

Institute of Actuaries of India

Actuarial Practice Standard 4 (APS 4) Peer Review of Appointed Actuary's work in Life Insurance

Classification: Practice Standard

Legislation or Authority:

1. The Insurance Act 1938 (hereinafter referred to as the Act) and amendments thereto including the Insurance Regulatory and Development authority Act, 1999.
2. The Insurance Rules 1939 (hereinafter referred to as the Rules) and amendments thereto.
3. Insurance Regulatory and Development Authority (Appointed Actuary) Regulations 2000 (hereinafter referred to as AA Regulations).

Application: All Appointed Actuaries of Life Insurance and Life Reinsurance companies and all Actuaries working as peer reviewers of such Appointed Actuaries, in connection with annual statutory actuarial valuation

Status: Issued by the Institute of Actuaries of India (IAI) under Due Process in accordance with the "Principles and Procedure for issue of Guidance Notes (adopted by EC of erstwhile Actuarial Society of India on 16.11.1997) with the concurrence of the Insurance Regulatory and Development Authority (IRDA) as required under regulation 2(e) of AA regulations.

Version: 3.00

Effective: For the annual statutory actuarial valuations to be made by an Appointed Actuary for the financial year ending 31/03/2014 and thereafter.

1. Introduction

The objective of the peer review is to lead to an opinion by the reviewing actuary (the peer reviewer) that the work of the Appointed Actuary is in conformity with generally accepted actuarial principles and practice. Specifically this means that the regulatory requirements of IRDA, requirements of relevant Actuarial Practice Standard and Professional Conduct Standards have been fulfilled.

It is the responsibility of the peer reviewer and the Appointed Actuary to ensure a high standard in the performance of the peer review to help

demonstrate the commitment of the IAI to act in the interests of the policyholders in particular and the public in general.

2. Definitions

2.1 For the purpose of this Actuarial Practice Standard the following definitions will apply;

- *Appointed Actuary* is a fellow member of the IAI, and as defined under sub-regulation (2) of regulation (3) of Appointed Actuary Regulations.
- *external peer review* is a collaborative and collegiate peer review process – where
 - the peer reviewer is independent of and external to the insurer.
 - an actuary working as an employee of the insurer or of any of the group companies of the insurer will not be treated as external.

In the instance that an individual was an Appointed Actuary and/or employee of the life insurer there should be a one year cooling-off period before the individual can become a peer reviewer of the company concerned.

- an actuary working as a consultant or advisor for the insurer in his individual capacity or representing any firm will not be treated as external for this purpose except as mentioned below,
 - if a firm, not necessarily an actuarial firm is engaged by a life insurance company as a consultant or an advisor, then an actuary employed in or engaged by that firm, can be treated as external only if he is not associated in any other assignment with the life insurance company whilst providing the peer review support and the firm and the actuary who undertakes the work as peer reviewer, should declare that arrangements were in place to ensure separation of the people and the work relating to the different assignments and to ensure the independence and objectivity of the peer review.
 - a retired employee of the insurer, even if he is a pensioner of the insurer will be treated as external to the insurer.
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- *Insurer* means a life insurer or a reinsurer carrying on the business of life reinsurance as the case may be.

- *Peer reviewer* is a fellow member of the IAI performing the work of external peer review in terms of this Actuarial Practice Standard.

3. IAI Standards

3.1 External peer review should be a standard element of professional practice for all annual statutory actuarial valuations carried out by an Appointed Actuary of a life insurer or life reinsurer.

4. Peer review

4.1 Scope

4.1.1 The peer review should cover all relevant and significant aspects of the actuarial work relating to the annual statutory actuarial valuation, including data collection and verification, selection of assumptions, selection of analytical methods, calculations, results and conclusions. Further, the aspects relating the systems, processes and controls adopted in the above matter also should be covered.

