

## **INFORMATION NOTE: PEER REVIEW PROCESS**

### **Classification**

This document is classified as an Information Note.

### **Abstract**

This Information Note outlines considerations with respect to peer review of actuaries' work.

### **Purpose**

The purpose of this Information Note is to provide a framework for the basis of engagement between the reviewing actuary and the actuary whose actuarial advice is being Peer Reviewed, highlight the conduct expected by the Profession of each party, and suggest the dispute resolution procedures where the actuaries concerned do not agree with each other's findings.

This Information Note does not define under what circumstances a Peer Review is required. That remains the ambit of the various practice-area-specific committees, as it is accepted that the approach to Peer Review can vary across practice areas.

This Information Note does not impose any obligation on any actuary to promote or apply the practices described, nor does it set out what constitutes generally accepted practice.

### **Legislation or Authority**

This Information Note is under the authority of the Professional Matters Board of the Actuarial Society of South Africa, but does not constitute professional guidance.

Members must take in account any legislation, the Code of Conduct, professional guidance or other guidelines when performing a Peer Review. In this context, legislation includes regulations under any Act, and includes "secondary legislation" (e.g. directives issued by a regulator).

### **Application**

This Information Note can be used to assist actuaries acting as a reviewer and to actuaries being reviewed under a Peer Review (whether formal or informal), irrespective of the field of work.

This Information Note does not specifically consider all the considerations that would apply to external audit of an Actuary's work and internal review as required by legislation (for example the independent review performed by the Head of Actuarial Function of an

insurer). However, the principles could be kept in mind by the relevant parties in these cases.

The responsibility for the work done by the Primary Actuary will always remain with the Primary Actuary. The Peer Review is a review, and as such does not provide a guarantee of the Primary Actuary's work

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## **Status**

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## **1. DEFINITIONS**

- 1.1.1 **'Actuarial Advice'** means actuarial work performed by members of the Actuarial Society of South Africa.
- 1.1.2 **'Actuary'**, for the purposes of this Explanatory Information Note, means a member of the Actuarial Society of South Africa, whether a fellow member or not.
- 1.1.3 **'Code of Conduct'** means the Code of Conduct established by the Actuarial Society of South Africa, and which applied to all members of the Actuarial Society of South Africa.
- 1.1.4 **'Formal Review'** means Peer Review requested by a Third Party, even if the Third Party is part of the same organisation as the Primary Actuary.
- 1.1.5 **'Informal Review'** means Peer Review requested by the Primary Actuary, where there has not been any Third Party requirement to do so.
- 1.1.6 **'Material'** means important or essential in the opinion of the Actuary. For this purpose, 'Material' does not have the same meaning as in South African accounting standards. 'Materiality' has a consistent meaning to 'Material'.
- 1.1.7 **'Peer Review'** means any review of the reasonableness of the Primary Actuary's Actuarial Advice by a Reviewing Actuary.
- 1.1.8 **'Primary Actuary'** means the Actuary whose Actuarial Advice is being Peer Reviewed in terms of this Explanatory Information Note.
- 1.1.9 **'Reviewing Actuary'** means the Actuary reviewing the Primary Actuary's Actuarial Advice in terms of this Explanatory Information Note.
- 1.1.10 **'Society'** means The Actuarial Society of South Africa.
- 1.1.11 **'Statutory nature'** means enacted, regulated or authorised by law.
- 1.1.12 **'Third Party'** means a person, group or organization, other than the Primary Actuary and the Reviewing Actuary that requires a Peer Review to be conducted.
- 1.1.13 **'Written'** includes faxes, e-mails and other forms of documented electronic communication.

## **2. REQUIREMENTS AND SCOPE**

### **2.1 Requirement Definition**

- 2.1.1 If the Peer Review is a Formal Review, the Third Party typically defines the requirements. The Primary Actuary may consider having sight of the requirements so that the context of the Peer Review is understood by the Primary Actuary.
- 2.1.2 If there is no Third Party or the Third Party is not in a position to define the requirements, the Primary Actuary may decide to define the requirements (e.g. objectives) of the Peer Review.

