



Institute of Actuaries of Australia

XVth GENERAL INSURANCE SEMINAR

Evolution of the Industry

Auditors and General Insurance Actuaries

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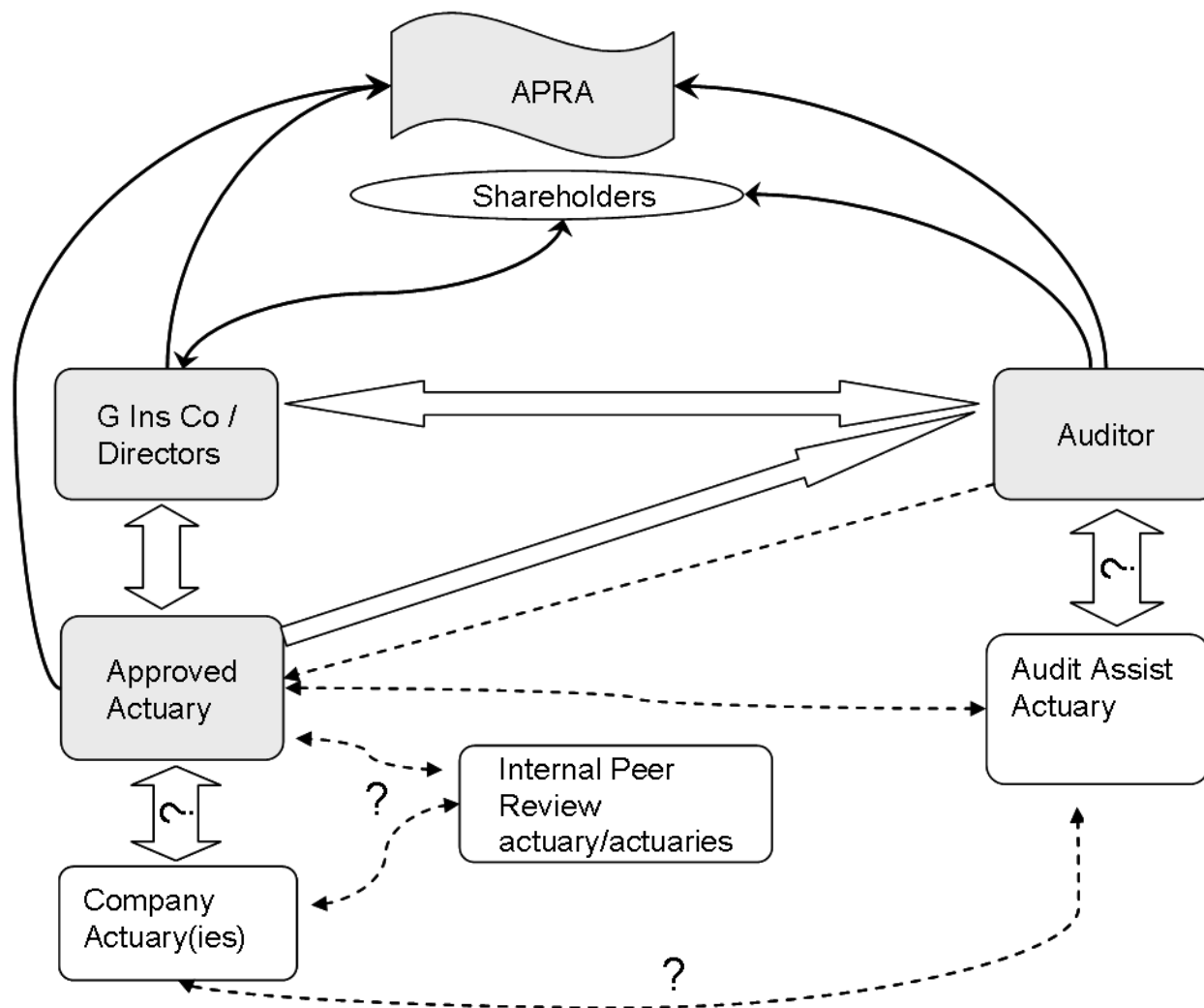
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Background

