

Peer review – Current practice

31 May 2007

Background

“Morris Review of the actuarial profession – final report – March 2005”
recommended that:

- the Profession should identify any gaps in the monitoring of compliance and should report to POBA on this matter;
- insurers should themselves consider whether peer review is appropriate;
- the Financial Reporting Council, should satisfy itself that appropriate monitoring of actuaries; compliance with professional standards and independent scrutiny of actuarial advice is occurring.

“POB – The actuarial profession’s progress in implementing the recommendations made to it by the Morris Review – December 2006”
recommended that:

- the Profession should consider the need for expert scrutiny of the work of the With-Profits Actuary;
- the Profession should consider peer review for different actuarial roles on its merits;
- the general substance of the Profession’s working arrangements with regulators should be publicised.

The Times – 21 February 2007

Doctors lose right to police themselves under tough reforms

Contents

- Introduction
- Survey background
- Highlights of survey results
- Personal views of AFHs and WPAs about requirement by profession to perform peer reviews
- Next steps

Introduction

- A survey was carried out recently to assess the extent of existing peer review
- The scope was formal external peer review, not internal peer review

Survey background

- Questionnaires were sent out in November 2006
- Results were fed back to the Life Board in December 2006
- We are sharing the results of this research with the profession now. A fuller report will be available on the profession's website.
- A total of 55 organisations completed the survey
- Respondents varied from the smallest to the largest insurers with the type of business ranging from predominantly with-profits business to mixed business

Areas covered by the peer review survey

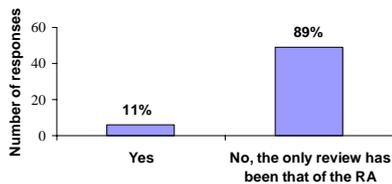
- AFH – Year end valuation
- AFH – ICA
- AFH – Other, e.g.
 - Pricing of business, including unit pricing
 - Investment strategy and asset-liability matching
 - Stress and scenario testing
 - Discretionary surrender charges
- WPA

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AFH peer review – Year end valuation

- The first section of the survey covered AFH peer review, and in particular, the AFH's work around year end valuations.

Has your company commissioned a peer review (separate to the review of the RA) at the last financial year end?

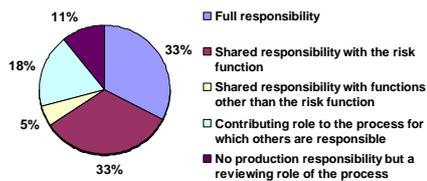


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AFH peer review – ICA

- The second part of the survey covered the peer review of the AFH's work around ICA. Our survey was worded to capture any review carried out of AFH's work in this area regardless of whether it was called "peer review" or not.

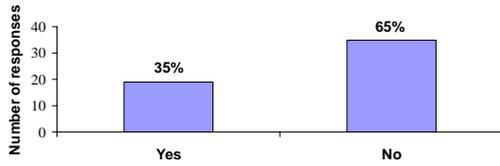
What level of involvement does the AFH have in the ICA?



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AFH peer review – ICA

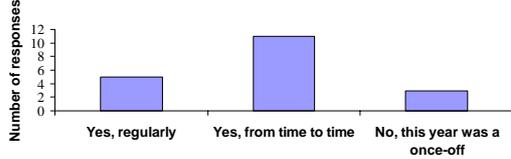
Has your company commissioned a peer review in the last financial year?



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AFH peer review – ICA

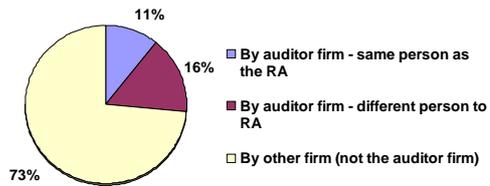
Do you plan to continue making use of peer review?



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AFH peer review – ICA

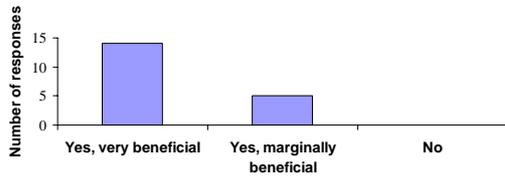
By whom was the peer review performed?



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AFH peer review – ICA

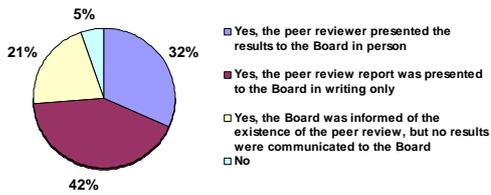
Did you find the outcome of the peer review beneficial?



