” (example)

EPR items	Audit / EPR	Comments
Data		Review data source, data checks and reconciliation undertaken
Valuation methods		Smaller products may need to be commented on
Assumptions		Process of arriving at assumptions
Controls		more formal check of controls
Results		Sensitivity, identify key risks reliances, limitations
Analysis of results		internal consistency, sources of profit, actual vs last year vs expected
Conclusion / reporting		report
Compliance		
Overall		formalise some of the proces already undertaken



Independence Requirements External Peer Review -

- Reviewing actuary must meet the eligibility and fit and proper criteria required to be met by Approved/Appointed Actuaries
- Must not be an employee of the insurer or from the same firm/company/related company as the Approved/Appointed Actuary
- Can be from same firm/company/related company as the Approved/Appointed Auditor
- Must be free from all conflicts of interest (any commercial/employment relationships in previous 2 years must be disclosed)
- Rotated every 5 years or less



Discussion

- What work should be subject to EPR ?
 - Valuation report?
 - FCR?
- Does EPR add much to life insurance ?
- Who can do it:
 - Auditors
 - Any independent actuary
- Impact on small company
- Impact on large company



Discussion:

What work should be subject to **EPR**

CURRENTLY
AUDITED?

- Policy Liabilities Y - GI
- Solvency Y - GI
- Capital Adequacy N
- Management Capital Requirement N
- Financial Condition Report N - GI
- S116 Reports N
- Non-Statutory EV, other high value deals N



EPR in GI

- Mandated only for Liability Valuation Reports
- Liability Valuation Reports cover
 - Value of insurance liabilities calculated
 - For each class of business
 - On a central “best” estimate basis
 - With a risk margin to achieve **maximum** of 75% level of sufficiency and 0.5 standard deviations above the mean.
 - Methods and assumptions for calculation of liability



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