

Using the Work of Other Professionals

33rd ANNUAL GIRO CONVENTION

Hilton Vienna Hotel, Am Stadtpark

Introduction

Structure of session

- Whose work do we use? When? How?
- Case studies
- How do other professions deal with this ?
- Is there a need for guidance?

Whose work do we use? When? How?

Discover if the room has been set up properly

- Flipcharts & Pens
 - for Brainstorming

Some examples

- Auditors
 - Data triangles
- Lawyers
 - Attorney estimates
- Claims handlers
 - Case reserves
- Actuaries
 - Audit client
- Software and Engineers
 - Catastrophe models
- Tax/regulatory specialists
 - Norwegian WC claims
- Economic models
 - ICAs
- Reinsurance dept.
 - Moving from gross to net
- Your own staff

The Actuarial Profession
TAKING THE BUSINESS TO THE NEXT LEVEL

Case Study Examples

Consider 5 different Case Studies

- Reserving Analysis – Reliance on Attorney Estimates
- Reliance on External Models
- Audit Support – Using the Work of another Actuary
- Part VII Transfer
- External Rating Agencies

The Actuarial Profession
TAKING THE BUSINESS TO THE NEXT LEVEL

Case Study Examples

General

- Have you identified all the other professionals whose work you are using?
- Who engaged them, and for what purpose?
- What was the scope of their work?
- Have you validated their competence and objectivity?
- Are they qualified to carry out the work/ experts in their field?
- Have you considered how they were remunerated?

The Actuarial Profession
TAKING THE BUSINESS TO THE NEXT LEVEL

Checklist Principles (b)

Approach / Assumptions

- What is the materiality in the context of your work?
- Can we see what the other professional has done, and how they've done it?
- Is the approach they've taken reasonable?
- Have you considered the underlying assumptions within their work, and do they look reasonable?
- Do the results of their work look reasonable?

The Actuarial Profession
Taking the Act into the Future

Checklist Principles (c)

Specific to a Reserving Analysis

- Have you considered whether it is appropriate to add an IBNR reserve to any attorney estimate, or estimate from a CAT model?
- Have you "tracked" the attorney estimate / estimate from CAT model over a period of time? Has the estimate remained unchanged, or has there been a trend for it to increase / reduce?
- Have you reacted to any deviations / trends over time in the attorney estimates / CAT estimates?

The Actuarial Profession
Taking the Act into the Future

Checklist Principles (d)

GN12 and Uncertainty

- Given the "new" GN12 requirements, have you reviewed the approach and assumptions of the other professional in considering the level of uncertainty?
- What are the key uncertainties?
- In line with the "new" GN12, have you mentioned the key areas of uncertainty within your report?

The Actuarial Profession
Taking the Act into the Future

Checklist Principles (e)

Scope of Work and Reporting

- Is it possible for us to form a judgement on the work of the other professional. Do we need to make any exclusions to our scope of work?
- Have we detailed all the areas where we are using the work of other professionals in our reports, and have we included the relevant reliances and limitations?
- Are we providing openness and transparency in our reporting of our use of other professionals?

The Actuarial Profession
Taking the Act into the Main

How do other professions deal with this? (1) Accountants

ISA 620 'Using the Work of an Expert'

- Competent?
- Objective?
- Scope: adequate for purposes of audit?
- Source data
- Assumptions & methods (incl. consistency with prior)
- Results (consistency with other sources)

(Currently under review)

The Actuarial Profession
Taking the Act into the Main

How do other professions deal with this? (2) US actuaries

ASP No. 38 'Using Models Outside the Actuary's Area of Expertise (Property and Casualty)'

- Are the relevant individuals experts in their field?
- Gain an understanding of the model & evaluate appropriateness: basic components, adherence to generally accepted practices, level of testing, inputs, reasonableness of outputs (incl. sensitivities, internal consistency, consistency with history)

(Currently being reviewed and expanded from P&C)

The Actuarial Profession
Taking the Act into the Main

How do other professions deal with this?
(3) Australian actuaries

GN 551 'The Auditor's Use of the Work of the Actuary and the Actuary's use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report' (joint auditor/actuary standard)

- Communicate: Understand work performed by each; Make each other aware of needs
- Consider: Who appointed by; Whether performed in accordance with applicable standards; Competence; Integrity & objectivity; Reasonableness of assumptions & methods

How do other professions deal with this?
(4) Others

Engineers

- Brief guidance:
 - "Members shall ... take all reasonable steps to ensure that persons working under their authority are both suitably equipped and competent to carry out the tasks assigned to them."

Tax professionals

- No guidance?

Lawyers

- Above guidance?

Pros and Cons of guidance

- ✓ Demonstrating compliance protects an actuary against litigious criticism
- ✓ Protects the public
- ✓ Provides a framework for consistent professional judgments
- ? Consistent with other professions
- * Additional bureaucracy
- * Not needed?
- * Restricts use of individual judgment?
- * Sets the bar too high

What do you think?

- Do we need guidance?
- Why/why not?
- If we do, where should it come from?
