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## **EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 315 (EXTERNAL PEER REVIEW OF GENERAL INSURANCE LIABILITY VALUATIONS)**

**December 2011**

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### **A. About this Explanatory Memorandum**

This Explanatory Memorandum has been prepared to assist Members in understanding Professional Standard 315 (External Peer Review of General Insurance Liability Valuations) ("PS 315").

### **B. Background**

On 1 March 2006, the Institute issued a Policy for Drafting Professional Standards (the "Policy") which was subsequently amended in June 2006. The Policy is designed to ensure that all Professional Standards use consistent and objective terminology such that mandatory duties and requirements for members are clearly defined and understood. As a result, all existing Professional Standards (including Professional Standard PS 100 (External Peer Review for General Insurance and Life Insurance) ("PS 100)) and mandatory Guidance Notes are to be re-drafted in accordance with the Policy. Changes to Professional Standards are also necessary from time to time to ensure that they remain consistent with the Code of Professional Conduct ("Code"), the most recent version of which was introduced in November 2009.

As PS 100 was a multi-practice Professional Standard, a Drafting Group was established with membership from both general and life insurance practice areas. The members of the Drafting Group were: Peter Hardy (Convenor); Geoff Atkins; David Whittle; Owen Wormald; and Anne Peters (Institute representative).

An Exposure Draft of proposed changes was released in July 2011. Three submissions were received in response and the Institute thanks members for their interest. The Working Group considered the submissions received however, following discussions with the submitters, no change was made to the final standard as a result of those submissions. Some aspects of the submissions received have been referred to the General Insurance Practice Committee for educational material development.

## **C. Key changes**

This section sets out the key changes made to PS 100, resulting in the new standard PS 315.

### **C.1 Removal of life insurance from the application of PS 100**

A key change was to remove life insurance from the application of PS 100. Independent peer review is, of course, regularly in use in the life insurance practice area. However, at the time PS 100 was originally written, it was anticipated that external peer review ("EPR") might be mandated within prudential requirements for life insurance liability valuations as it had been for general insurance, but this did not come to pass.

The Policy stipulates:

"Professional Standards detail mandatory practice requirements and usually cover an established field of actuarial work."

In these circumstances, it was no longer considered appropriate for life insurance to be covered by PS 100. The removal of life insurance from the application of PS 100 necessitated a consequential re-numbering of the standard to the "300" series utilised for general insurance standards and guidance and a further consequential re-naming. Hence, the final standard has been re-numbered as "PS 315".

### **C.2 Other key changes**

#### **C.2.1 General changes**

1. Clause 1.1 (application) has been modified to clarify that work performed under the standard is Prescribed Actuarial Advice and subject to the relevant requirements of the Code.
2. Clause 3.1 has been amended to restrict the definition of Specified Valuations to more specific circumstances, whereas the previous definition was more broad.

#### **C.2.2 Section 5.1 – Appointment of Reviewing Actuary**

3. Clause 5.1.1 has been amended to remove the reference in existing clause 4.1.1 of PS 100 to Members satisfying themselves that they have the relevant expertise and experience for the purposes of the Code. It was considered unnecessary to duplicate a Code requirement which Members are well aware apply to all work performed by them.
4. Clause 4.1.3 of PS 100 (regarding limitations on access to intellectual property) has been relocated to clause 5.2.2, as it is more logically related to access by the Reviewing Actuary, than the appointment of the Reviewing Actuary.

5. Clause 4.1.5 of PS 100 (regarding conditions on accepting an appointment (now clause 5.1.4) has been amended to be consistent with the actual requirements in APRA's Prudential Standard GPS 310.

### **C.2.3 Section 5.2 – Access by Reviewing Actuary**

6. As noted above, the existing requirements in clause 4.1.3 of PS 100 have been relocated to clause 5.2.2. The language has also been made more specific, rather than the arguably vague reference in PS 100 to "integrity of the review".

### **C.2.4 Section 5.2 – Responsibilities of the Reviewing Actuary**

7. Appendix A of PS 100 (which was referred to in clauses 4.3.2 and 4.3.3 of PS 100) has been removed. It is considered inappropriate to include such 'checklists' in professional standards as they: (a) can be interpreted as guidance; and (b) may be inconsistent with the requirements of the body of the standard. The material that was located in Appendix A has been checked to ensure that it is dealt with in the body of the standard, and has been highlighted in the new clause 5.3.1.

### **C.2.5 Section 6.2 – Commercial and employment relationships**

8. Clause 5.2.3 of PS 100 (now clause 6.2.3) has been amended to remove the additional direction and qualification. This is both for consistency with APRA's GPS 310 (as discussed above) and in recognition of the fact that the Institute cannot impose obligations on third parties.

### **C.2.6 Section 7 – Matters for consideration by Reviewing Actuary**

9. This section relocates the material found in clause 6.2 of PS 100, as it was felt that it was not relevant to the principal subject matter of reporting requirements in clause 6 of PS 100 (now in Section 8). In addition, the new clause better highlights those matters.
10. Clause 7.2 (data) (previously clause 6.2.2 of PS 100) has been expanded to include consideration by the Reviewing Actuary of the reliability of the data, and any reliances by the Primary Actuary.
11. Clause 7.4 (assumptions) (previously clause 6.2.4 of PS 100) has been expanded to, *inter alia*, require the Reviewing Actuary to consider the matters set out in section 10 of PS 300 and the process undertaken by the Primary Actuary to determine assumptions.
12. Clause 7.5 (Specified Valuation results): this clause replaces clauses 6.2.6 and 6.2.7 of PS 100 and now requires the Reviewing Actuary to consider any relevant reconciliations since the previous Specified Valuation (rather than the existing requirement to consider any explanation of changes in the results since the

previous balance date, as well as since the previous Specified Valuation (if the previous Specified Valuation was not at the balance date)).

#### **C.2.7 Section 8.2 – Content of report**

13. This new section (which does bring across clause 1.7.2 of PS 100) provides clarity with respect to what matters are required to be documented by the Reviewing Actuary. It also deals with requirements for short-form reports.

#### **C.2.8 Section 8.3 – Conclusion by Reviewing Actuary**

14. PS 100 provides for a lengthy specimen wording of matters that must be covered in the Reviewing Actuary's conclusion (clause 6.3.1) and a short specimen wording of a final statement (clause 6.3.2).
15. The latter has been retained, however the former has been removed. As professionals, Members are expected to be able to write a conclusion appropriate to the report and it was felt that the existing provision was inappropriately detailed in that context. Furthermore, the previous specimen wording could be misleading where the Reviewing Actuary had considered other matters which they felt were Material in the circumstances.

#### **D. Commencement date**

PS 315 takes effect for all External Peer Reviews (as defined) applicable to valuation dates on or after 31 December 2011.

**END OF EXPLANATORY MEMORANDUM**