
PROFESSIONAL STANDARD 315

EXTERNAL PEER REVIEW OF GENERAL INSURANCE LIABILITY VALUATIONS

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INDEX

1. INTRODUCTION	2
2. COMMENCEMENT DATE	4
3. DEFINITIONS	4
4. MATERIALITY	5
5. APPOINTMENT AND RESPONSIBILITIES	6
5.1 Appointment of Reviewing Actuary	6
5.2 Access by Reviewing Actuary	6
5.3 Responsibilities of the Reviewing Actuary	7
6. REQUIREMENTS FOR REVIEW TO BE “EXTERNAL”	7
6.1 Conflicts of interest	7
6.2 Commercial and employment relationships	7
6.3 Rotation of Reviewing Actuary	8
7. MATTERS FOR CONSIDERATION BY REVIEWING ACTUARY	8
8. REPORTING REQUIREMENTS	9
8.1 Statements by Reviewing Actuary	9
8.2 Content of Report	9
8.3 Conclusion by Reviewing Actuary	10

1. INTRODUCTION

1.1 Application

- 1.1.1 This Professional Standard applies to the External Peer Review of Specified Valuations.
- 1.1.2 Other than for mandated External Peer Review under a Prudential Requirement, if the External Peer Review is undertaken of any aspect of a Specified Valuation, then the relevant parts of this Professional Standard are applicable, to the extent that these are within any formal request of the Reviewing Actuary made by the party appointing the Reviewing Actuary.
- 1.1.3 This Professional Standard does not seek to replicate or override the requirements of the Institute's Professional Standards directly governing the preparation of Specified Valuation results.
- 1.1.4 Work performed under this Professional Standard is Prescribed Actuarial Advice. Members' attention is directed towards the requirements of the Code in relation to Prescribed Actuarial Advice, as well as to Practice Guideline 199.01 (Prescribed Actuarial Advice Reporting) ("PG 199.01").

1.2 Classification

- 1.2.1 This Professional Standard has been prepared in accordance with the Institute's Policy for Drafting Professional Standards. This Professional Standard must be applied in the context of the Code.
- 1.2.2 This Professional Standard is binding on Members of the Institute of Actuaries of Australia, in respect of all work covered by the Professional Standard.
- 1.2.3 Non-compliance with this Professional Standard by a Member engaged in work covered by the Professional Standard may constitute Actionable Conduct and may lead to penalties under the Institute's Disciplinary Scheme.
- 1.2.4 This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by the Professional Standard. If a Member believes that the Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Standards Committee for guidance as to the interpretation of the Professional Standard. Apart from legislation or regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.2.5 Members who find that they cannot carry out work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

1.3 Background

- 1.3.1 In June 2002, the Council of the Institute established a Corporate Governance Taskforce to examine and recommend the actions necessary to support the independence and accountability of the actuarial profession. At the end of 2003, Council adopted a recommendation from the Corporate Governance Taskforce proposing external peer review of significant actuarial work. Council identified external peer review as a significant means of providing assurance to the public of high standards of performance of key functions by actuaries. Subsequently, Professional Standard 100 was adopted.
- 1.3.2 As part of the review of all existing Professional Standards and Guidance Notes of the Institute following the introduction of the Institute's Policy for Drafting Professional Standards in 2006, and following the adoption of the revised Code of Professional Conduct in 2009, this Professional Standard was adopted. Due to the removal of life insurance from Professional Standard 100 as a result of that review, the standard was renumbered as Professional Standard 315.

1.4 Purpose

- 1.4.1 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. Additionally, the Reviewing Actuary must consider whether key risks and uncertainties have been identified by the Primary Actuary.
- 1.4.2 The Reviewing Actuary must recognise that actuarial practice does vary and that the amount, and detail, of work undertaken by the Primary Actuary on any matter will vary, depending upon the extent to which it is considered Material.
- 1.4.3 The report of the Reviewing Actuary must include the requirements set out in section 8. The extent of scrutiny undertaken must be sufficient to support the conclusion to be provided by the Reviewing Actuary. The scope of External Peer Review must cover the requirements of section 7, but the scope of External Peer Review does not extend to performing a Specified Valuation.
- 1.4.4 The responsibility for the Primary Actuary's actuarial advice remains with the Primary Actuary. The External Peer Review is a review, but does not provide a guarantee, of the Primary Actuary's actuarial advice.

