



Society of Actuaries in Ireland

ACTUARIAL STANDARD OF PRACTICE GI-5

PEER REVIEW IN ACCORDANCE WITH RESERVING REQUIREMENTS FOR NON-LIFE INSURERS AND NON-LIFE REINSURERS

Classification

Mandatory

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE CODE OF PROFESSIONAL CONDUCT AND THAT ACTUARIAL STANDARDS OF PRACTICE IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

Reserving Requirements issued by the Central Bank of Ireland requiring a *Peer Review* of the *SAO* and *SAO Report* and, in certain circumstances, the *Margin for Uncertainty Report* of Non-Life Insurers and Non-Life Reinsurers.

Application

Members of the Society of Actuaries in Ireland acting in the role of *Reviewing Actuary* as defined herein.

It is recommended that actuaries undertaking peer reviews relating to the reserves of Non-Life Insurers or Non-Life Reinsurers, other than as required by the *Reserving Requirements*, also consider whether the principles implicit in this *ASP* should apply to that work.

Version	Effective from
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1.0	31.12.2014
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Definitions

Words in italics in this *ASP* shall be construed in accordance with the following definitions:

“*ASP*” means Actuarial Standard of Practice

“*Best Estimate*” is the best estimate of insurance liabilities of a company (guidance on the calculation of which is provided in the *CBI’s* “Guidance on Best Estimate and Margin for Uncertainty”)



”*Best Estimate / Margin for Uncertainty Guidance*” means the “Guidance on Best Estimate and Margin for Uncertainty” issued by the *CBI* in May 2014

“*Board*” means the board of directors of the *Company*

“*CBI*” means the Central Bank of Ireland

“*Code*” means the *Society’s* Code of Professional Conduct

“*Company*” means the non-life insurance or non-life reinsurance undertaking by which the *Reviewing Actuary* is appointed or engaged

“*Margin for Uncertainty*” means the amount by which the technical provisions booked in the *Company’s* regulatory return exceed the *Best Estimate* of the *Company*

“*Margin for Uncertainty Report*” means a report produced in accordance with the *Reserving Requirements* and which includes analysis and discussion of the *Margin for Uncertainty* booked by the *Company’s Board*

“*Peer Review*” means an independent review of the *SAO* and *SAO Report* and, for High Impact Non-Life Insurers/Reinsurers, the *Margin for Uncertainty Report*, performed in accordance with the *Reserving Requirements*

“*Peer Review Report*” means an actuarial report supporting the *Peer Review*, prepared by the *Reviewing Actuary* in accordance with the *Reserving Requirements* and this *ASP* and addressed by the *Reviewing Actuary* to the *Company’s Board*

“*Reserving Requirements*” means the latest version (as at the effective date of a *Peer Review*) of the “Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers”, first published by the *CBI* in May 2014

“*Reviewing Actuary*” means the actuary appointed by the *Company* to review the *SAO* and *SAO Report* and, in certain circumstances, the *Margin for Uncertainty Report* and produce a *Peer Review Report*

“*SAO*” means Statement of Actuarial Opinion

“*SAO Report*” means an actuarial report supporting the *SAO*, prepared by the *Signing Actuary* in accordance with the *Reserving Requirements* and addressed by the *Signing Actuary* to the *Company*

“*Signing Actuary*” means the actuary appointed or engaged by the *Company* to provide an *SAO* and *SAO Report* pursuant to the *Reserving Requirements*

“*Society*” means the Society of Actuaries in Ireland.



In addition:

“should normally” and, where the context requires, “should” indicate that members of the *Society* to whom this *ASP* applies must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members or the public might reasonably expect of a member.

