

EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 302 VALUATIONS OF GENERAL INSURANCE CLAIMS

June 2019

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the rationale underlying Professional Standard 302 Valuations of General Insurance Claims (PS 302).

PS 302 is a **renumbering** of the previous Professional Standard 300 Valuations of General Insurance Claims (PS 300) to align to the similar professional standard for life insurance companies, Professional Standard 202 Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies) (PS 202).

B. Feedback on Exposure Draft

The Exposure Draft for PS 302 (released as “Exposure Draft PS 300”) was released for member consultation during the period 19 February 2019 to 22 March 2019. Five pieces of written feedback were received, detailed feedback from two large consulting firms and shorter feedback from individual members.

On 5 March 2019 an Actuaries Institute Insight session presented on the new professional standards. This included a summary of the work done to produce the standards, the specific issues relevant for each practice area, and the key questions on which feedback was sought.

A summary of the main points raised through the session and the written feedback is as follows:

- ▶ The standards should not contain excessive use of “must” and “disclose”, which could be detrimental either in terms of requiring an increase in the length of a formal report or not being appropriate in all circumstances.
- ▶ There was a request for clarity on the commencement date of the standards, particularly for companies with an annual balance date of 30 June 2019.
- ▶ There were suggestions that there was a need to consider “customer value” or customer needs when giving actuarial advice and discussion of whether this should be mandated in professional standards or addressed through other guidance.
- ▶ There was a suggestion to include an option to seek APRA guidance when Members were unsure of or require specific guidance regarding their legal obligations.
- ▶ There was a suggestion to include commentary to better support the aim of making the Appointed Actuary’s role more strategic in an organisation.

This resulted in the following key changes for PS 302:

- ▶ Renumbering from PS 300 to PS 302 and updating the Commencement Date to reflect this change (Clause 1.2).
- ▶ Additional wording in clause 1.3.7 to include seeking regulator clarification if required.
- ▶ Updated definitions in clause 3.1 for 'Outstanding Claim Liability' and 'Premium Liability'.
- ▶ Further clarification of the terms 'disclose' and 'record' (clause 3.1) as outlined in Section E below.
- ▶ Inclusion of a requirement to include a statement that the Report has been prepared in accordance with this professional standard (clause 5.2.2).
- ▶ Removal of the requirement to disclose the method used to allocate "other" class of business to a category for calculating the APRA risk charge for authorized insurers (clause 5.2.5). This reflects that the Member already has a requirement to disclose the reasons for selecting the category.
- ▶ Removal of the reference to Incurred But Not Reported claims (clause 10.4.2).
- ▶ Simplifying the requirement to compare the central estimate to case estimates to potentially reduce the number of comparisons required (clause 11.2.4).
- ▶ Replacement of the requirement to disclose the control process around the valuation results, with a requirement to record the process (clause 13.1.2).
- ▶ Change to the commencement date (clause 2), as discussed in Section F below.

Other minor grammar corrections have also been made which do not change the obligations on Members.

C. Background to PS 302

In June 2018, APRA published final versions of *Prudential Standard CPS 320 Actuarial and Related Matters (CPS 320)* and *Prudential Standard GPS 340 Insurance Liability Valuation (GPS 340)*. They are accompanied by *Prudential Practice Guide CPG 320 Actuarial and Related Matters*.

CPS 320 and GPS 340 set out APRA's requirements for Appointed Actuaries of general insurers. GPS 340 specifically addresses the "Insurance Liability Valuation". These standards come into effect from 1 July 2019 and replace APRA's GPS 320 "Actuarial and Related Matters" (effective until 30 June 2019). In combination they require the replacement of the current versions of PS 300 "Valuations of general insurance claims", PS 305 "Financial condition reports and review of run-off plans for general insurance" and PS 315 "External peer review of general insurance liability valuations". This memorandum covers PS 302 only.

The new APRA standards cover actuarial and related matters: valuation reports, financial condition reports, actuarial advice framework and other matters, as well as insurance liability valuations for general insurers. The differences between life and general insurance valuations were determined to be too great at this point in time to combine the life and general insurance professional standards on valuation. The other elements of the APRA standards are being addressed in cross practice standards:

- ▶ PS 102 Financial Condition Report - cross practice standard addressing the production of Financial Condition Reports.
- ▶ PS 103 Actuarial Review - cross practice standard addressing actuarial reviews required by APRA.

This standard has been prepared by a subgroup of the Institute's Role of the Appointed Actuary working group, with the benefit of feedback from other members of the working group from both life and general insurance.

The wording of the new APRA standards as they apply to general insurance liability valuations is materially unchanged from the old APRA standards for general insurance and this is reflected in the key changes for PS 302, compared to the previous version of PS 300.

D. Items not addressed

No changes have been made in respect of IFRS 17, or to reflect recent discussions on long term economic assumptions. These will be addressed at a later date.

E. Changes to PS 302 compared to PS 300

The changes to PS 302 compared to PS 300 are:

Section 1 Introduction

The introduction has been written to have a structure and content consistent with other professional standards.

Clauses 1.3.3, 1.3.4 and 1.3.5 outline the requirements where a Member finds that they cannot carry out their work in a way that complies with PS 302.

The previous Clause 1.6.7 has been deleted as it referred to external peer review. There is no longer a specific general insurance requirement to have a certain type of review. CPS 320 now simply refers to APRA's ability to request a review from any insurer and there is no specific scope specified. The new cross practice standard PS 103 contains details of the requirements for an actuarial review required by APRA.

Section 3 Definitions

There are 2 important new definitions of which Members should be aware of:

- ▶ **'To disclose'** means to include information within a written communication, such as a Report where one is prepared
- ▶ **'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

Previous professional standards across practice areas were not always clear on what was meant when information had to be 'documented'. All standards being released in June 2019 introduce the terms 'disclose' and 'record' to clarify expectations of Members when carrying out actuarial work. PS 302 introduces these terms to indicate when the Member has to include information in a Report when giving actuarial advice (i.e. **disclose**) or when the information need only be recorded in working papers (i.e. **record**).

In addition, some other definitions have been added and references to other standards updated where required.

Other sections

Clause 7.2.1(d) reflects the strengthened requirement for considering data under CPS 320 31(b). It has been updated to reflect the new terminology and new references to the cross-practice standard that addresses Financial Condition Report and other matters.

Clause 9.1.4 has been amended to reflect the revised wording under the APRA standard.

F. Commencement date

PS 302 applies to valuations where the balance date is on or after 1 July 2019 unless an Entity adopts CPS 320 and GPS 340 from an earlier date. If an Entity adopts CPS 320 and GPS 340 from an earlier date, including the option of adopting for a 30 June 2019 balance date, then PS 302 will apply from this adoption date.

The option of adopting for a 30 June 2019 balance date is consistent with APRA guidance issued on 8 April 2019, namely that "insurers with a 30 June 2019 balance date may elect to comply with the FCR and AVR requirements set out in either CPS 320 or in the prudential standard relevant to the insurer (Prudential Standard GPS 320 Actuarial and Related Matters, Prudential Standard LPS 320 Actuarial and Related Matters or Prudential Standard HPS 320 Actuarial and Related Matters)."

PS 300 will be withdrawn at the time that PS 302 becomes effective.

END OF EXPLANATORY MEMORANDUM