1.5 Previous versions

This Professional Standard was last issued in March 2006 as Professional Standard 100. There are no other previous versions of this Professional Standard.

1.6 Legislation and other requirements

- 1.6.1 For Australian authorised general insurers, APRA's GPS 310 mandates peer review for insurance liability valuations, with a requirement that regard be taken of relevant Professional Standards of the Institute.
- 1.6.2 For licensed self-insurers or accident compensation schemes or other bodies in Australia legislated by State, Territory, or Commonwealth authorities, there may be, upon specific regulator request, a peer review requirement of general insurance liability valuations.
- 1.6.3 This Professional Standard must be considered in the context of applicable legislation. If there is a conflict between this Professional Standard and any applicable legislation, then the legislation takes precedence, and any differences must be documented. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.
- 1.6.4 A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of such.

2. COMMENCEMENT DATE

This Professional Standard takes effect for all External Peer Reviews applicable to valuation dates on or after 31 December 2011.

3. DEFINITIONS

- 3.1 In this Professional Standard:

'APRA' means the Australian Prudential Regulation Authority (or its successors from time to time).

'Board' means the directors of an Entity, or equivalent.

'Code' means the Code of Professional Conduct of the Institute of Actuaries of Australia.

'Entity' means a company, corporation, or other body with a liability to pay insurance claims, or with a liability to compensate other parties.

'External' has the meaning set out in Section 6 of this Professional Standard.

'External Peer Review' means a review of the reasonableness of the Primary Actuary's actuarial advice by the Reviewing Actuary, as governed by this Professional Standard.

'Firm' means a sole practitioner, partnership or corporation of professionals providing Professional Services.

'GPS 310' means Prudential Standard GPS 310 (Audit and Actuarial Reporting and Valuation) issued by APRA.

'Material' means relevant to the Entity's circumstances and is either important or essential in the opinion of the Member. For this purpose, 'Material' may not have the same meaning as in Australian accounting standards.

'Primary Actuary' means the Member whose actuarial advice is being reviewed in terms of this Professional Standard. Most commonly, the Primary Actuary for such valuations would be the appointed actuary of the general insurer, or the Member undertaking the valuation of general insurance liabilities for a self-insurer or accident compensation scheme.

'Prudential Requirements' means requirements under Commonwealth, State or Territory legislation in Australia, including regulations, prudential standards, subordinate standards and rules, governing actuarial advice in relation to a Specified Valuation.

'Reviewing Actuary' means the Actuary reviewing the Primary Actuary's actuarial advice in terms of this Professional Standard.

'Specified Valuation' means:

- (a) the actuarial valuation of general insurance liabilities that have been prepared under Professional Standard 300 (Valuations of General Insurance Claims) ("PS 300") and for which external peer review is mandated under a Prudential Requirement; or
- (b) a valuation referred to in clause 1.6.2.

3.2 A word that is derived from a defined word has a corresponding meaning.

3.3 Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

4. MATERIALITY

The Reviewing Actuary must take into account whether information is Material in the Primary Actuary's work, as well as in the report of his or her External Peer Review. Whether something is Material or not will always be a matter requiring the exercise of the Member's professional judgment.

5. APPOINTMENT AND RESPONSIBILITIES

5.1 Appointment of Reviewing Actuary

- 5.1.1 A Member accepting an appointment must be satisfied that he or she meets the definition of External in section 6 of this Professional Standard.
- 5.1.2 At the start of the External Peer Review, the Reviewing Actuary must agree with the party commissioning the review to a suitable scope and form of conclusion that includes the requirements set out in section 8 for the Reviewing Actuary's report.
- 5.1.3 It is recognised that larger Entities are likely to require the services of more than one Member involved in the Specified Valuation. Where the Primary Actuary's Specified Valuation results or report are based on the work of other Members, the scope of the External Peer Review must, having regard to whether information is considered Material, include the related work and reports of those other Members.
- 5.1.4 In the case of an APRA-mandated external peer review of a Specified Valuation, the Reviewing Actuary must only accept an appointment on condition that his or her report will conform to the requirements stipulated in GPS 310 and that a copy of his or her report must be provided to APRA upon APRA's request.

