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**PROFESSIONAL STANDARD 302**  
**VALUATIONS OF GENERAL INSURANCE CLAIMS**  
**October 2024**

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## **1. Introduction**

### **1.1. Application – specific situations**

**1.1.1.** This Professional Standard applies to a number of situations that involve a Member undertaking a valuation of General Insurance Claims for an Entity. This section sets out those situations where PS 302 applies, and also where the Appendices to PS 302 are relevant.

**1.1.2.** General Insurance Claims is defined as:

- a. claims for which an Entity is liable in respect of the Entity's Insurance Business; and/or
- b. liabilities incurred by an Entity which, if that Entity was a general insurer as defined in section 11 of the Act, would be classed under that Act as being Insurance Business and/or
- c. liabilities to compensate other parties for loss, injury, or damage, whether the liabilities are voluntarily assumed by an Entity (for example self insurance), or imposed by legislation (for example, statutory accident compensation schemes)

*Note: the Insurance Act defines Insurance Business in s 3 to mean “the business of undertaking liability, by way of insurance (including reinsurance), in respect of any loss or damage, including liability to pay damages or compensation, contingent upon the happening of a specified event, and includes any business incidental to insurance business as so defined”. The definition then sets out a number of exclusions, such as life insurance, benefits provided by friendly societies, superannuation benefits, or benefits provided by private health insurers.*

**1.1.3.** The following table and subsequent paragraphs set out the situations where PS 302 applies.

| Valuation purpose  | PS 302 application  |
|--|---|
| Required under the <i>Insurance Act</i> including via APRA Prudential Standards  | Yes – PS 302 including Appendix A See paragraph 1.1.4.                              |
| Required by other Australian legislation (Commonwealth or State/Territory) or to fulfil license requirements (Commonwealth or State/Territory) | Yes – PS 302 including Appendix B See paragraph 1.1.5.                              |
| In a foreign jurisdiction without local actuarial standards, where the valuation is required by foreign regulators or governments              | Yes – PS 302 including Appendix B See paragraph 1.1.6.                              |
| Required to prepare financial statements where accounting standard AASB 17 applies   | Yes – PS 302, together with consideration of PG 4, will apply. See paragraph 1.1.7. |
| Required to prepare financial statements where a different accounting standard applies   | Yes – PS 302 including Appendix B See paragraph 1.1.8.                              |
| Other purposes   | No – see paragraph 1.1.9.   |

- 1.1.4.** The Insurance Act 1973 (Cth) ("Act") provides for APRA to issue prudential standards regulating the activities of, and imposing requirements on, authorised general insurers and Level 2 Insurance Groups (as defined by APRA). APRA Prudential Standards mandate valuations of General Insurance Claims for authorised general insurers and Level 2 Insurance Groups, with regard taken of the relevant Professional Standards of the Institute. PS 302 applies to these valuations, and Appendix A contains specific additional requirements.
- 1.1.5.** Valuations of General Insurance Claims for self-insurers, insurance pools and/or accident compensation schemes are required by various Commonwealth, State and Territory authorities in Australia. Where a valuation is required under legislation, or is required to be completed to satisfy licensing conditions under a licensing regime established or administered by a Commonwealth, State, or Territory authority, PS 302 applies to the valuation, and Appendix B contains specific additional requirements.
- 1.1.6.** In countries other than Australia, a valuation of General Insurance Claims may be required. A Member undertaking a General Insurance Claims valuation for an Entity in a jurisdiction other than Australia does not have to comply with this Professional Standard if the local actuarial standards in that jurisdiction govern the valuation of General Insurance Claims. If there are no local actuarial standards, or if they do not govern the valuation of General Insurance Claims, then PS 302 applies to the valuation if it would apply to an equivalent valuation conducted in Australia, and Appendix B contains specific additional requirements.
- 1.1.7.** A valuation of General Insurance Claims may be required by an Entity in order for the Entity to prepare financial statements under accounting standard AASB 17. PS 302 applies to this type of valuation, and Practice Guideline 4, AASB 17 Insurance Contracts, will also apply to such a valuation.
- 1.1.8.** A valuation of General Insurance Claims may be required by an Entity in order for the Entity to prepare financial statements under a different accounting standard. For example, the Entity may self-insure certain liabilities relating to General Insurance Claims and may make provisions in its balance sheet which are allowable deductions for tax purposes. PS 302 applies to this type of valuation, and Appendix B contains specific additional requirements.
- 1.1.9.** There may be other situations where an Entity requires a valuation of General Insurance Claims, such as for internal management purposes. PS 302 does not apply to these valuations unless the Member and Client agree that it does. If the Member and Client have not so agreed, then the Member may, however, consider to what extent the principles of PS 302 are applicable in their situation.
- 1.2. Application – generally**
- 1.2.1.** A Member who provides advice under this Professional Standard:
- a. must be an Eligible Actuary; and
  - b. must exercise his or her independent professional judgement and give impartial advice.

- 1.2.2.** Members supporting the Member providing advice under the Professional Standard are not required to be an Eligible Actuary. However, this Professional Standard also applies to Members who support another Member in providing advice under the Professional Standard, to the extent relevant to their contribution to the Services.