- The GI Actuary and the audit
- Auditors, Actuaries and the ILV
- Inputs and the ILV
- EPR
- Audit and Actuaries - practicalities

The GI Actuary and the audit





The Auditor's Approach to Insurance Liabilities

- What do auditing standards require?
 - Professional scepticism
 - Audit of accounting estimates
 - Reliance on the work of experts



The Actuary's Responsibility for Insurance Liabilities

- The ILV is a statement of the actuary's professional opinion
- The actuary has ultimate responsibility for their opinion
- The actuary must be satisfied that inputs to the valuation are appropriate



Inputs to the Valuation

- What are inputs?
 - “data” – financial claim/policy records
 - Non-financial claim/policy records
 - Claim handling/underwriting procedures
 - Risk management framework
 - Changes to internal procedures
 - Legal / statutory developments
 - Reinsurance arrangements
 - etc



Inputs to the Valuation

- What is “confidence” in inputs?
 - Inputs give an “appropriate basis for estimating insurance liabilities”
 - What might constitute a lack of confidence in inputs
 - Inputs considered unreliable
 - Reliability of inputs not considered
- Impact of not having confidence in inputs
 - Increased uncertainty = increased risk margin
 - Capacity to determine a “realistic estimate”



Inputs to the Valuation

- Assessing the “appropriateness” of inputs
 - GGN 210.1 requirements
 - Possible procedures
 - Walk-through transactions
 - Independent validation
 - Test controls
 - Assess strength of risk management framework
 - Actuary may rely on others



Inputs to the Valuation

- Reliance on the work of others
 - “Approved Actuaries must ... take full responsibility for their advice and reports and must therefore be satisfied as to the validity of information provided to them or work undertaken for them” – GGN 210.1.6
 - Reliance does not transfer responsibility



Inputs to the Valuation

- Who does the actuary rely on:
 - Management – claims, underwriting, finance, reinsurance
 - Internal audit / risk management
 - External parties
 - Approved Auditor
 - etc



Inputs to the Valuation

- Actuaries need to manage their risk
 - Demonstrate appropriate reliance
 - Established framework for reliance
 - GN 551 - Reliance on auditors
 - Applicable in other scenarios?
- No change under GPS 310



External Peer Review

- Introduction of EPR to Australia in 2006
- Does EPR = Audit or Audit \approx EPR ?
- Different scope, purpose and concluding opinions
- Some overlap in scope & similar steps
- EPR does not remove/diminish Auditor's responsibilities
- EPR report is audit evidence



EPR – New Territory

- EPR will be new territory for everyone
- Audit Assist Actuary perform non-statutory role of “reviewing a peer’s work”
- EPR will not be dissimilar, but will require formal report
- EPR can draw from and learn from experiences of Audit Assist Actuaries



Professional Judgement

- EPR Actuary needs to form an opinion on whether AA's recommended liability is:
 - negative assurance i.e. "not unreasonable"
- Review building blocks (data, methods, analysis, assumptions) that lead to result
- Will be reviewing professional judgements
- How can you review/audit judgement?



Reviewing Judgement

- Professional judgement is fundamental to actuarial work
- “Reasonable and reasoned” if demonstrate assumptions follow from tests & analysis and take account wider econ/industry environ
- In order to review, needs to be documented
- Difficult, tough judgements require greater consideration ... and greater disclosure