### **2.2 Scope Definition**

- 2.2.1 The Primary Actuary, Reviewing Actuary and Third Party, if applicable, would typically agree the scope of the Peer Review, taking cognisance of the requirements of the Peer Review.
- 2.2.2 The scope of the Peer Review would typically be documented. For a formal review, this would typically be done via terms of engagement / acceptance letter. The items to be contained in the terms of engagement / acceptance letter could include, but not be limited to, the following items:
  - a) the objectives of the Peer Review to be performed (e.g. addressing client concerns, best practice, to ensure that discretion has been appropriately applied);
  - b) the information that will be provided to the Reviewing Actuary;
  - c) the access to the Primary Actuary's personnel that supported the Primary Actuary in producing the specific Actuarial Advice being reviewed, if any such access is to be included;
  - d) the aspects of actuarial work to be covered, e.g. data collection and verification, selection of assumptions, selection of methods, calculations, results and conclusions, etc.;
  - e) the completeness of the required components of the work;
  - f) the reasonableness of the results obtained;
  - g) the materiality of the Actuarial Advice being Peer Reviewed;
  - h) the format of the output to be generated. For a formal review, a formal report would typically be best practice, and it is suggested that the scope include clarification on the quality and reader friendliness of that final report on the Actuarial Advice;
  - i) a clause specifying the extent of accountability the Reviewing Actuary will take for the Actuarial Advice being Peer Reviewed. This clause can for example provide appropriate reliances & limitations, or indemnify the Reviewing Actuary from any action arising out of the

Actuarial Advice that was Peer Reviewed. Note that the responsibility for the work done by the Primary Actuary will always remain with the Primary Actuary. The Peer Review is a review, and as such does not provide a guarantee of the Primary Actuary's work; and

j) any exclusion from the scope of the Peer Review.

2.2.3 The scope of the Peer Review does not typically extend to re-performing any work done by the Primary Actuary.

### **3. ENGAGEMENT AND APPOINTMENT**

#### **3.1 Selection and Invitation of the Reviewing Actuary**

3.1.1 In an Informal Review, the Reviewing Actuary would typically be selected by the Primary Actuary. In a Formal Review, the Third Party is typically responsible for selecting the Reviewing Actuary, but the Third Party might want to delegate this responsibility of selecting the Reviewing Actuary to the Primary Actuary, subject to the Third Party approving the selection.

3.1.2 When selecting the appropriate Reviewing Actuary, consideration can be given as to whether the Reviewing Actuary should be independent. Where relevant, the Primary Actuary could consider making the Third Party aware of the benefits of such an independent review. In a Formal Review, if the Third Party and Primary Actuary are not from the same organisation, it could be particularly relevant for the Reviewing Actuary to be independent.

3.1.3 If the Peer Review is a Formal Review and the Actuarial Advice is of a statutory nature, then it is advised that the Reviewing Actuary meet all the requirements for that primary role.

3.1.4 With the decision of the Reviewing Actuary having been taken, the Primary Actuary would typically approach them and discuss his/her willingness to undertake the Peer Review. While the preliminary discussions could be in person or telephonically, this would typically include a formal written request and written acceptance.

#### **3.2 Terms of Engagement and Acceptance by the Reviewing Actuary**

3.2.1 Some of the considerations when setting out the terms of engagement and accepting the Peer Review by the Reviewing Actuary include:

3.2.2 The Reviewing Actuary, when accepting the assignment, could consider the approach to the Peer Review, if they are sufficiently equipped in knowledge, qualification and experience to undertake the task, and whether they can spare the requisite time to do proper justice to the Peer Review.