All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.

- 1.2.3.** The Professional Standard was reviewed and re-released in light of the introduction of AASB 17, which was effective 1 January 2023. Additional changes include clarifying the situations where the Professional Standard applies, and the introduction of appendices that contain requirements for specific circumstances.
- 1.2.4.** An Appointed Actuary undertaking a valuation of General Insurance Claims for authorised general insurers has legal obligations to report certain matters or information to APRA. These obligations are referred to as "whistleblowing". An Appointed Actuary and Members supporting the Appointed Actuary must understand the obligations that apply to them in their circumstances. This may require the Appointed Actuary and/or Members to seek legal or other professional advice.

### **1.3. Previous Versions**

- 1.3.1.** The previous version of this Professional Standard was issued in March 2021 and prepared by the Professional Practice Committee to reflect changes in the requirements for the consistency and clarity of wording in Professional Standards. The previous version issued in March 2020 reflected APRA's reconsideration of the functions of the Appointed Actuary role and subsequent release of CPS 320 Actuarial and Related Matters and GPS 340 Insurance Liability Valuation on 6 June 2018, which were effective 1 July 2019.
- 1.3.2.** Changes were made from 1 October 2024 in line with the revised Policy for Developing clause
- 1.3.3.** Professional Practice Documents adopted by Council in September 2024.

### **1.4. About this Professional Standard**

- 1.4.1.** This Professional Standard:
- a. has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents;
  - b. must be applied in the context of the Code;
  - c. must be applied by Members of the Institute when they perform work that the Professional Standard covers; and

d. defines the Institute's requirements for work the Professional Standard covers.

**1.4.2.** If a Member believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute's Professional Practice Committee for an interpretation.

**1.4.3.** A Member may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If a Member finds that they cannot carry out their work in a way that fully complies with this Professional Standard then they must:

a. decline to carry out the work;

b. end their agreement to do so.

**1.4.4.** Notwithstanding clause 1.4.3, if

a. in the judgement of the Member, the Client is likely to suffer significant loss or disadvantage if the Member ceases to provide the Services, and

b. the Services will not be Materially affected if the Member completes the work without full compliance with this Professional Standard,

the Member may complete the Services but must:

i. clearly qualify the resulting work product, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations,

ii. make all reasonable attempts to comply with this Professional Standard to the fullest extent possible, and

iii. disclose the areas where change would be needed to enable the creation of an unqualified work product along with the reasons for issuing qualified work.

**1.4.5.** If a Member does not comply with this Professional Standard then that may constitute Misconduct under the Institute's Disciplinary Scheme, although proper account will be taken of provisions of clauses 1.4.3 and 1.4.4.

**1.4.6.** This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

## 1.5. Other relevant documents

- 1.5.1. This Professional Standard must be applied in the context of the relevant law, and relevant accounting standards.
- 1.5.2. A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.5.3. Apart from the Code, from legislation or from regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.5.4. If there is a conflict between this Professional Standard and any legislation, then the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

## 2. Commencement Date

This Professional Standard applies to valuations conducted where the balance date is on or after 1 October 2024.

## 3. Definitions

### 3.1 In this Professional Standard:

**‘Act’** means the Insurance Act 1973 (Cth).

**‘Actuarial Valuation Report (AVR)’** means a report prepared in accordance with CPS 320.

**‘Applicable Services’** means Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

**‘APRA’** means the Australian Prudential Regulation Authority (or its successors from time to time).

**‘APRA regulated Entity’** means a body corporate that is authorised under the Act to carry on Insurance Business in Australia.

**‘Case Estimates’** are the claim-by-claim estimates, set and recorded by an Entity at a particular date, of the amounts which are required to settle the reported and open General Insurance Claims.

**‘Central Estimate’** is intended to be an unbiased estimate of the mean (statistical expectation) of the OCL or the FCL.

**‘Claim Payments’** are the amounts an Entity has paid, or is liable to pay in the future, in respect of its exposure to General Insurance Claims, comprising payments made directly to claimants and Direct Expenses.

**‘Class of Business’** means a grouping of General Insurance Claims valued as a unit, which may be a regulator-defined class of business.

**‘Code’** means the Code of Conduct of the Institute.

**‘Direct Expense’** means allocated third party costs. These include payments on behalf of the Entity or claimants, for example medical and legal fees, where these are allocated to particular General Insurance Claims.

**‘Disciplinary Scheme’** means the document of that name prepared by the Institute setting out the rules and procedures governing professional discipline of a Member, as amended by Council from time to time.

**‘Diversification Benefit’** means the amount by which an overall Entity Risk Margin is less than the sum of individually assessed Outstanding Claims Liability and Future Claims Liability Risk Margins by Class of Business, where diversification between them occurs.

