
EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT OF PROFESSIONAL STANDARD 300 VALUATIONS OF GENERAL INSURANCE CLAIMS

February 2019

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding and responding to the rationale underlying the exposure draft of Professional Standard 300 Valuations of General Insurance Claims ("PS 300").

B. Background

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. 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" that are currently in place. This memorandum covers PS 300 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) - addresses the production of Financial Condition Reports.
- ▶ PS 103 Actuarial Review (cross-practice standard) - addresses actuarial reviews required by APRA.

Drafts of these standards are being exposed concurrently with the PS 300 exposure draft.

This exposure draft 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 minimal changes proposed for PS 300.

C. 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.

D. Proposed changes to PS 300

The changes proposed 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 300.

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

Some 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 FCR and other matters.

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

E. Proposed commencement date

The updated version of PS 300 will apply to actuarial valuations carried out on or after 1 July 2019 unless an insurer adopts CPS 320 from a different date in which case the updated standard will apply the later of this adoption date and the issue date of this Professional Standard.

F. Feedback sought

The working group would appreciate comments on the proposed changes to PS 300 and feedback on whether the phrase premium liabilities should be used in place of future claims liabilities, consistent with the APRA standards.

Comments should be sent to Linda Vogel at the Institute (Linda.Vogel@actuaries.asn.au) by 22 March 2019.

END OF EXPLANATORY MEMORANDUM