3.2.3 Conflicts of interest of the Reviewing Actuary, in terms of the relationship with either the Primary Actuary or the entity for which the Actuarial Advice being reviewed was performed, needs to be declared upfront, in the context of personal, commercial and employment relationships, and taking into account the Code of

Conduct and any legislation. This can result in the appointment having to be declined, depending on the materiality of the conflict.

- 3.2.4 If the Reviewing Actuary had played a part in preparing the Actuarial Advice, it may not be appropriate for him/her to conduct the Peer Review and the invitation may be declined.
- 3.2.5 The Reviewing Actuary may need to be able to engage any previous reviewers of the Actuarial Advice being Peer Reviewed, or of any previous versions of the Actuarial Advice being Peer Reviewed, unless satisfactory reasons can be given for this not being possible or appropriate. The Reviewing Actuary may decide to decline the the invitation if not satisfied in this regard.
- 3.2.6 The Primary Actuary would typically document in a Terms of Engagement what has been agreed. This can include:
- a) A broad specification of the Actuarial Advice to be reviewed.
  - b) The scope of the Peer Review.
  - c) The plan for the Peer Review, including any known / agreed timelines, dates of meetings, etc.
  - d) The availability of the Primary Actuary for necessary discussions during the course of the Peer Review, and for discussions of the final report.
- 3.2.7 For a Formal Review, the Reviewing Actuary would typically produce an Acceptance Letter containing, inter alia, the following (unless already covered in the Terms of Engagement):
- a) Reference to the offer letter.
  - b) Reference to the Terms of Engagement.
  - c) Acceptance of the offer and Terms of Engagement.
  - d) The remuneration to be paid for the Peer Review, if applicable, and who is responsible for this payment.
  - e) The Reviewing Actuary's professional details – Qualifications, present position, indications of any reviews done without infringing on their confidentiality.
  - f) Necessary access as required for the purpose of the review, to systems, procedures, records and reports.
  - g) Accessibility of other connected officials of the Company, including auditors, for any clarifications that may be required.
  - h) Acceptance that a copy of the Reviewing Actuary's conclusions contained in the final Peer Review Report may be provided to the Board, to management, to the auditors and/or regulators.
  - i) A confidentiality agreement document to be signed separately, if required.

- j) Any further conditions the Reviewing Actuary would like stipulated.
- 3.2.8 For an Informal Review, acceptance in writing may still be appropriate, but reduced content can be agreed between the Primary Actuary and the Reviewing Actuary.
- 3.2.9 The Terms of Engagement and the written acceptance by the Reviewing Actuary forms the basis of any contract of engagement.
- 3.2.10 If there are any additional conditions stipulated in the written acceptance, which are not in the Terms of Engagement, the written acceptance would typically also be signed or otherwise clearly agreed to by the Primary Actuary, signifying acceptance of these additional conditions.
- 3.2.11 The Acceptance Letter / Terms of Engagement from the Reviewing Actuary may place limitations on the access of the Reviewing Actuary to intellectual property of the Primary Actuary, such as proprietary actuarial models. Where the objective of the Peer Review requires access to such intellectual property, but such limitations exist, the Reviewing Actuary would typically consider whether the limitations will affect the integrity of the Peer Review prior to accepting the review.