**‘Eligible Actuary’** means:

- a. a Fellow or Accredited Member of the Institute; or
- b. a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

**‘Entity’** means one or more companies, corporations or other bodies with a liability to pay General Insurance Claims.

**‘Post Balance Date Events’** means new favourable or unfavourable developments, including economic, legal, social, operational, claims or other information, that the Member became aware of after the reporting period that would potentially impact the value of the Outstanding Claims Liability and/or any Future Claims Liability.

**‘Financial Condition Report’** means a report prepared in accordance with the Institute’s Professional Standard 102 (Financial Condition Report).

**‘Future Claims Liability (FCL)’** (also known as ‘Premium Liability (PL)’) means the value of Claim Payments and related Indirect Expenses, to be made after the valuation date, arising from future events for which the Entity is liable under insurance policies it has issued. Such events would not have been reported as at the valuation date.

**‘General Insurance Claims’** is defined in Section 1.1.2



**‘GPS 116’** means APRA’s Prudential Standard GPS 116 (Capital Adequacy: Insurance Concentration Risk Charge).

**‘Indirect Expense’** means the management and administrative expenses incurred by the Entity in relation to the payment of the Outstanding Claims Liability and the Future Claims Liability (if any). Indirect Expenses exclude Direct Expenses and are not allocated to individual claims.

**‘Insurance Business’** has the same meaning as under the Act.

**‘Insurance Risk Charge’** means the amount determined in accordance with APRA’s Prudential Standard GPS 115 (Capital Adequacy: Insurance Risk Charge).

**‘Intended User’** means any legal or natural persons (generally including the Client) whom

- a. the Member intends to use the output of the Services, or
- b. at the time the Member performs the Services, the Member ought reasonably to expect will use the output of the Services.

**‘Lenders Mortgage Insurer (or ‘LMI’) Net Premium Liability Deduction’** is the percentage of total net Premium Liability for a Lenders Mortgage Insurer that is deducted from the probable maximum loss in determining the concentration risk charge, as described under paragraph 25 of Attachment A of GPS 116.

**‘Material’** means relevant to a decision of an Intended User of the Services (clause 4 addresses ‘Materiality’ for the purpose of this Standard). For this purpose, ‘Material’ does not have the same meaning as in Australian accounting standards.

**‘Non-Reinsurance Recovery’** means an amount recoverable, in respect of an Entity’s Claim Payments, from (but not necessarily limited to) salvage, subrogation and sharing agreements.

**‘Other Accumulations Premium Liability Offset’** (or ‘OA PL Offset’) is the reduction in the Other Accumulations Probable Maximum Loss for any losses within the other accumulation scenarios that are already specifically allowed for in the Premium Liabilities of the Entity, as described under paragraph 48 of GPS 116.

**‘Other Accumulations Probable Maximum Loss’** (or ‘OA PML’) has the same meaning as under paragraph 47 of GPS 116.

**‘Outstanding Claim Liability (OCL)’** means the value at the valuation date of Claim Payments and related Indirect Expenses, to be made after the valuation date, arising from events occurring on or before the valuation date.

**‘Premium Adjustment’** means an increase or a decrease of the premium made after the insurance policy start date (including premium refunds) on Insurance Business in force at the valuation date.

**‘Premium Liability Offset’ (or ‘PL Offset’)** has the same meaning as under paragraph 43 of GPS 116.

**‘Previous Valuation’** means a previous valuation (if any) undertaken for which a PS 302 compliant report was prepared. Other valuations are not defined here as Previous Valuations, but can be used for additional comparison.

**‘Regulator’** means any agency, body or instrumentality established by an Australian Commonwealth, State or Territory government and includes APRA and the Australian Securities and Investments Commission or an overseas equivalent.

**‘Reinsurance Cost’** means the cost to the Entity of purchasing insurance or reinsurance cover in respect of the General Insurance Claims being valued.

**‘Reinsurance Recovery’** means an amount recoverable, in respect of an Entity’s Claim Payments, from insurance or reinsurance agreements.

**‘Replicating Portfolio’** means a notional portfolio of current, observable, market- based, fixed-interest investments of highest credit rating, which has the same payment profile (including currency and term) as the relevant claim liability being valued.

**‘Report’** means a report prepared by a Member under this Professional Standard or its predecessors as the context requires. This Report may be an ‘AVR’ (Actuarial Valuation Report, a report prepared under this standard to comply with the requirements of CPS 320). This Report may be a ‘Regulatory Report’ (a report required by a Regulator to be prepared by an Entity, but does not include any return required to be given to a Regulator for statistical or administrative purposes).

**‘Risk Margin’** means any positive amount added to the Central Estimate in order to achieve a liability estimate for General Insurance Claims appropriate for the purpose of the valuation.

**‘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.

**‘Unclosed Premium’** refers to the premium revenue from insurance policies that have not yet been processed, but for which the Entity is liable at the valuation date.

**3.1** A word that is derived from a defined word has a corresponding meaning.

**3.1** Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

## **4.      Materiality**

**4.1**      The Member must take Materiality into account when performing work under this Professional Standard.

**4.2.**      Determining whether something is Material or not, or determining the threshold of Materiality, will always be a matter requiring the exercise of the Member's professional judgement. When exercising this judgement, the Member must:

- a.    assess Materiality from the point of view of the Intended User(s), recognising the purpose of the Services. Thus, a matter required to be considered under this Professional Standard, or an omission, understatement, or overstatement, is Material if the Member expects it to affect significantly either the Intended User's decision-making or the Intended User's reasonable expectations; and
- b.    consider the Services and the subject of those Services.