4.2 Choice of peer reviewer

4.2.1 The Appointed Actuary will choose a peer reviewer as defined in 2.1 above, who must have sufficient experience to be capable of contributing to all the technical aspects of the work. The peer reviewer should disclose his prior commercial or employment relationships with the insurer or with group companies to the Appointed Actuary before accepting the assignment and both should be satisfied that there is no conflict of interest. Prior commercial or employment relationships with the insurer or with group companies should also be formally disclosed in the peer reviewer's report. Any company that has shareholding (whatever be the proportion) in the life insurance company will come under the purview of Group Company. However, given the confidentiality nature of the commercial dealings, there might be a confidentiality agreement in place. In such circumstances, the peer reviewer should disclose that there is a confidentiality agreement in place and confirm that there is no conflict of interest in accepting the peer review work.

4.2.2 The work being reviewed is carried out in order to meet a regulatory requirement for which the Appointed Actuary holds an appropriate certificate of practice. The peer reviewer of such work must satisfy all the requirements for being awarded the appropriate certificate of practice but the peer reviewer

need not hold the appropriate certificate of practice. However, the restriction of age 70 will not apply to the peer reviewer. Where the peer reviewer does not possess the appropriate certificate of practice he should attest that to the best of his knowledge and belief he has satisfied all the requirements for being awarded the appropriate certificate of practice. A sample format in this respect is set out in the Annexure. However if the peer reviewer holds a valid certificate of practice, he will provide a copy of the same to the Appointed Actuary for his record.

4.2.3 The Appointed Actuary should choose the peer reviewer such that not more than three consecutive annual statutory actuarial valuations of the insurer are peer reviewed by the same actuary followed by a cooling period of at least one year. The count of valuations should be measured from the valuation as at 31/03/2014 and onwards.

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 and the peer reviewer are jointly responsible for making sure that appropriate review methodology has been used.

4.3.2 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 required that the Appointed Actuary 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.

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 confirm in his or her report that the work has been the subject of peer review in accordance with this Actuarial Practice Standard, mention the name and contact details of the peer reviewer in the report and also should specify any areas in which IAI guidance has not been followed, together with the reasons for the same.

5. General

5.1 The peer reviewer should submit a report addressed to the Appointed Actuary stating that the peer review has been carried out within the framework laid down by this Actuarial Practice Standard and describing the nature of work reviewed.

5.2 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.

5.3 The report of the peer reviewer should be shared by the Appointed Actuary with the Board of the insurer.

5.4 Furthermore, the Appointed Actuary can share the peer review report with the regulator, if the regulator desires. The peer reviewer should be aware that he may be called upon by the regulator to explain the rationale behind his recommendations.

5.5 The Appointed Actuary retains entire responsibility for his or her work in compliance with the AA Regulations and in conformity with the provisions of the Actuarial Practice Standards and Professional Conduct Standards of the IAI. 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. The Appointed Actuary is therefore advised to use his discretion in this area with care.

Annexure 1 – Self certification from Peer Reviewer

1. Name and address of the Peer Reviewer
2. Year of becoming Fellow of IAI
3. Areas of work experience and number of years in each area
4. Position currently held (either as an employee or consultant or others) with details of organization etc as applicable
5. CPD hours to his credit during each of last three financial years
6. Whether held COPs in the past from IAI
7. Confirmation that no disciplinary action was ever taken against him and that nothing is currently pending or details of cases as applicable etc.

I confirm that to the best of my knowledge and belief, I meet all the requirements for being awarded the appropriate Certificate of Practice.

Place:

Signature of the Peer Reviewer

Date:

Note: The certification is not required if the peer reviewer holds appropriate COP of IAI.

Annexure 2- Minimum items that should be covered in the Peer review report

1. Introduction
2. Opinion
3. Data Collection and Verification
4. Methodology
5. Assumptions
6. Check on results
7. Limitations
8. Confirmation that the peer reviewer is not associated with the same life insurance company on any other assignment during the period when peer review is done.
9. Disclosure of all prior commercial or employment relationships of the peer reviewer with the insurer in the peer review report subject to confidentiality agreement