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AFH peer review – ICA

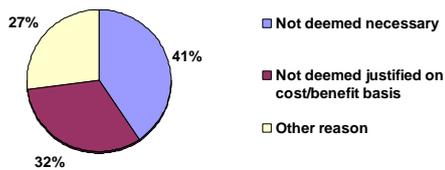
Has the outcome of the peer review been communicated to the Board?



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AFH peer review – ICA

Is there any particular reason why you have not commissioned a peer review in the last financial year?

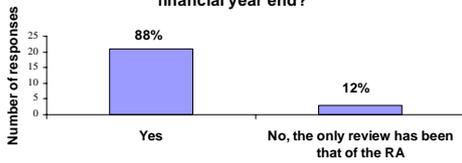


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AFH peer review – Other areas

- The third section of the survey covered the technical areas that AFHs get involved in, excluding the year end valuation and ICA which have been covered in the previous two sections.

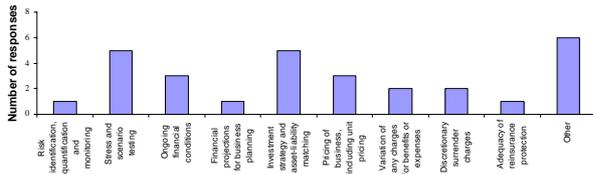
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AFH peer review – Other areas

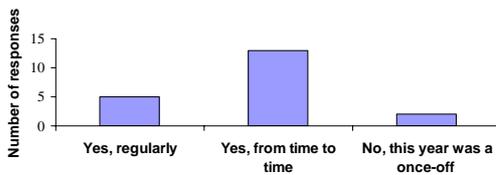
Please select all the areas in which your company has commissioned a peer review in the last financial year:



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AFH peer review – Other areas

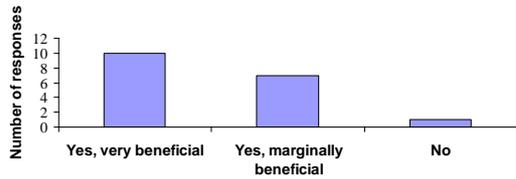
Do you plan to continue making use of peer review?



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AFH peer review – Other areas

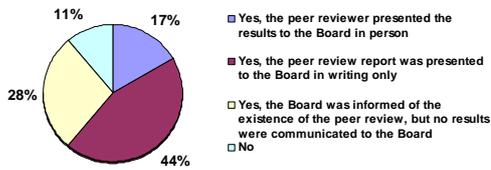
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AFH peer review – Other areas

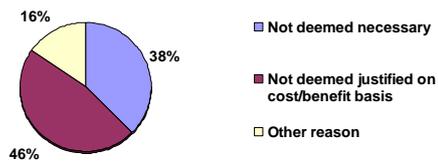
Has the outcome of the peer review been communicated to the Board?



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AFH peer review – Other areas

Is there any particular reason why you have not commissioned a peer review in the last financial year?

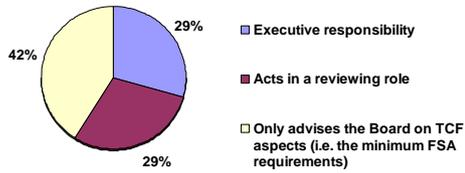


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WPA peer review – scene setting

- The fourth and last section of the survey covered the peer review of work done by WPAs.

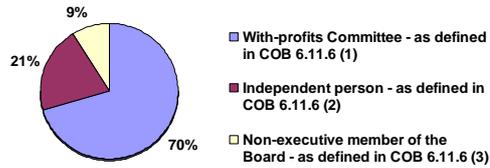
In the role of WPA, which of the following items best describes your responsibility:



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WPA peer review – scene setting

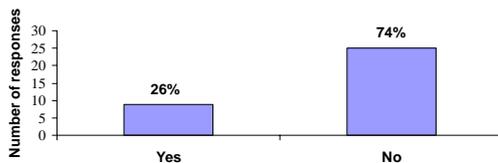
What form of governance arrangement do you make use of?



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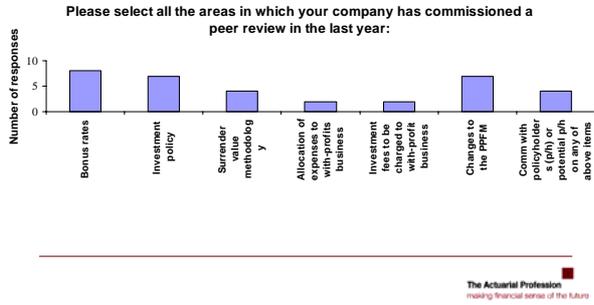
WPA peer review

Has your company commissioned a peer review in the last financial year?