In setting a threshold of Materiality, a Member must consider any requirements advised by the Client, an auditor retained by the Client or a relevant regulator. Where those requirements result in the exclusion of a matter which would otherwise be included, the Member must disclose the reason for the exclusion, and its nature and extent.

**4.3.**      If the Member has formed the opinion that a matter required to be considered is not Material, then the Member must record that the matter is not Material and provide reasons for forming that opinion but does not have to further consider that matter.

**4.4.**      The Member must assess whether any omissions, understatements, or overstatements are Material. If the effect of these in aggregate is Material, the Member must disclose this in any Report to which it is relevant.

## **5.      Documentation**

### **5.1.      Requirement for a Report**

**5.1.1.**    Where a Member performs a valuation to which this Professional Standard applies and:

- a.    those valuation results are intended to be used in, or as part of, an AVR or other Regulatory Report, or other published financial statements; or
- b.    those valuation results are intended to be used in connection with a change or transfer of ownership of liabilities for General Insurance Claims; or
- c.    the Member forms a view, as a matter of judgment (and subject to clause 6.3), that the circumstances surrounding or affecting that valuation warrant it,

then, subject to clause 5.1.2, the Member must provide a Report on the valuation which satisfies all the requirements laid down in clause 5.2.

- 5.1.2.** If the Member is issuing a Financial Condition Report, and the Financial Condition Report satisfies all the requirements laid down in clause 5.2, then a separate Report is not required.
- 5.1.3.** If clause 5.1.1 does not apply in relation to a valuation performed by a Member, then the Member is not required to comply with the documentation requirements set out in this Professional Standard (including clause 5.2), but must:
- a. comply with any relevant documentation and reporting requirements set out in the Code; and
  - b. disclose such other things as to which the Member reasonably forms a view as to being Material.

## **5.2. Content of a Report**

- 5.2.1.** A Report must:
- a. comply with any relevant documentation and reporting requirements set out in the Code;
  - b. include all relevant matters stipulated in this Professional Standard (and, if applicable, in APRA's Prudential Standards) as required to be disclosed; and
  - c. disclose such other things as to which the Member reasonably forms a view, as a matter of judgment, that circumstances surrounding or affecting the valuation warrant documentation.
- 5.2.2.** A statement must be included that the Report has been prepared in accordance with this Professional Standard.
- 5.2.3.** In this Professional Standard, where a Member is placed under an obligation "where reasonably practicable", and the Member forms the view that it is not reasonably practicable, the Member must disclose a summary of and record their reasons.
- 5.2.4.** The level of detail to be provided in a Report will depend on the purpose of the valuation, the size and complexity of the Classes of Business and considerations of Materiality. A Member must provide sufficient information in the Report that an informed reader of that report could draw a conclusion that the derivation of the results stated in the Report was reasonable.
- ## **5.3. Working papers and other documentation**
- 5.3.1.** A Member must include in their documentation, all items required by this Standard to be recorded or disclosed. The items required by this Standard to be recorded or disclosed must contain sufficient detail and clarity that another actuary qualified in the same practice area could make an objective assessment of the reasonableness of the Member's work.

## **6. Valuation Requirements**

- 6.1** In undertaking a valuation of General Insurance Claims, a Member must consider and disclose each of the matters listed below:
- a. purpose of valuation and terms of reference;
  - b. information and data;
  - c. valuation methods;
  - d. valuation assumptions;
  - e. valuation estimates;
  - f. uncertainty; and
  - g. any other matter the Member identifies as a Material matter relevant to the valuation that is not detailed elsewhere in this Professional Standard.
- 6.2** If a Previous Valuation has been conducted, the Member must also consider and disclose:
- a. actual versus expected experience; and
  - b. reconciliation of the valuation results with the Previous Valuation results.
- 6.3** If the Member is of the opinion that a matter referred to in clause 6.1 or clause 6.2, or any aspect of a matter covered in this Professional Standard, is:
- a. not relevant to the valuation in the circumstance, then the Member must disclose that the matter is not relevant and provide reasons for forming that opinion; or
  - b. relevant but not appropriate having regard to the circumstances of that matter and the valuation then, provided the valuation results are not intended to be used in, or as part of, a Regulatory Report, the Member:
    - i. may depart from this Professional Standard in respect of that matter, but
    - ii. must disclose why the approach adopted in those circumstances is more appropriate than the requirement stipulated in this Professional Standard.

For the avoidance of doubt, where a Member relies upon, and complies with, this clause in respect of a matter, the Member is taken to have complied with this Professional Standard in respect of that matter.

## **7. Information and Data**

### **7.1. Information requirements**

**7.1.1.** The Member must request the Entity to provide:

- a. all relevant information required for the valuation, including data and other documents; and
- b. access to staff and/or contractors of the Entity.