#### **4. PEER REVIEW OPERATIONAL METHODOLOGY**

- 4.1 The precise form of operation will vary from case to case, and the Primary Actuary and Reviewing Actuary are normally jointly responsible for making sure that an appropriate review methodology has been used.
- 4.2 The Peer Review would typically cover all relevant and significant aspects of the actuarial work as determined in the agreed scope. Nevertheless, the Peer Review may be intended to be completed at a high level, and so, for example, the review of the calculations could be confined to reviewing the results for reasonableness rather than carrying out specific checks.
- 4.3 It is not necessary that the Primary Actuary and the Reviewing Actuary meet face to face. For a Formal Review, the Primary Actuary and the Reviewing Actuary would typically discuss the work in appropriate depth, and these discussions would typically be documented in sufficient detail to demonstrate that a professional and formal Peer Review has taken place.
- 4.4 If the Peer Review process is spread over a period of time or various elements, the recommendations described above might apply to each element of the Peer Review. Unless there are specific reasons for doing otherwise, the same individual is often the Reviewing Actuary for all elements of the Peer Review.
- 4.5 It is acceptable for the Reviewing Actuary to delegate activities in some parts of the Peer Review, but this often does not remove them from being personally responsible for all elements of the Peer Review. Typically they would not delegate activities and processes concerned with reviewing results and conclusions.
- 4.6 The Reviewing Actuary would recognise that actuarial practice does vary and that the amount, and detail, of work undertaken by the Primary Actuary on any matter will vary, depending upon the extent to which it is considered material.

- 4.7 The Reviewing Actuary would make an allowance for reasonable variation in terms of actuarial practice, including the materiality of the amount of detail required to perform a satisfactory job given the timing and cost constraints of the client. Such materiality will always require the exercise of judgement.

## 5. PROFESSIONAL CONDUCT

- 5.1 The Code of Conduct states (amongst other things) that:

*11. Subject to legal provisions, a member must take care not to disclose confidential information to any other party, unless authorised in writing by the party to which such information relates or required by the Society's Code of Conduct or disciplinary procedure.*

*13. Differences of opinion among members may arise, especially in choices of assumptions and methods. Discussions of such differences between members, or in observations made by a member on the work of another member, must be conducted objectively and with courtesy and respect. This does not prevent constructive criticism where this is properly motivated and justifiable.*

*14. A member may encounter a situation where the best interests of the client will be served by the member providing an alternative opinion to one that had been expressed by another actuary. This is acceptable, provided that the factors that lend support to the alternative opinion are explained clearly at the same time.*

*22. Any member who believes that another member may have contravened any of the provisions of the Code must discuss the matter with the other member with a view to obtaining clarity. If the matter cannot be resolved, or if either member does not consider such a discussion to be appropriate or constructive, the concerned member must seek appropriate guidance. If such discussions provide or confirm prima facie evidence of a contravention of the Code, the member who initiated the discussion must report such contravention to the Society.*

- 5.2 In the context of a Peer Review, these requirements of the Code of Conduct could be interpreted to mean (amongst other things):

5.2.1 The Primary Actuary and the Reviewing Actuary need to cooperate with each other during the conduct of the Peer Review. The Primary Actuary would normally, to the best of his/her ability, provide the Reviewing Actuary with access to any documents or any additional explanations that may be needed in the course of the review.

5.2.2 From the Code of Conduct, the Reviewing Actuary shall maintain the confidentiality of all information obtained by him/her in the course of the Peer Review, except as covered in 5.2.3. In case of doubt, they should obtain the concurrence of the Primary Actuary before such information is divulged.

5.2.3 If the Reviewing Actuary, in the course of the Peer Review, discovers anything illegal or contrary to any rules or regulations of regulators or of the Society, they are expected to divulge such information to the relevant regulatory authority and/or the Society. If the Reviewing

Actuary is uncertain how to handle such situation, they should seek council from the Society.

- 5.2.4 The Reviewing Actuary needs to be prepared to co-operate with subsequent Reviewing Actuaries, for similar pieces of work of the same Primary Actuary, if requested to do so by the Primary Actuary or Third Party.

### 5.3 Dispute Resolution

- 5.3.1 It is acknowledged that there can be differences in professional opinion between the Primary Actuary and the Reviewing Actuary. In such situations, there is an inherent need for communication between the Reviewing Actuary and the Primary Actuary. Recognising this, the Reviewing Actuary may want to discuss any such issues arising with the Primary Actuary at the earliest possible opportunity, and try to come to some agreement before the Peer Review report is finalised.