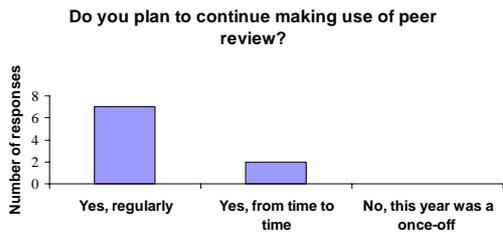


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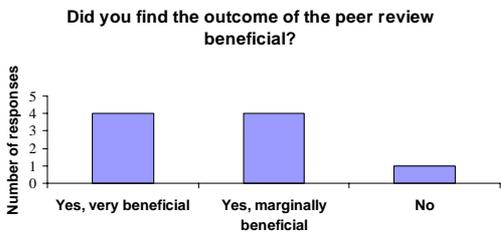
WPA peer review



WPA peer review

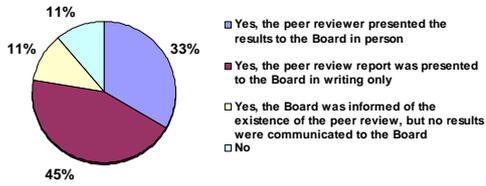


WPA peer review



WPA peer review

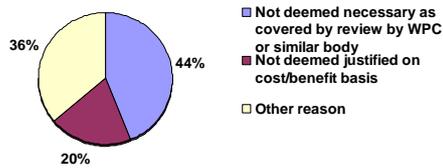
Has the outcome of the peer review been communicated to the Board?



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WPA peer review

Is there any particular reason why you have not commissioned a WPA peer review in the last year?

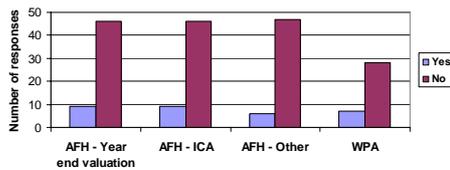


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Requirement by the profession to perform peer review

- All the graphs shown on previous slides reflect factual information about the extent that peer review has been used in companies, the following graph represents individuals' personal views about peer review.

Would you welcome a requirement from by the profession for work to be peer reviewed?



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How welcome would a professional requirement be in this area?

AFH – Year end valuation

- 46 (84%) of the respondents would not welcome a requirement from the profession
- Nine (16%) would welcome a requirement

AFH – ICA

- 46 (84%) of the respondents would not welcome a requirement from the profession
- Nine (16%) would welcome a requirement

How welcome would a professional requirement be in this area?

AFH – Other

- 47 (89%) of the respondents would not welcome a requirement from the profession
- Six (11%) would welcome a requirement

WPA

- 28 (80%) of the respondents would not welcome a requirement from the profession
- Seven (20%) would welcome a requirement

Arguments for a peer review requirement

- "... useful if peer reviews were suggested by the profession to address particular lines of business ... items such as TCF, individual business lines such as annuities or the utilisation of advanced financial methodology in the treatment of options."
- "... because the ICA is still evolving, it is hard to get a feel for how other firms are tackling certain issues ... [Peer reviewers] are also able to challenge assumptions in a way that is useful."
- "... should ensure that work is being carried out appropriately and with proper attention to controls"
- "... the greater advice aspect of the WPA role means that a review system would benefit the WPA, Board and policyholders."

Arguments against a peer review requirement

- "... ,unduly onerous as results are already audited and reviewed by the Reviewing Actuary. "
- "... need to be careful not to institute procedures that are significantly more onerous than those required by other professions."
- "... real danger that the profession is viewed very negatively within the industry if it insists on gold-plated procedures that are not seen as adding any value. "
- "... all costs for this work is paid for by customers of our clients."
- "... the ICA is the responsibility of the firm and not of the AFH and the firm should therefore be responsible to have results peer reviewed if this seems necessary."
- "... risk of undermining the WPA's position."

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Comparison of actual peer review versus support for peer review

	AFH - Year end valuation	AFH - ICA	AFH - Other areas	WPA
% of participants supporting peer review	16%	16%	11%	20%
% of participants that had peer review	11%	35%	88%	26%

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Next steps

- Life Board currently working on draft note on when it might be best practice to commission external review

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