**7.1.2.** The Member must take reasonable steps to verify the consistency, completeness and accuracy of the information provided by the Entity (for example, by undertaking reconciliations against the Entity's financial statements, trial balances and/or other relevant records, if these are available).

**7.1.3.** The Member must consider:

- a. the administration and accounting procedures for policies and claims;
- b. the characteristics of insurance policies, underwriting and claim processes; and
- c. the relevant economic, legal and social environments and trends.

### **7.2. Information controls and limitations**

**7.2.1.** The Member must consider, disclose a summary of and record together with any consequent limitations:

- a. data controls, including reconciliations undertaken or relied upon;
- b. discrepancies that cannot be resolved with the Entity;
- c. comments the Member has on the data used, data extraction, data summarising, quality checking and auditing at source;
- d. the completeness and accuracy of the data relied upon; and
- e. any consequent limitations arising from any reliance placed on others in accordance with clause 7.3 of this Professional Standard.

**7.2.2.** If:

- a. the Member is unable to obtain timely access to some or all of the required information from other persons (including the Entity); or
- b. such information as is provided is limited,

then the Member may omit, from the Report, analysis that depends on that information. However, the Member must disclose details in the Report regarding the circumstances as to why that analysis has been omitted and explain any consequent limitations.

### **7.3. Reliance on others**

**7.3.1.** If, in performing work under this Professional Standard, a Member wishes to rely on someone else's (including another Member's) work, then the Member must:

- a. if possible, inform the other person that the Member is relying on their work and
- b. assess the appropriateness of the other person's work for that purpose.

If, following the Member's assessment under clause 7.3.1(b), the Member determines that it is not appropriate to rely on the other person's work, the Member must do their own alternative, or supplementary, analysis and must disclose a summary of and record that analysis.

**7.3.2.** In any Report prepared under this Professional Standard, the Member must disclose:

- a. the information the Member has relied on that has been provided by another person; and
- b. the steps the Member took to determine whether it was appropriate to rely on the other person's work.

## **8. Actual Versus Expected Experience**

**8.1** The Member must disclose a comparison by Class of Business of the actual experience to the expected experience implied by the valuation basis documented in the latest PS 302 compliant report prepared for the Entity.

**8.2** The Member must decide which aspects of the actual experience compared to the expected experience are relevant for this analysis. The Member must consider whether to compare one or more of the aspects of the claim experience listed in clause 9.1.3 which are relevant to the valuation basis selected.

**8.3** The Member must disclose the known or assumed reasons for deviations from the expected experience.

## **9. Valuation methods**

### **9.1. Selection of valuation methods**

- 9.1.1.** The valuation methods the Member uses to determine the Central Estimate of an OCL and/or the Central Estimate of a FCL, applied separately by Class of Business, must be methods that incorporate actuarial principles which, in the Member's judgment, are reasonable in the circumstances.
- 9.1.2.** The valuation methods and the Class of Business subdivisions selected will depend on:
- a. the purpose of the valuation;
  - b. the available information;
  - c. the nature and homogeneity of the data;
  - d. whether analysis is by accident period or underwriting period;
  - e. the type of business being valued;
  - f. the maturity of the business;
  - g. the results of the analysis of experience;
  - h. the Entity's environment;
  - i. relevant industry practice;
  - j. the particular circumstances of the Entity; and
  - k. any other matters identified by the Member as being relevant.
- 9.1.3.** When selecting valuation methods, the Member must consider whether to analyse the following aspects of claim experience (by Class of Business):
- a. The number of claims and/or claim frequency;
  - b. average claim size and/or cost per policy;
  - c. pattern of claim occurrence (or seasonality);
  - d. development of reporting of claims;
  - e. development of claim settlement or finalisation;
  - f. development of Claim Payments;



- g. development of Case Estimates;
- h. incidence and development of large claims;
- i. impact of catastrophes; and
- j. any other aspect of claim experience that may be relevant to the valuation.

**9.1.4.** The Member must disclose a summary of and record the reasons for the chosen valuation approach, including the key risks or limitations of the methodologies and assumptions used.

## **9.2. Employment of valuation methods**

The Member must disclose a summary of and record a description of the valuation methods used, including:

- a. how any roll forward process is carried out;
- b. any control processes undertaken when checking that the application of the valuation methods occurs as intended;
- c. the criteria used for selecting between the valuation methods, or for weighting the valuation methods (if more than one valuation method is used) with the rationale explained; and
- d. the reasons for any change to the valuation methods adopted since the Previous Valuation, by Class of Business or grouping.

## **10. Valuation Assumptions**

### **10.1. Selection of assumptions**

**10.1.1.** In setting the valuation assumptions to determine the Central Estimate of an OCL and/or the Central Estimate of any FCL, the Member must:

- a. consider the relevant experience of the Entity or, if the relevant experience of the Entity is not sufficiently credible, then consider the available relevant industry statistics or other information;
- b. consider the valuation methods used and the analysis of the Entity's relevant actual historical claims experience (from clause 9.1.3);
- c. take into account any special features of, or trends in, the claims experience; and
- d. consider the consistency of the valuation basis as a whole, including: consistency between the Central Estimate of the OCL and the Central Estimate of any FCL allowing for changes in underwriting, pricing or similar issues, as well as consistency with the results of the actual versus expected analysis undertaken in clause 8.