5.2 Access by Reviewing Actuary

- 5.2.1 The Primary Actuary must provide the Reviewing Actuary with the Specified Valuation report(s) and appendices containing the actuarial advice that may have been prepared, or equivalent information if reports have not been prepared. If this information does not provide enough information for the Reviewing Actuary to form an assessment, then the Primary Actuary must provide other items on file supporting the Specified Valuation and/or relevant source data. All information must be provided electronically if available in that form.
- 5.2.2 The agreed scope of the External Peer Review may place limitations on the access of the Reviewing Actuary to intellectual property of the Primary Actuary, such as proprietary actuarial models. Such limitations must not affect the ability of the Reviewing Actuary to assess the method, key inputs, sensitivities and uncertainties of the valuation process, but the Primary Actuary may choose an alternate approach to conveying these to the Reviewing Actuary rather than allowing full access.
- 5.2.3 To the extent that it lies within the power of the Primary Actuary, reasonable access must be provided for the Reviewing Actuary to the Primary Actuary, the personnel employed to support the Primary Actuary, staff and auditor of the Entity for which the Primary Actuary's actuarial advice was prepared, as well as any contractors or consultants involved in the Specified Valuation. The purpose of giving this access is to help the Reviewing Actuary understand and form conclusions on information

related to the Entity for whom the Primary Actuary's actuarial advice has been prepared.

5.3 Responsibilities of the Reviewing Actuary

- 5.3.1 Items that must be considered by a Reviewing Actuary are described in section 7. Section 8 deals with the reporting requirements relating to such consideration.
- 5.3.2 It is acknowledged that there can be differences in professional opinion between the Primary Actuary and the Reviewing Actuary. In such situations, there is an inherent need for communication between the Reviewing Actuary and the Primary Actuary. Recognising this, at the earliest opportunity, the Reviewing Actuary must discuss any such issues arising with the Primary Actuary. In doing so, the Reviewing Actuary must be aware that he or she is reviewing the work that has been undertaken, rather than performing a Specified Valuation.

6. REQUIREMENTS FOR REVIEW TO BE "EXTERNAL"

6.1 Conflicts of interest

- 6.1.1 External Peer Review is intended to provide a review at arm's length of the Primary Actuary's actuarial advice and, as such, must be free of conflicts of interest. The Reviewing Actuary is considered External provided there is avoidance of conflicts of interest which would make, or would be perceived by a reasonable person with full knowledge of all relevant facts and circumstances to make, the Reviewing Actuary not capable of exercising impartial judgment in the conduct of the review.
- 6.1.2 The Primary Actuary and the Reviewing Actuary must be satisfied that any personal, commercial or employment relationships with either the Primary Actuary or the Entity do not create conflicts of interest. These relationships include those of the Reviewing Actuary, or those from the same Firm as the Reviewing Actuary, or from an associated company of that Firm.
- 6.1.3 If any such personal, commercial or employment relationships create conflicts of interest, then the External Peer Review appointment must be declined. If the Reviewing Actuary would be reviewing actuarial advice that he or she had a part in preparing, then the External Peer Review appointment must be declined.

6.2 Commercial and employment relationships

- 6.2.1 The Reviewing Actuary must disclose in his or her report the existence and nature of any commercial or employment relationships referred to in clause 6.1 in the previous two years and explain why the relationship does not affect his or her ability to exercise impartial judgment.
- 6.2.2 The Reviewing Actuary must not be a current employee of the Entity, or of an Entity associated with the Entity receiving the Primary Actuary's

actuarial advice. If the Primary Actuary is not employed by the Entity, then the Reviewing Actuary must not be from the same Firm as the Primary Actuary, or from an associated company of that Firm.

- 6.2.3 A Member employed by the same Firm as, or by a Firm associated with, the auditor of the Entity is not precluded from conducting the External Peer Review as part of an enhanced audit scope.

6.3 Rotation of Reviewing Actuary

- 6.3.1 A Reviewing Actuary must not accept an engagement for more than five years in a seven-year period to perform External Peer Review of the Specified Valuation of an Entity. Having stood down in accordance with this requirement, a Reviewing Actuary must not accept re-appointment in respect of the same Entity for two consecutive years.
- 6.3.2 This rotation requirement applies to the individual Member performing the External Peer Review. Rotation of Reviewing Actuaries can take place within a Firm provided that each successive Reviewing Actuary meets the requirements set out in this Professional Standard.