1. Background

- 1.1 Non-Life Insurers and Non-Life Reinsurers which are rated High, Medium High or Medium Low Impact under the *CBI* Probability Risk and Impact System (PRISM) are required to engage a *Reviewing Actuary* to conduct an independent review of their *SAO* and *SAO Report*, and, in the case of High Impact Non-Life Insurers and Non-Life Reinsurers, their *Margin for Uncertainty Report*, and to produce a *Peer Review Report* to be put before the *Board*. The *Peer Review Report* shall also be made available to the *CBI* on request.
- 1.2 Members of the *Society* who act as *Reviewing Actuaries* must comply with the requirements relating to *Reviewing Actuary* appointments and *Peer Reviews* set down in the *Reserving Requirements* and with the provisions of this *ASP*.
 - 1.2.1 The *Reviewing Actuary* must be familiar with and meet the obligations of the relevant parts of the *Reserving Requirements* and the *Best Estimate / Margin for Uncertainty Guidance*, as well as any other instructions issued by the *CBI* for this purpose.
 - 1.2.2 The *Reviewing Actuary* may seek clarification from the *CBI* on the interpretation of any instructions issued by it.
 - 1.2.3 The *Reviewing Actuary* must also have regard to the *Code* and any relevant *ASPs* and Practice Notes issued by the *Society*.
 - 1.2.4 The *Reserving Requirements* are “the minimum requirements which companies are required to comply with in relation to reserving” (Requirement 2 of the *Reserving Requirements*). Likewise, the purpose of this *ASP* is to set out minimum responsibilities which the *Reviewing Actuary* is expected to meet. This *ASP* does not preclude the *Reviewing Actuary* from going beyond these minimum responsibilities if he or she sees fit. The *Reviewing Actuary* should note in particular that the *Reserving Requirements* set out the minimum content to be included in the *Peer Review Report*. The *Reviewing Actuary* should consider whether additional analysis and information, beyond that required under the *Reserving Requirements* and this *ASP*, is necessary in order to properly inform the *Board* in relation to the subject matter of the *Peer Review Report*.



1.2.5 In the event of any conflict, the *Reserving Requirements* take precedence over any requirements included in this *ASP*.

1.3 The *Reviewing Actuary* must explain in the *Peer Review Report* his or her reasons for non-compliance with any obligations which, under this *ASP*, he or she “should” or “should normally” meet.

2. Accepting a *Peer Review* Assignment

2.1 A member of the *Society* may not act as a *Reviewing Actuary* unless he or she possesses an appropriate practising certificate issued by the *Society*. The practising certificate must be valid as at the date on which the *Peer Review Report* is signed.

2.2 The nature of the *Peer Review* required by the *CBI* places a high level of responsibility on the *Reviewing Actuary*. Before agreeing to undertake a *Peer Review*, a member of the *Society* must, in accordance with the *Code*, consider whether:

- a. he or she is in a position to perform the *Peer Review* in an impartial manner; and
- b. he or she has sufficient knowledge and experience to undertake the assignment, including knowledge of the markets in which the *Company* operates and of the types of business that it underwrites.

3. Terms of Engagement

3.1 The *Reviewing Actuary* must make clear as part of his or her terms of engagement:

- a. That he or she is obliged to comply with technical and professional standards issued by the *Society*;
- b. That he or she may require access to the *Company*'s staff and/or consultants, and also to previous work carried out by or on behalf of the *Company* including (but not limited to) previous *SAOs* and *Peer Review Reports*;
- c. Whether he or she intends to calculate a first draft *Best Estimate* without sight of the *Signing Actuary*'s *Best Estimate*; and
- d. That the scope of the work to be performed may need to be extended, depending on interim views reached by the *Reviewing Actuary*.

4. Peer Review Process and Report

4.1 In any case where the *Reviewing Actuary* independently calculates a *Best Estimate* (whether because this is required under the *Requirements* or the *Reviewing Actuary* considers it appropriate to do so), the first draft of this *Best Estimate* should normally be calculated without sight of the *Signing Actuary*'s *Best Estimate*, analysis and conclusions,



as knowledge of an existing estimate can create conscious or sub-conscious bias. This should not preclude all appropriate discussions with relevant employees, including the *Signing Actuary*.

- 4.2 Notwithstanding that the *Reviewing Actuary's* first draft of the *Best Estimate* may be calculated without view of the *Signing Actuary's Best Estimate*, analysis and conclusions, the *Peer Review* process should allow for significant discussion between the *Reviewing Actuary* and the *Signing Actuary* and other relevant employees of the *Company*. In accordance with amplification 2.2 of the *Code*, the *Reviewing Actuary* is expected to consider whether advice from other professionals and other specialists is necessary to assure the relevance and quality of his or her work.
- 4.3 The *Peer Review* should normally commence and progress prior to the finalisation of the *SAO* and *SAO Report*. This allows for both parties to understand the key differences in judgement exercised by the *Signing Actuary* and *Reviewing Actuary* before finalisation of both reports. This serves to enhance the *SAO* and *Peer Review* processes and can lead to improvements to the *SAO Report* and *Peer Review Report*.
- 4.4 The *Reviewing Actuary* must comply with the specific requirements on the content of the *Peer Review Report* set out in the *Reserving Requirements*.
- 4.5 The *Reviewing Actuary* must also have due regard to:
 - a. the requirements relating to the *SAO* and the *SAO Report* set out in the *Reserving Requirements*;
 - b. the *Best Estimate / Margin for Uncertainty Guidance*;
 - c. ASP GI-4, Statement of Actuarial Opinion on Non-Life Insurance or Non-Life Reinsurance Business, issued by the *Society*; and
 - d. ASP GI-1, General Insurance Business: Actuarial Reports, issued by the *Society*.