- 10.1.2.** The Member must disclose, by Class of Business, the assumptions adopted with the rationale explained, including the extent to which the assumptions used are based on the historical experience of the Entity. If the assumptions for a Class of Business or grouping have changed from the Previous Valuation, then reasons for the change must be explained and disclosed.

**10.2. Economic assumptions**

- 10.2.1.** The Member must allow for any future escalation of Claim Payments (often called “claim inflation”). Whether the allowance is explicit or implicit will depend on the valuation methods being used. The escalation assumptions must consider:

- a. inflation measures, such as wage and/or price inflation, that take into account the drivers of inflation in the claims being valued; and
- b. superimposed inflation (any residual claim inflation arising for reasons other than inflation measures).

- 10.2.2.** Legislative and/or regulatory requirements may prescribe whether Claim Payments are to be discounted. The Member must consider the purpose of the valuation and record whether the future Claim Payments are to be discounted. If they are, the Member must record the approach and rationale for the method adopted for determining the discount rates.

- 10.2.3.** The assumed level of claim inflation is of as much importance to the valuation results as the discount rate adopted. The Member must record the approach and rationale for determining claim inflation, including consideration of the consistency of inflation rates and the discount rates set in accordance with clause 10.2.2.

- 10.2.4.** For the avoidance of doubt, a Member must allow for claims inflation under clause 10.2.1 even if the Claim Payments are not discounted under clause 10.2.2.

**10.3. Claim Payment assumptions**

- 10.3.1.** The Member must consider and disclose whether analysis of historical development of Claim Payments is before or after allowance for Non-Reinsurance Recoveries and/or Reinsurance Recoveries.

- 10.3.2.** In the projection of the future Claim Payments to be made after the valuation date, the Member must consider:

- a. the items listed in clause 9.1.3;
- b. the Claim Payment experience of the Entity (if available); and
- c. how these relate to the assumptions about the future that are being made.

#### **10.4. Indirect Expense assumptions**

**10.4.1.** Accounting, legislative and/or regulatory requirements prescribe whether an allowance needs to be made for Indirect Expenses. In that light, the Member must consider the terms of reference and the purpose of the valuation and disclose whether an allowance for relevant Indirect Expenses has been made.

**10.4.2.** The Member can use either or both of the following to estimate future Indirect Expenses:

- a. the Entity's historical Indirect Expense information that is reasonably allocated; and/or
- b. the Entity's internal information that is available to notionally allocate expenses.

If such information is unavailable or is unreliable, the Member must consider any available external benchmarks to assist in setting an appropriate assumption for the Indirect Expenses, and adopt reasonable overall expense assumptions for the Entity.

**10.4.3.** For the OCL, the relevant Indirect Expenses include future ongoing claim management and administration expenses for all claims that have been incurred before the valuation date, whether or not they have been reported.

**10.4.4.** For any FCL, the relevant Indirect Expenses include:

- a. policy management and administration expenses to allow for the cost of managing unexpired policies for which the Entity is on risk; and
- b. claims management and administration expenses for claims establishment and run off.

#### **10.5. Non-Reinsurance Recovery assumptions**

**10.5.1.** The Member must consider and disclose whether to make an allowance for any relevant future Non-Reinsurance Recovery.

**10.5.2.** In evaluating any future Non-Reinsurance Recovery, the Member must consider:

- a. the Non-Reinsurance Recovery Case Estimates (if available);
- b. analysis of the Entity's past Non-Reinsurance Recovery experience (if available); and
- c. how these relate to the assumptions about the future that are being made.

#### **10.6. Reinsurance Recovery and Reinsurance Cost assumptions**

**10.6.1.** The Member must consider whether to make an allowance for any relevant future Reinsurance Recovery and disclose the results of that consideration.

**10.6.2.** In evaluating any future Reinsurance Recovery, the Member must consider:

- a. the reinsurance program structure, the Reinsurance Recovery Case Estimates (if available);
- b. the past Reinsurance Recovery experience (if available) of the Entity;
- c. how these relate to the assumptions about the future that are being made;
- d. whether the evaluation of Reinsurance Recoveries is consistent with the evaluation of the gross Claim Payments to which they relate; and
- e. whether to allow for the associated credit risk or whether reinsurance contracts may not be enforceable or may be disputed, as well as the potential distributions from liquidators of past reinsurers.

#### **10.7. Premium Adjustment and Unclosed Premium assumptions**

If any FCL is being estimated, then the Member must where relevant consider and disclose:

- a. unexpired contractual obligations arising from the Insurance Business with an inception date up to the valuation date, for which the Entity is liable as at the valuation date, particularly how long after the valuation date events may occur for which the Entity is on risk;
- b. any projected Premium Adjustments and make reasonable allowance for the effect of the anticipated Premium Adjustments; and
- c. the Entity's Unclosed Premiums and other commitments arising from its insurance policies, and make reasonable allowance.

