Peer Review in Life Insurance

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What is Peer Review?

- In the context of an Actuary’s work
  - A collaborative and collegiate process under which the Peer Reviewer, who is also an Actuary, reviews the Actuary’s work and the actuarial report before it is signed off.
What is Peer Review?

- Definition in given in BAJ Paper: Monitoring Compliance with Professional Guidance Revisited (Vol 7 Part II -2001)
  - “review of work done by one member for a client (internal or external) by another member, with the following characteristics

1) Normally, peer review is carried out before work is released to the client. In exceptional circumstances it might be carried out afterwards, but in this case, any correction required would be communicated to the client without delay.

2) Peer review is carried out on all work for which it is mandatory. This distinguishes it from “actuarial audit”, which is an audit of selected items of work only.

3) Peer review is normally carried out by a colleague in the same firm (or group). This does not preclude it from being carried out by a member external to the firm.

4) Peer review is intended to confirm that the work conforms to relevant professional guidance in the opinion of the reviewer. It is not an audit, and therefore does not involve detailed checking of calculations or data, unless the peer reviewer believes that these are necessary.
What is Peer Review?

- Quote from article by Paul F Della Penna in the May 1999 issue of CIA Bulletin:
- Peer Review as different from Practice Review
  “the key distinction is that practice review is an official CIA act. It is always post release and deliberately so. Its subject is the practice of a member or a group of members. on the other hand, peer review is something that members arrange themselves. It is commonly pre-released and addresses a specific report or opinion”
GN4 : Peer Review and Appointed Actuary in Life Insurance (Ver. 1.00)

• Peer Review applies to the annual valuation carried out by Appointed Actuary of life insurer or life reinsurer
  – Applicable from year ended 31 March 2004
• GN4 put in place by the IOAI’s circular (then ASI) circular dated 9 July 2003
  – Not a GN requiring concurrence with IRDA; profession’s initiative
• IOAI has also issued a Peer Review Handbook (Version 1 – 14/01/2004), providing further assistance to the AA in implementing GN4
• Practice Standard, i.e. mandatory
• Peer Review or other forms of review not yet introduced in other areas of practice, i.e. pensions, general insurance
GN4 : Peer Review and Appointed Actuary in Life Insurance (Ver. 1.00)

- Internal Peer Review
  - Could be an employee of or a consultant to the insurer or an employee of or a consultant to a company within the corporate group of the insurer
- External Peer Review
  - Peer Reviewer is independent of and external to the insurer
- AA is welcome to extend application of Peer Review to other aspects of his work
GN4 : Peer Review and Appointed Actuary in Life Insurance (Ver. 1.00)

• Objective
  – To lead to an opinion by the Peer Reviewer that the work of the AA is in conformity with the generally accepted actuarial practice.
    • Specifically this means that the requirements of professional Conduct Standards, relevant Guidance Notes and the regulatory requirements of the IRDA have been fulfilled
  – To provide reassurance that, in his professional work, AA has conformed to the expected standards of professionalism as are generally accepted and as laid down in the regulations and guidance notes

• PCS, GN, CPD requirements and now Peer Review – are important steps in laying down standards for Actuary’s work
  – To demonstrate the profession’s commitment to act in the public interest
Peer Review - Elsewhere

• Other Professions in India
  – ICAI has in place an elaborate system of Peer Review for the Audit Firms
  – Medical and Legal professions get second opinion in difficult cases: informal Peer Review!

• Other Countries – Actuarial work
Peer Review - Elsewhere

- United Kingdom
  - Life Insurance
    - FSA requires the auditors, when auditing life insurance business, to take advice of Reviewing Actuary
    - Reviewing Actuary scrutinizes the work of Actuarial Function Holder and indirectly achieves scrutiny of compliance with professional standards
  - Pensions
    - Peer Review of Scheme Actuary’s advice from December 2004
    - No requirement that the Peer Reviewer should be independent of the Scheme Actuary (Comment in the Morris Review)
Peer Review - Elsewhere

• Canada
  • Life Insurance - mandatory external peer review of the work of the AA as required by the Office of the Superintendent of Financial Institutions

• Australia
  • The Institute of Actuaries of Australia has issued Professional Standards 100
    – Prescribing mandatory External Peer Review for valuations from 30 June 2006
    – The Australian Prudential Regulation Authority has mandated Peer Review for insurance liability valuations of general insurers; no such requirement for life insurers (as of March 2006)
Peer Review - Elsewhere

- **USA**
  - As per the Society of Actuaries, no formal process of monitoring adherence to professional requirements, relying on self regulation, publicising the code of professional conduct and a discipline process
  - Actuarial Standards Board which issues Actuarial Standards of Practice
  - Actuarial Board for Counselling and Discipline – investigates complaints re: members of US based actuarial organizations, counsels and recommends disciplinary action by appropriate organizations

(Source: BAJ Vol 6 Part II – 2000)
Peer Review and Actuarial Audit

• Actuarial Audit
  – is a validation process after the actuarial work has been completed and is signed off and
  – States whether the work was carried out in accordance with laid down procedures and processes