In particular, where the *Reviewing Actuary* performs an independent calculation of the *Best Estimate*, the methodology and assumptions used should be consistent with regulatory and professional requirements and guidance relating to the calculation of the *Best Estimate* for the purposes of providing the *SAO* and if this is not the case, the *Reviewing Actuary* must provide appropriate explanation in the *Peer Review Report*.

- 4.6 The *Reserving Requirements* are minimum requirements; the *Reviewing Actuary* should extend the scope of his or her review beyond these requirements where necessary. In particular, and without prejudice to the generality of the foregoing, although the *Reviewing Actuary* is not required to independently calculate a *Best Estimate* except for High and Medium High Impact Non-Life Insurers/Reinsurers, if, for other *Companies*, the circumstances warrant this to make proper assessment of the *SAO* and *SAO Report*,



then this should be undertaken. Factors the *Reviewing Actuary* should consider when assessing whether an independent calculation of the *Best Estimate* is required include (but are not limited to):

- a. the complexity of the business written by the *Company*;
 - b. the extent of quality assurance processes other than peer review;
 - c. the historical performance of the *Signing Actuary's Best Estimate*;
 - d. the *Reviewing Actuary's* assessment of the appropriateness of the assumptions and/or methodologies adopted by the *Signing Actuary*; and
 - e. the *Reviewing Actuary's* assessment of the reasonableness of the *Signing Actuary's* conclusions in the *SAO* and *SAO Report*.
- 4.7 The *Reviewing Actuary* may choose to base the bulk of his or her analysis on data as at a date prior to the *Company's* financial year-end. However, figures as at the *Company's* financial year-end must also be reviewed in order to form the commentary and assessments to be included in the *Peer Review Report*.
- 4.8 If there are material limitations in the reliability or completeness of the data, then the *Reviewing Actuary* must document the perceived data issues in the *Peer Review Report*.
- 4.9 In assessing the reasonableness of the *Signing Actuary's* conclusions in the *SAO* and the *SAO Report*, the *Reviewing Actuary* should pay regard to:
- a. Whether all material risks to the *Company's* reserves have been considered and, where appropriate, quantified;
 - b. The appropriateness or otherwise of the *Signing Actuary's* use of expert judgement, including in relation to:
 - The choice and appropriateness of the data used;
 - The methodologies used – the *Reviewing Actuary* should consider whether the methodologies used were reasonable and appropriate in the context of the characteristics of the particular classes of business; and
 - The assumptions used;
 - c. The material sensitivities of the results to key assumptions, including overall assumptions and assumptions by reserving class;
 - d. The material uncertainties and the key sources of potential deterioration in the *Best Estimate*, noting in the *Peer Review Report* the business lines most subject to uncertainty; and



- e. If a range of *Best Estimates* has been calculated (see 4.11.2 and 4.11.3), whether the *Signing Actuary's Best Estimate* is within this range and if not, the reasons for the differences in the *Signing Actuary's* and *Reviewing Actuary's Best Estimates*.
- 4.10 The *Reviewing Actuary* of a High or Medium High Impact Non-Life Insurer or Non-Life Reinsurer must review all classes of business which have a significant impact on the *Company's* reserves. Whilst the reserving class splits used by the *Reviewing Actuary* need not be identical to those adopted by the *Signing Actuary*, the two structures should facilitate a detailed comparison of results. If a different class structure is used, then the *Reviewing Actuary* should discuss these differences and their implications with the *Signing Actuary* and must comment on the differences and their impact in the *Peer Review Report*.
- 4.11 The *Reserving Requirements* specify that, for High and Medium High Impact Non-Life Insurers and Non-Life Reinsurers, the *Reviewing Actuary* shall independently
- in general, calculate a *Best Estimate* for the *Company*, and
 - assess the material sensitivities of the results to key assumptions.
- 4.11.1 Where a *Reviewing Actuary* of a Non-Life Insurer or Non-Life Reinsurer considers that it is not necessary to independently calculate a *Best Estimate* for some or all segments of the business, whether on grounds of materiality or otherwise, he or she must document and explain this decision in the *Peer Review Report*. This applies regardless of the *Company's* PRISM rating.
- 4.11.2 In addition to independently calculating a *Best Estimate* where it is appropriate to do so, the *Reviewing Actuary* of a Non-Life Insurer or Non-Life Reinsurer (of any PRISM rating) should consider if it is also appropriate to produce a range of reasonable *Best Estimates* to support his or her assessment of the reasonableness of the *Signing Actuary's* conclusions in the *SAO* and the *SAO Report*.
- 4.11.3 In particular, where the *Reviewing Actuary* considers that the *Signing Actuary's* conclusions in the *SAO* and/or *SAO Report* are not reasonable, the *Reviewing Actuary* must produce a range of reasonable *Best Estimates* to support his or her assessment.
- 4.11.4 For the purpose of sub-paragraphs 4.11.3 and 4.11.4, a range of reasonable *Best Estimates* means a number of *Best Estimates*, determined in accordance with different assumptions or assumptions sets and/or methodologies, all of which the *Reviewing Actuary* considers reasonable though some produce a relatively low *Best Estimate* while others produce a relatively high *Best Estimate*.