#### **10.8. Taxation assumptions**

The Member must consider how the taxation environment, as well as government charges, levies and duties, impact the valuation assumptions. If necessary, the Member must make reasonable allowance for, and disclose, such impacts.

#### **10.9. Risk Margin and Diversification Benefit assumptions**

- 10.9.1.** Accounting, legislative and/or regulatory requirements may prescribe that an allowance needs to be made for a Risk Margin. If the scope of the valuation includes the estimation of a Risk Margin, then the Member must disclose a quantitative indication of the variability. The variability can be assessed by examining scenario analyses, sensitivity analyses and/or statistics such as the estimated standard deviation of any assumed probability distribution of claim cost outcomes and may be expressed in terms of the probability of adequacy.
- 10.9.2.** If Risk Margins are required for an Entity, or for multiple Classes of Business, then the estimation process must be reasonable in aggregate and the Member must consider and disclose the justification for, and method of determining, any Diversification Benefit.

## **11. Valuation Estimates**

### **11.1. Estimates appropriate to the valuation date**

The Member must:

- a. produce valuation results appropriate to the valuation date; and
- b. if the valuation is carried out using information and claim data current at a date that is before the valuation date using a roll forward process, allow for Material changes up to the valuation date.

**11.1.1.** If, before signing the Report, the Member becomes aware of Post Balance Date Events after the valuation date which (based on reasonable grounds) are expected to have a Material financial impact on the valuation results, then the Member:

- a. must disclose that such Post Balance Date Events have occurred and comment, in as much detail as is reasonably practicable, on the possible effect on the valuation results in the Report; and
- b. if required by regulations and/or accounting standards relevant to the valuation or the Member considers it appropriate and time reasonably permits, allow for such Post Balance Date Events in the Member's valuation, taking into account the nature of the Post Balance Date Events and other relevant matters.

**11.1.2.** For the avoidance of doubt, if after signing the Report, the Member becomes aware of Post Balance Date Events after the valuation date which (based on reasonable grounds) are expected to have a Material financial impact on the valuation results, nothing in this standard prevents the Member from providing updated advice. Further guidance on such a scenario is provided in clause 3.2.4 of PG 1.

### **11.2. Outstanding Claims and Future Claims Liability**

**11.2.1.** The results of the OCL and any FCL valuation must be disclosed. Where reasonably practicable, the Member must separately disclose the results by relevant Class of Business, both gross and net of any Non-Reinsurance Recovery, Reinsurance Recovery, any Risk Margin and any Diversification Benefit.

**11.2.2.** If the Central Estimate of the OCL or FCL where calculated includes an allowance for Indirect Expenses (refer to clause 10.4.1) the allowance must be separately disclosed.

**11.2.3.** Where reasonably practicable, if the Central Estimate of the OCL and any FCL explicitly allows for Government charges imposed, such as levies, duties and taxes, then they must be separately disclosed.

- 11.2.4.** Where reasonably practicable, comparisons of the Central Estimate of the OCL to the Case Estimates must be disclosed, gross, recovery and net.
- 11.2.5.** Where reasonably practicable, comparisons by relevant accident or underwriting periods of the past Claim Payments plus the Central Estimate of the OCL (both gross and net of the Non-Reinsurance Recovery) to earned premium (or other relevant exposure measure such as wages), must be disclosed, both gross and net of any Reinsurance Recovery.

## **12.     Uncertainty**

- 12.1.1.** The Member must consider the level and the implications of the uncertainty related to the assessment of possible future claims cost outcomes and any potential future deviations they may cause to the results obtained.
- 12.1.2.** The Member must describe, qualitatively, the key risks and main sources of uncertainty in the valuation and disclose the consequences in the Report.
- 12.1.3.** To assist in quantitatively describing these sources of uncertainty, the Member must, if reasonably practical and as appropriate, use sensitivity analyses and/or scenario analyses and/or descriptive statistics (such as the estimated standard deviation of any assumed probability distribution of claim cost outcomes).
- 12.1.4.** The Member must consider and disclose the implications of the uncertainty identified in key assumptions of the valuation. Sensitivity and/or scenario analyses on key assumptions must be undertaken as a means of quantitatively illustrating the impact of the uncertainty related to the key assumptions.
- 12.1.5.** The assumptions used in these analyses must be selected to illustrate the impact on results when a reasonable variation to key assumptions is made. The Member must disclose the results of the sensitivity analyses and comment on the reasonableness of the alternative assumptions. The Member must state in the report that the variations selected in the sensitivity analyses do not indicate upper or lower bounds of all possible outcomes.

## **13.     Results and Reconciliation with Previous Valuations**

### **13.1.   Valuation results**

- 13.1.1.** The Member must clearly disclose each of the following elements (if relevant) in the Report:
  - a. the Central Estimate of the OCL;
  - b. the Central Estimate of any FCL;
  - c. Risk Margin; and

d. sum of relevant items.