• May be adversarial as against collaborative and collegiate

• IOAI does not recommend actuarial audit as a general part of professional practice
  – IOAI recognizes that Actuarial Audit could be appropriate in some circumstances

• IRDA carries out review of the returns submitted by the AAs through a Committee of Actuaries, as part of its supervisory process
Choice of Peer Reviewer

• AA to decide whether internal or external Peer Review is appropriate
  – Selection of the Peer Reviewer is the decision of the AA
  – AA’s employer may have considerable say in the matter

• Peer Reviewer to be Fellow of IOAI or Affiliate; need not be resident in India; no age limit

• Must have sufficient experience
  – To be capable of contributing to the technical aspects of work
  – To have sufficient independence to be able to be objective
  – Most unusual (not impossible) for a junior of AA to be suitable for conducting an internal Peer Review
Choice of Peer Reviewer

- Peer Reviewer need not have a COP but must have sufficient experience and maturity to be able to operate at the level of one with COP
  - Should meet minimum CPD requirement for issuance of COP
  - CPD need not be as prescribed by the IOAI
- Peer Reviewer should be familiar with the Insurance Act, IRDA Regulations and the GNs
- Both Internal and External Peer Reviewers to meet the same set of standards as laid down in the GN
- Extent of Liability on the Peer Reviewer
  - To be aware that parties other than the AA – AA’s employer, IRDA and Policyholders might rely on the Peer Review process
- GN4 silent on whether Peer Reviewer should be changed once in a few years; Handbook recommends change from the point of view of enhancing the educational value of the review process
Peer Review Process - How will it operate?

- AA and Peer Reviewer to ensure appropriate review methodology has been used
- Should cover all relevant and significant aspects of actuarial work
  - Data collection, verification, selection of assumptions, selection of analytical methods, calculations, results and conclusions
  - Peer Review intended to be high level
  - E.g. review of calculations could be confined to reviewing results for reasonableness rather than carrying out specific checks
- Necessary access to Peer Reviewer for the purpose of review
  - Systems, procedures, records, reports (subject to confidentiality)
  - Discussions & clarifications – AA, Auditors, Company Officials
- AA to update the Peer Reviewer on further IRDA circulars and company specific letters / clarifications
Peer Review Process - How will it operate?

- Not necessary that AA and Peer Reviewer should meet face to face
- Need to discuss in appropriate depth and discussions documented to demonstrate that a professional and formal review has taken place
- Above requirements apply to each element of Peer Review, if the review process is spread over a period of time
  - Same Peer Reviewer for all elements of review
- Peer Reviewer can delegate activities in some parts of review
  - Still Peer Reviewer personally responsible for all elements of review
  - Not to delegate activities and processes related to reviewing results and conclusions
Peer Review Report

- The Peer Reviewer should submit a report addressed to the AA
  - describing the nature of work reviewed
  - stating that the review has been carried out within the framework of relevant IOAI GN
  - Specifying exclusions from the scope of review
- Differences between AA and the Peer Reviewer should be resolved before the AA makes his final report
  - Material unresolved differences should be mentioned in the Peer Review Report
- The Peer Review Report is confidential between the Peer Reviewer and the AA
  - To be made available to IRDA only on demand by IRDA under specific circumstances
- IOAI may require information on Peer Review from Peer Reviewer
  - Mostly information of general nature; not affecting confidentiality
  - In case of doubt, to get AA’s concurrence before divulging information
Should the AA share the Peer Review Report with his Employer?

- GN4 is silent on this
  - Employer will be interested to know the outcome of the Peer Review
  - The Handbook recommends that
    - AA, at his discretion, may provide a summary of important contents of the report, to his Employer
      - In particular those dealing with company’s systems and procedures affecting the actuarial function
      - Also consider including summary of disagreements with the Peer Reviewer with AA’s comments thereon
AA’s Report & Peer Review

• AA should state in his report whether his work has been peer reviewed in accordance with GN 4
  • Specify areas where the GN has not been followed together with reasons
  • As per the GN it is not normal for the Peer Reviewer to be named in the report
  • AA need not make mention of any unresolved differences in his report

• AA retains entire responsibility for his work
  • In compliance with IRDA(AA) Regulations, Professional Conduct Standards and GN of IOAI
  • AA has final say on whether any element of his work needs to be changed as result of Peer Review

• AA to use his discretion in this area with care
Compliance Review of GN

• IOAI has in place a system of compliance review of all its GNs as applicable to AAs
  – Comprehensive “Compliance Review Questionnaire” to be completed by the AA for every GN (including GN4)
  – Submitted by AAs for the years ended 31 March 2004 and 2006
  – Completed questionnaires reviewed by a committee of two senior actuaries, (who also review statutory returns for the IRDA) and report to the Life Insurance Board
    • Review for the year ended 31 March 2004 completed and the review for the year ended 31 March 2006 is in process
Questions on the Peer Review Process

• Any experience sharing by
  • AAs?
  • Others involved in or impacted by the process?

• Do we need any changes in GN4—based on experience?

• Other suggestions?
Thank You