- 4.12 For High Impact Non-Life Insurers and Non-Life Reinsurers, the *Reviewing Actuary* is required to assess the *Company's* governance in relation to the production of the *Margin for Uncertainty Report*, its consistency with the *SAO Report* and the completeness of the report. In performing and reporting on his or her assessment, the *Reviewing Actuary* should normally:
- a. Confirm that the *Margin for Uncertainty Report* was prepared by the *Company's* Chief Risk Officer, Chief Actuary or *Signing Actuary*, as required under the *Reserving Requirements*;
 - b. Confirm whether the person who prepared the report had appropriate access to the *Company's* staff, *Board*, *Board Committees* and *Executive Committees* and whether he or she engaged actively with appropriate persons in order to properly understand the key risks and uncertainties inherent in the *Company's* business;
 - c. Establish the extent to which the person who prepared the report relied on information provided by other persons and/or quality assurance processes (including data checks) carried out by other persons, and offer recommendations in this regard where appropriate;
 - d. If the report was prepared by the Chief Risk Officer or Chief Actuary and that person is also the *Signing Actuary*, establish whether the duality of roles was noted in the report;
 - e. Provide a view on whether the report is consistent with the *SAO Report*, in particular in relation to the identification of key risks and uncertainties and analysis of their implications;
 - f. Establish what approach was taken to analyse and report on the *Margin for Uncertainty* booked by the *Board*;
 - g. On the basis of the findings of the review – in particular, the findings on the steps taken to identify key risks and uncertainties and the approach taken to analyse and report on the *Margin for Uncertainty* booked by the *Board* – along with the *Reviewing Actuary's* assessment of material uncertainties and the key sources of potential deterioration in the *Best Estimate*, provide a view on the completeness of the report;
 - h. Establish whether the way in which the report was produced to the *Board* was such as to provide the *Board* with appropriate opportunity for discussion with the person who prepared it, and offer recommendations in this regard where appropriate.
- 4.13 The *Reviewing Actuary* should state the scope of the *Peer Review* clearly in the *Peer Review Report*. In particular, where applicable, the *Reviewing Actuary* should indicate that work related to the *Margin for Uncertainty Report* was limited to a review of the



governance in relation to its production, its consistency with the *SAO Report* and the completeness of the report, and did not include an assessment of the sufficiency of the *Margin for Uncertainty*. For the avoidance of doubt, though it is not mandated under the *Reserving Requirements*, this *ASP* does not preclude the *Reviewing Actuary* from assessing the sufficiency of the *Margin for Uncertainty* (in which event, the preceding sentence here will not apply).

5. Difference of Opinion

- 5.1 Whilst the *Reviewing Actuary* should document in the *Peer Review Report* any significant differences in opinion between the *Reviewing* and *Signing Actuaries* regarding methodology, assumptions and conclusions, it should be recognised that two actuaries may properly take different views. The *Peer Review Report* should document this accordingly and state whether, despite the differences, the *Reviewing Actuary* considers that the *Signing Actuary's* approach and conclusions are nevertheless reasonable.
- 5.2 Any limitations in the reliability or completeness of the data available will increase the uncertainty in projected *Best Estimates* and the range of reasonable *Best Estimates*. If more accurate, complete or appropriate data might narrow the range of difference between the *Reviewing* and *Signing Actuaries*, this should be documented in the *Peer Review Report*.
- 5.3 Where, following dialogue, the *Reviewing Actuary* remains concerned that the methodologies, assumptions and/or conclusions in the *SAO* and/or *SAO Report* are unreasonable, the *Reviewing Actuary* is, in accordance with amplification 2.2 of the *Code*, expected to consider whether advice from other professionals and other specialists is necessary to assure the relevance and quality of his or her work.



ACTUARIAL STANDARD OF PRACTICE GI-5, VERSION 1.0

This Explanatory Note does not form part of the ASP.

ASP GI-5 Version 1.0 was introduced following the May 2014 publication by the Central Bank of Ireland of ‘Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers’.