

25. (3.75 points)

a. (1 point)

Briefly describe four OSFI expectations with respect to the external peer reviewer.

b. (0.5 point)

Describe the peer review cycle required by OSFI.

c. (1 point)

Describe two differences in the responsibilities of an external peer reviewer and an external auditor.

d. (1.25 points)

Situation	Information available about the Fellow of the Canadian Institute of Actuaries (FCIA)
A	FCIA A worked at ABC under the AA for three years, and left four years ago to join a consulting firm where she has been acting as AA for three different Canadian insurance companies since joining. She exercised all ABC stock options and sold all shares one year ago.
B	FCIA B works at a small consulting firm. Most of his work relates to ratemaking. The extent of his experience with the valuation of policy liabilities is with respect to the work that he has completed for Company DEF, for which he acted as AA for the last fifteen years.
C	FCIA C is a policyholder of ABC and he invested in a mutual fund which owns shares of ABC.
D	FCIA D works in a consulting firm. Her colleague was involved in the external audit of ABC this year.
E	FCIA E works in a consulting firm. His colleague is involved in the actuarial work related to financial condition reporting for ABC this year.

ABC Insurance Company (ABC) is a federally regulated insurance company. For each of the above situations, justify whether the respective FCIA is eligible to serve as the peer reviewer of ABC's AA Report.

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QUESTION 25	
TOTAL POINT VALUE: 3.75	LEARNING OBJECTIVE(S): D1
SAMPLE ANSWERS	
Part a: 1 point	
<p><u>Sample 1</u></p> <ol style="list-style-type: none"> 1. Ensure AA has done work following AAP 2. Review appropriateness of assumption and methodology in AA's work 3. Consider material internal and external changes 4. Provide feedback on AA's work and document the process such that it helps OSFI evaluate the safety and soundness of the insurer. <p><u>Sample2</u></p> <ol style="list-style-type: none"> 1. Assist OSFI in assessing the insurer's safety and financial soundness 2. Assist AA by providing independent advice 3. Assist AA by providing additional source of professional development 4. Create confidence in AA's work to public, senior management, and regulators <p><u>Sample 3</u></p> <ol style="list-style-type: none"> 1. Need to have exposure to 2 or more different (unrelated) insurers 2. Need to have same qualifications as the AA (FCIA, Canadian experience, no adverse findings from CIA tribunal) 3. Cannot have a direct financial interest in the company that he reviews 4. Cannot have worked for the insurer in the last 3 years 	
Part b: 0.5 point	
<p><u>Sample 1</u></p> <p>Peer review of the valuation of liabilities and DCAT is required every 3 years. The peer reviewer must be changed after 2 cycles i.e. after 6 years. An actuary from the same firm as a previous peer reviewer can perform the peer review. A previous peer reviewer may again become a peer reviewer after 1 cycle has passed since he/she was first peer reviewer.</p> <p><u>Sample 2</u></p>	

External reviewer required to review each of methodologies and assumptions used by AA in detail every 3 years. If there is no material change to the methodologies and assumptions, external reviewer only needs to review the reasonableness annually. The same external reviewer cannot review the same work more than 2 cycles i.e. new external reviewer every 6 years.

Sample 3

If there are material changes – annually

If no material changes – review once every 3 years, all at once or in phases with disclosure there has been no material changes

Part c: 1 point

Sample 1

1. Peer reviewer looks at AA's work in the F/S (valuation of liabilities) at a more granular level. External auditor makes sure F/S are free from misstatements as a whole
2. Peer reviewer uses CIA standards of practice/guidelines. Auditor uses CICA standards of practice/guidelines

Sample 2

1. Peer reviewers do not do any recalculations but auditors do
2. Peer reviewers do not verify data or controls but auditors do

Sample 3

1. Reviewer provides professional development education to AA while auditor does not
2. Auditor performs recalculations while reviewer does not

Part d: 1.25 points

Sample

- A: eligible, because she left the company more than 3 years ago, and she sold all the financial interest (direct) that she had in the company.
- B: not eligible, must have experience with at least 2 other related companies (here just 1, with DEF)
- C: eligible, no direct financial interest in the company, only indirect

- D: eligible, can be from same consulting firm doing the audit, just if FCIA D is not involved in audit work
- D [alternative answer]: yes but it is discouraged to have the peer reviewer from the same firm as auditor
- E: eligible, can be from same consulting firm doing financial statement, just if FCIA E is not involved in F/S work

EXAMINER'S REPORT

Candidates were expected to know the responsibilities/objectives of the external peer reviewer and the eligibility criteria of selecting a peer reviewer.

Part a

Candidates were expected to demonstrate knowledge of either the expected duties of the peer reviewer, OSFI's objectives with regards to the peer reviewer, or the eligibility criteria.

Common mistakes included:

- Incomplete answers with respect to qualifications of a peer reviewer.
- Repeating answers in different words

Part b

Candidates were expected to know the peer review cycle (OSFI AA section 3.g).

A common error included:

- Not being specific enough in the response, for example, simply stating "once every 3 years"

Part c

Candidates were expected to compare and contrast two differences between the roles and/or responsibilities of the external peer reviewer and the external auditor.

Common errors included:

- Listing responsibilities without comparing and contrasting
- Not being specific/thorough enough in the response, for example, stating “peer reviewer’s work is more granular than external auditor”

Part d

Candidates were expected to analyze the information provided and explain whether the listed FCIA is eligible to be peer reviewer.

Common errors included:

- Providing the correct answer but giving an incorrect or irrelevant rationale, for example “FCIA D is eligible because being in audit firm is OK”
- Assuming that the colleague of FCIA E is the AA
- Answering yes/no without an explanation