Differences of Opinion - now

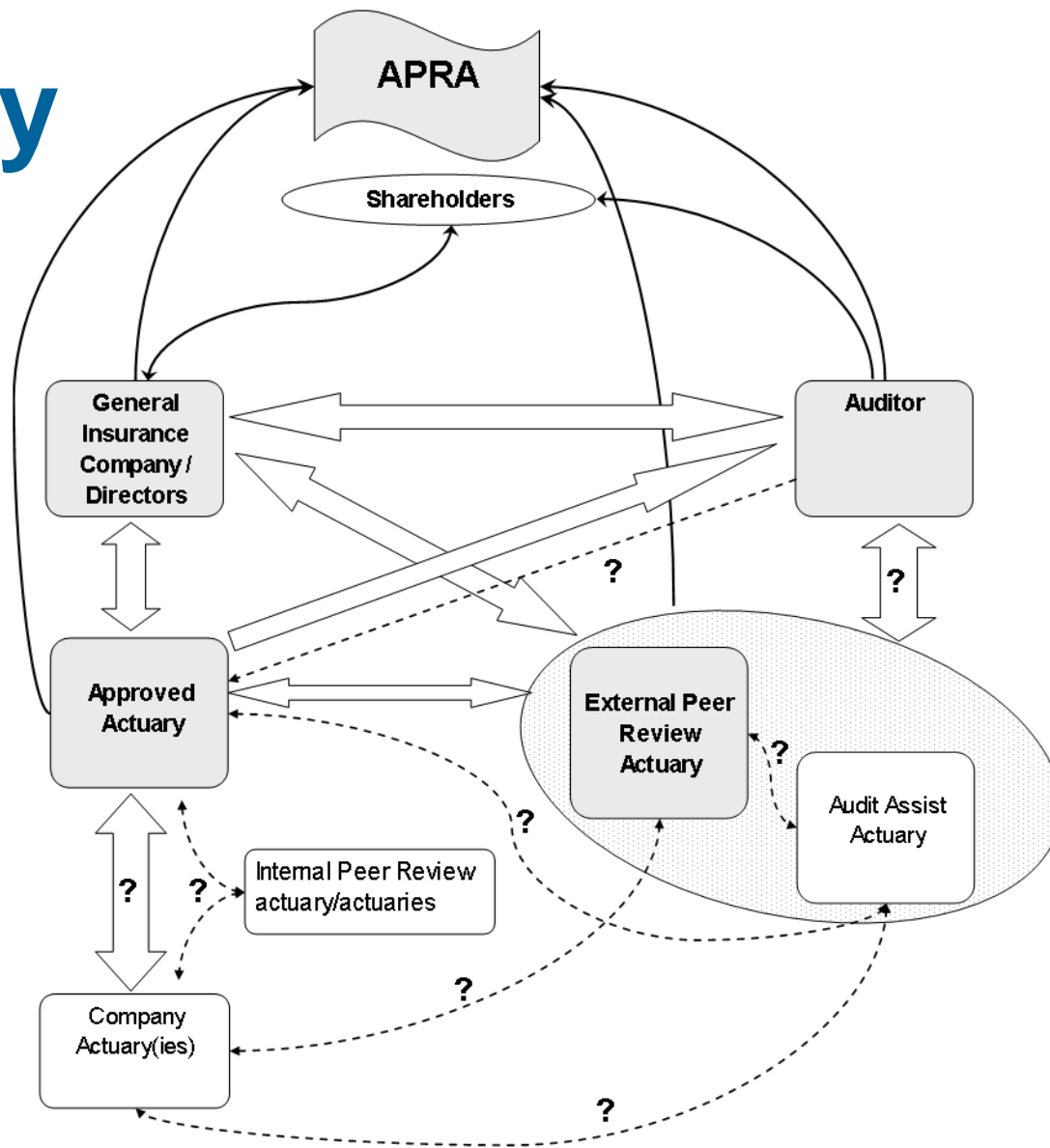
- Audit Assist Actuary's comments are to Auditor
- There is no formal requirement for document from the Audit Assist Actuary to the company/Approved Actuary
- Auditor may or may not highlight issues
- Audit Assist Actuary's review is not a substitute for internal peer review



Differences of Opinion - EPR

- EPR is formal role with formal reporting
- Professional judgement + 2 or more professionals = differences of opinion
- Unresolved differences of opinion will be disclosed
- Recognise & understand each professional's role and responsibilities

Complexity





Practical audit/EPR issues

- Timing – its tight!
- Reporting - users
- Drafts and final reports
- Documentation – fewer questions
- Communication – many parties



Summary

- Actuaries involved in the process
- ILV and responsibility for inputs
- EPR new role, many benefits but some adjustment
- Issues to think about with audit/EPR process



Questions ?