7. Matters for consideration by Reviewing Actuary

- 7.1 **Scope:** Consideration by the Reviewing Actuary of the appropriateness of the scope of the Primary Actuary's Specified Valuation and of the actuarial advice provided in relation to it.
- 7.2 **Data:** Consideration by the Reviewing Actuary of: the sources of data; whether appropriate and sufficient data inputs have been used; the reliability of the data, and any reliances; and that the quality of the data has been checked by the Primary Actuary or the personnel employed to support the Primary Actuary, including appropriate reconciliations.
- 7.3 **Valuation methods:** Consideration by the Reviewing Actuary of: whether the methods chosen are suitable in the circumstances and within the range of reasonable current practice; and whether their application has been appropriate.
- 7.4 **Assumptions:** Consideration by the Reviewing Actuary of: whether there has been a comparison of relevant actual experience compared to that expected by the valuation basis and that assumptions are consistent with observed experience, industry trends and professional judgment. If assumptions adopted cannot be supported by direct experience or relevant credible experience, the Reviewing Actuary must consider whether they are appropriate compared to industry experience and/or reasonable current practice for the type of business under consideration. In considering the assumptions adopted by the Primary Actuary, the Reviewing Actuary must take into account the matters discussed in section 10 of PS 300. The Reviewing Actuary must also consider the process undertaken by the Primary Actuary to determine assumptions.

- 7.5 **Specified Valuation results:** Consideration by the Reviewing Actuary of: whether the results are supported by the experience and any reasonableness tests undertaken by the Primary Actuary; consistency within results; any relevant reconciliations since the previous Specified Valuation; whether key risks, sensitivities and uncertainties, and their implications, have been identified in the Primary Actuary's reporting; whether the results have been clearly stated; the matters on which the Primary Actuary has relied; and any limitations of the Primary Actuary's actuarial advice.
- 7.6 **Controls:** Consideration by the Reviewing Actuary of whether appropriate controls and quality assurance processes are in place.
- 7.7 **Standards:** The Reviewing Actuary must consider whether the Primary Actuary's actuarial advice complies with applicable legislation (including regulations, Prudential Requirements, subordinate standards and rules) and with relevant Institute Professional Standards.

8. REPORTING REQUIREMENTS

The Reviewing Actuary's report must include the matters set out in this section.

8.1 Statements by Reviewing Actuary

8.1.1 Statements setting out:

- (a) who commissioned the Reviewing Actuary's report, the scope of the review and any limitations placed upon the Reviewing Actuary;
- (b) that the Reviewing Actuary's report has been prepared in accordance with this Professional Standard, which provides a review, but does not provide an additional Specified Valuation;
- (c) the Specified Valuation and associated actuarial advice being reviewed;
- (d) that the Reviewing Actuary's report must be read in conjunction with the Primary Actuary's reporting and documentation in order for it to be considered in its appropriate context; and
- (e) an attestation of how the Reviewing Actuary meets the definition of External in Section 6.

8.1.2 The Reviewing Actuary must sign and state the date of completion of his or her report.

8.2 Content of Report

8.2.1 The Reviewing Actuary's report must:

- (a) comply with any relevant documentation and requirements set out in the Code;
 - (b) document all:
 - (i) relevant matters stipulated in this Professional Standard as being required to be documented; and
 - (ii) such other things that the Member reasonably forms a view, as a matter of professional judgment, that circumstances surrounding or affecting the External Peer Review warrant documentation; and
 - (c) contain a statement confirming that the Member has considered all the matters set out in section 7.
- 8.2.2 The level of detail to be provided in actuarial reporting will depend on the size and complexity of the Entity, and considerations of Materiality. Particular consideration must be given to the items in section 7.
- 8.2.3 It is acceptable for the Member to prepare a short form report (for an audience such as the Board, as described under PG 199.01) that contains a summary of the main conclusions, provided that:
- (a) a full report is prepared within mandated or agreed timeframes;
 - (b) reference to the full report is made in the short form report; and
 - (c) the full report is made available on request from the user of the short form report.

8.3 Conclusion by Reviewing Actuary

- 8.3.1 The Reviewing Actuary's report must contain a conclusion. Where the Reviewing Actuary's conclusion is such, the following specimen wording (being a form of negative assurance) may be used:
- "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."
- 8.3.2 Where the Reviewing Actuary is unable to make a final statement to the effect of that set out in clause 8.3.1, the Reviewing Actuary's conclusion must contain an alternative final statement, additionally describing the associated reasons, the implications and, where practical, approximate quantification.

END OF PROFESSIONAL STANDARD 315