Turning the spotlight on peer review

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Agenda

• Background to EPR
• Present results of industry survey
• Open discussion with focus on:
  • Process
  • Value, or perceived value
  • Communication
Background to EPR

- When introduced – Feb 2006
- Forms part of overall purpose of GPS 310, that
  - “aims to ensure that the Board and senior management of a general insurer are provided with impartial advice in relation to its operations, financial condition and insurance liabilities”
- And purpose of EPR specifically, to:
  - “review and provide a conclusion on the reasonableness of the Primary Actuary’s Actuarial Advice”
- PS 100 sign-off:
  - “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.”
So...

• Four years on – timely to ‘turn the spotlight on peer review’

• Varied approaches (in terms of information supplied, communication, report content, etc)
  • Balancing the needs and perspectives of the reviewed, the reviewer and the recipient
  • Value-adds, already provided or sought, on top of primary purpose?

• GPS310 purpose not part of scope of this review

• An industry survey
Intent of the survey

• To gauge industry opinion on the EPR process
• To stimulate discussion on the topic
• Encourage actuaries to review the services we provide in an open and transparent way
Who we surveyed

• We targeted appointed actuaries, peer review actuaries and insurance management in separate surveys
• Who responded (total 86):
  • Appointed actuary survey – 35 (48 portfolios)
  • Review actuary survey – 18 (32 portfolios)
  • Insurance management survey – 33
• (c.f. 116 insurers authorised to conduct new or renewal business in Australia)
Survey results –
(1) General
Size of insurance liabilities under discussion

- Less than $10M: 20
- $10M-$50M: 19
- $50M-$100M: 13
- More than $100M: 54

Legend:
- Insurance management
- Appointed Actuary
- Review Actuary
Years of experience working in General Insurance

![Bar Chart]

- **Insurance Management**
- **Appointed Actuary**
- **Review Actuary**
Survey results – (2) Process
As part of the valuation process what communication do you have with the primary / review actuary?

- Reassuringly, AAs and RAs talk to each other directly!
- 2 surveyed AAs who only communicate via the report(?)
Information provided

What information do you provide/receive for peer review?

- Other included all of the above, and adhoc requests

- When asked what additional information RA’s would like – key response was full working spreadsheets
Qualities of review actuaries

In your experience what qualities have made a good reviewer?

- Many comments tended towards reviewer’s focus on minutiae and inability to let go of minor issues

Other – timetables not met, insufficient communication with AA, causing issues with presenting factual inaccuracies in EPR, or not thorough
“Best” and ‘Worst” qualities experienced with a peer reviewer

"Best" qualities

"Worst" qualities
Discussion on process

• < 20% of AAs provide full working spreadsheets but this is preferred by reviewers.
  • Is it reasonable to expect this? What are the impediments to providing full working spreadsheets?

• Defensiveness is most significant negative from reviewer’s perspective.
  • Is it a natural expectation given the nature of the roles, or can both parties do better to ease this?
Survey results – (3) Outcomes, value-add and perceived value
No surprises here – ‘other’ comments mainly enhancements rather than wholesale changes to approach

Primary actuary’s estimate rejected in 1 (AA), 2(RA) responses

Alternative estimates proposed in 2 (AA), 3(IM) responses, primarily as part of review process
Most & least valuable outputs from EPR process

- Clearly an area of interest – 45 comments!
- **AAs** – ✓ independent opinion, rigour, some aspects to monitor, X point-scoring, minor issues, IP
- **RAs** – ✓ focus on continuous improvement, broader view, X time and effort (esp. for non-controversial)
- **IMs** – ✓ reduced ability to pressure AAs, X seen as primarily audit, little insight and no genuine value-add
• We note the lack of self-interest in the reviewing actuaries responding!
• Where too frequent, every 3 years most proposed, esp for short-tail, or where significant changes such as to AA/CEO/CFO, business mix, methodology, etc, or by request of APRA or insurer
• Comments that ‘negative assurance’ provide little help to board in understanding what is happening, how aggressive valuation is and where troubles may happen. Better value-add if independent and fearless, considered summary of judgments.
Survey results –

(4) Communication to management
Communication with management

As part of the EPR process what communication did you have with the review actuary?

- AAs and RAs surveyed consider they have direct contact with management
- More mixed responses from management

A mismatch of perception?
The EPR report

Comment on the level of detail of the EPR report

- Just right, with valuable summary and insights: 60%
- Too detailed, long, technical: 30%
- Too brief, with little added value: 10%

Preference for type of report

- Short report, with all detail relevant for the primary actuary set out in appendices: 90%
- Detailed report including discussion of all findings: 10%
- Other: 0%
EPR & Audit functions

- 64% of review actuaries were also the audit actuary, while 48% of insurance management indicated they chose the same actuary.

In your opinion is it sensible to have the same actuary perform the EPR who performs the audit?

- Yes – more cost effective
- No – EPR allows a greater selection of review actuary (i.e. can choose appropriate actuary with the right experience and knowledge)
- No – it provides further assurance having separate opinion
- No – EPR allows a greater selection of review actuary (i.e. can choose appropriate actuary with the right experience and knowledge)
- Other

- 64% of review actuaries were also the audit actuary, while 48% of insurance management indicated they chose the same actuary.
Did the EPR report give any useful insights that were not otherwise obtainable from the ILVR or AA?

![Bar chart showing responses to the question.]

- None: 13 responses
- Some: 13 responses
- A lot of value e.g. EPR actuary had comprehensive industry knowledge of benefit: 3 responses
Discussion on communication, value or perceived value

- Given the feedback:
  - Will the EPR process be effective in flagging a potential disaster before it happens or is it too much belt and braces?
  - Do we feel we are providing value to industry? How can we improve?
  - Negative/positive assurance – where should the profession head?
  - Communication – mismatch between AA/RA views and management perception. What can we do?