- 5.3.2 If the Primary Actuary and Reviewing Actuary are unable to resolve an issue, it may be necessary to consider whether:
- an appropriate additional party be requested to assist in resolving the issue, provided the means of paying for this service is agreed to, or
  - they document their differences of opinion or unresolved issues in one or both of their reports.

- 5.3.3 If it is a Formal Review of statutory nature and the Primary Actuary and Reviewing Actuary are unable to resolve an issue after requesting an independent third party to assist to resolve the issue, then the Reviewing Actuary may consider referring this disagreement to the ultimate decision maker as the case may be. (For example, in the case of an insurer the Board is responsible for the information that is reported in the financial statements and to the relevant regulators. In the case of a pension fund, the ultimate decision maker may be the Board of Trustees.)

## 6. FINAL OUTCOME

- 6.1 On completion of the Peer Review, the Reviewing Actuary would typically prepare draft feedback in the agreed format for discussion with the Primary Actuary, on the issues raised in the review, for possible resolution by the Primary Actuary. Any such resolutions may be incorporated in the Primary Actuary's Actuarial Advice, where appropriate.
- 6.2 Where the agreed output of a Peer Review is a formal report, the report could include the following (but not limited to):
- a) a disclosure of any potential conflicts of interest, including any changes of circumstances, after accepting the appointment, that might create conflicts of interest, affect impartiality, facts not received or any issues that might influence the independence of the Reviewing Actuary;
  - b) the scope of the Peer Review and any deviation from it;



- c) the differences of opinion between the Reviewing Actuary and the Primary Actuary, how these (in the opinion of the Reviewing Actuary) can potentially be resolved, and the materiality of these differences;
  - d) the estimated financial impact of any differences in terms of the Actuarial Advice, if this can be reasonably estimated by the Reviewing Actuary;
  - e) any reliances and limitations; and
  - f) the conclusion on the overall Actuarial Advice that was Peer Reviewed.
- 6.3 In the course of discussion between the Reviewing Actuary and the Primary Actuary, attempts may be made to resolve the issues brought out in the draft Peer Review feedback. To the extent that any of these issues are resolved, and are modified in the Primary Actuary's Actuarial Advice where agreed to do so, the Reviewing Actuary would typically remove them from their final Peer Review feedback.
- 6.4 Even if the Actuarial Advice is considered to be within the range of acceptable practice, since one of the purposes of the Peer Review is to increase the overall quality of the Actuarial Advice, the Reviewing Actuary would typically advise the Primary Actuary on possible improvements, and the Primary Actuary could consider the advice being given. However, the Primary Actuary is not obliged to accept the recommendations. Any such advice would not typically appear in the final Peer Review feedback.
- 6.5 After discussion of the draft Peer Review feedback, and after resolution of some or all the issues raised, final Peer Review feedback will typically be presented by the Reviewing Actuary, in confidence, to the Primary Actuary.
- 6.6 In a Formal Review, the Reviewing Actuary is typically acting on behalf of the Third Party, and the final Peer Review report would be released to the Third Party. However, in line with the Code of Conduct, the report should be discussed with the Primary Actuary and the Primary Actuary should have a chance to respond to issues raised before the final Peer Review report is presented to the Third Party.
- 6.7 The intention of a Peer Review is often to do the review before the Actuarial Advice is released, but there may be circumstances where a post-release review is unavoidable. If the Actuarial Advice has already been released to the intended recipients, the Primary Actuary would typically consider whether it is necessary to modify the Actuarial Advice and present the changes to them. Any agreed modifications would typically be included in future Actuarial Advice given.
- 6.8 In line with the Code of Conduct, the responsibility for the contents of the Primary Actuary's Actuarial Advice is their own. They are under no obligation to alter their Actuarial Advice if convinced that their own view is correct, despite the differing view expressed by the Reviewing Actuary. It is also not necessary for the Primary Actuary to mention in their Actuarial Advice any such unresolved differences with the Reviewing Actuary. However, consideration may be given to detailing these differences in the Reviewing Actuary's final Peer Review report.