

Peer Review—Small Investment, Big Return

THE COMMITTEE ON PAPERS of the Royal Society of London is traditionally credited with establishing editorial peer review in 1752 to oversee the review and selection of texts for publication for its nearly century-old journal, *Philosophical Transactions*—hence the use of the word “peer,” referring to the English peerage system of nobles. For purposes of this article, peer review will be defined as *an evaluation of a professional work product, typically a draft report communicating actuarial findings conducted by a peer of the responsible actuary*. A peer reviewer may or may not be an actuary.

The purpose of a peer review is to assist the preparing actuary in assessing the quality of his or her work product. The Code of Professional Conduct (Code) does not require actuaries to obtain peer review of their work products. There are also no such requirements in

the U.S. Qualification Standards or in any of the actuarial standards of practice (ASOPs). But even though it’s not codified in the profession’s guiding documents, peer review is a powerful tool that can help assess whether a work product meets the expectations established by

the Code. Specifically, a peer review can provide assistance in fulfilling the following Precepts of the Code:

- **Precept 1:** “An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession’s responsibility to the public and to uphold the reputation of the actuarial profession.” Annotation 1-1: “An Actuary shall perform Actuarial Services with skill and care.”
- **Precept 4:** “An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstance and its intended audience, and satisfies applicable standards of practice.”

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- **Precept 8:** “An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.” Annotation 8-1: “An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party. The Actuary should recognize the risks of misquotation, misinterpretation, or other misuse of the Actuarial Communication and should therefore take reasonable steps to present the Actuarial Communication clearly and fairly and to include, as appropriate, limitations on the distribution and utilization of the Actuarial Communication.”



The scope of a peer review can include the selection and application of methodologies and assumptions used in the determination of the findings and communications, determining compliance with the Code of Conduct, ASOPs, and Qualification Standards; determining whether the actuarial findings appear to be reasonable and well supported; and assuring that the results are communicated with clarity and professionalism. In my view, reproducing the underlying calculations is not typically included in the concept of peer review. An actuary will typically perform a detailed check of calculations before initiating a peer review.

To assure objectivity, the selected peer reviewer is generally not associated with the project or report. The peer reviewer needs to have the qualifications to perform a high-level review of the assignment to make sure that it is logically consistent, and that the report is in compliance with the Code, ASOPs, and the Qualification Standards. While there is no requirement that the peer reviewer be an actuary, many firms prefer to select an actuary who is qualified and has familiarity with the practice area in question.

Most actuarial communications would benefit from a peer review. The structure of the peer review can vary significantly depending on the size of the firm, the availability of qualified peer reviewers, and time considerations. Larger firms will tend to have a standardized peer review process that spells out exactly what types of documents need to be reviewed, what the review typically consists of, and the required qualifications of the peer reviewer. Solo practitioners, on the other hand, would be wise to have arrangements in place to make sure that their work is being reviewed in an appropriate manner. Arrangements with other solo practitioners or other actuaries can be made to ensure that a peer review can be done in an appropriate and timely manner. While this process may be cumbersome for a solo practitioner to arrange, the ultimate benefits of having a fresh pair of eyes to review the work product could be well worth the effort.

After completing the peer review, the reviewer communicates the results to the preparing actuary. If the comments are nonsubstantive in nature, the preparing actuary may decide which of the peer reviewer's suggestions he or she wishes to incorporate.

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Nazir Valani

Partner & North American Leader
AXIS Implementation
416-457-8622 | nvalani@kpmg.ca

Recognized as one the Global Leading Actuaries 2015 by Acquisition International

Michael Helewa

Partner and Business Leader
KPMG in Canada
416-560-4661
mhelewa@kpmg.ca

James Christou

Principal
KPMG in the U.S.
212-954-1844
Jameschristou@kpmg.com

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For more substantive issues, the peer reviewer and the preparing actuary would typically have a direct discussion related to the issues. While this conversation may be somewhat uncomfortable for both parties, it is much better to resolve these issues before the report goes to the ultimate end-user.

The peer review process helps actuaries produce better work products. It gives the preparer an extra level of comfort knowing that someone knowledgeable has reviewed the report. It helps in identifying and resolving issues and problems before the results are presented to the end-user. It emphasizes the importance placed by the preparing actuary on complying with the Code, the ASOPS, and the

Qualification Standards. Through the use of a peer review mechanism, preparing actuaries are likely to provide a better product to their clients, increase their own knowledge, and thus be prepared to service new clients and enhance their firm's reputation. When appropriate, the clients will usually appreciate being made aware that such a review has taken place. These benefits more than offset the additional time and cost of the peer review.

Peer review is a great practice tool—and practice makes perfect.

DEBBIE ROSENBERG is a member of the Actuarial Board for Counseling and Discipline.