**13.1.2.** The Member must record the control process around the valuation results, including any high-level reasonableness tests undertaken during the valuation.

**13.2. Reconciliation**

**13.2.1.** Subject to clause 13.2.2, the Member must quantify and disclose the amount by which the Central Estimate of the OCL determined at the Previous Valuation has proven too great or too small to provide for claim payments in the inter valuation period and the residual OCL estimate. For this purpose:

- a. the OCL estimates may be net of any allowance for Indirect Expenses;
- b. the payments in the inter valuation period are those relating to exposure for which the estimates at the Previous Valuation date aimed to provide; and
- c. the residual OCL estimate is that portion of the current valuation's OCL estimate that relates to exposure for which the Previous Valuation's OCL estimate aimed to provide.

**13.2.2.** For any Class of Business being valued, the Member may substitute the sum of the OCL and any FCL estimates for the OCL estimate to satisfy clause 13.2.1. An example of where the Member may choose to apply this clause is an underwriting period valuation.

**13.2.3.** Unless the Member has applied clause 13.2.2, the Member must disclose a hindsight review of the reasonableness of any FCL determined at the Previous Valuation, with reference to the assumptions used in determining that FCL and the subsequent experience. However, the quantification described in respect of the OCL in clause 13.2.1 is not required.

**13.3. Attribution**

The Member must explain and disclose the amount determined in clause 13.2.1 by quantifying the contribution of the components of such, including but not limited to:

- a. discount rates at the current valuation being different to those applied at the Previous Valuation;
- b. experience during the inter-valuation period being different to that projected at the Previous Valuation. For this purpose, "experience" excludes changes made to valuation model parameters in response to experience; and
- c. other changes to the valuation basis.

## **Appendix A Valuations under APRA's CPS320 and GPS340**

### **A.1 Additional content of an APRA report**

- A.1.1 If the Member is required to allocate an 'other' Class of Business to an appropriate category (or categories) for the purpose of determining the Insurance Risk Charge, the Member must disclose the reasons for selecting the category (or categories).
- A.1.2 The Member must disclose both the stand-alone Risk Margins and the diversified Risk Margins for each Class of Business, on a gross and net basis, including any relevant statistics used to derive the Risk Margins.
- A.1.3 Where reasonably practicable, comparisons of the Central Estimate of a PL (net of any Non-Reinsurance Recovery and Reinsurance Recovery) to unearned premium (net of unearned reinsurance premium) less deferred acquisition expenses must be disclosed.
- A.1.4 The Member must disclose and explain their assessment of the uncertainty in each of the gross and net Central Estimates of both the OCL and PL.
- A.1.5 If a Member is required under GPS340 to disclose the PL Offset, OA PL Offset or LMI Net Premium Liability Deduction within the Report, then the Member must include sufficient detail by Class of Business such that an informed reader of the Report is able to draw a conclusion that their derivation is reasonable.

### **A.2 Valuation assumptions**

- A.2.1 Economic assumptions
  - A.2.1.1 Discount rates used must be based on the redemption yields of a Replicating Portfolio as at the valuation date, where reasonably practicable.
  - A.2.1.2 If the projected payment profile of the future Claim Payments cannot be replicated (for example, for Classes of Business with extended run off periods), then discount rates consistent with the intention of clause 10.2.2 must be used, subject to any legislative and/or regulatory requirements.
  - A.2.1.3 An Information Note (which has now been reclassified as a Technical Paper) has been prepared on discount rates [TP Discount Rates for APRA Capital Standards \(January 2023\)](#) which provides further information and guidance on this topic.
- A.2.2 Future Cost of Reinsurance
  - A.2.2.1 If a Central Estimate of a PL net of future Reinsurance Recovery is being evaluated, then the Member needs to consider the Reinsurance Cost associated with this Reinsurance Recovery. Where reinsurance has not yet been arranged, an allowance for Reinsurance Cost needs to be made. In projecting the Reinsurance Cost, the Member must consider the terms of any relevant existing reinsurance and any relevant information relating to changes in the reinsurance terms and pricing of the underlying business.



**A.3 Other requirements**

- A.3.1 CPS 320 requires an Entity to take all reasonable steps to ensure that working papers and other documentation of an Appointed Actuary in relation to prudential requirements are retained for a period of seven years. An Appointed Actuary must assist an Entity by identifying their working papers and other documentation and retaining this information and/or providing it to the Entity. The Appointed Actuary must also make this information available to APRA where requested in writing.

## **Appendix B Other valuations excluding those under AASB17**

### **B.1 Valuation assumptions**

#### **B.1.1 Economic assumptions**

##### **B.1.1.1 Discount rates used must be consistent with A.2.1.**

**B.1.1.2** Where a Member is requested to use financial assumptions inconsistent with the requirements of A.2.1 where such assumptions are not specified by accounting or regulatory requirements then the Member must clearly state that such liabilities are not consistent with PS 302 and must prominently disclose the value of liabilities that results from the application of Appendix A.2.1 in the relevant Report.

**END OF PROFESSIONAL STANDARD 302**