Actuaries Institute.

PROFESSIONAL STANDARD 202
ACTUARIAL VALUATIONS FOR LIFE INSURANCE COMPANIES
(INCLUDING FRIENDLY SOCIETIES AND ELIGIBLE FOREIGN LIFE INSURANCE COMPANIES)
October 2024

Contents

1. Introduction

1.1. Application

1.1.1. This Professional Standard applies to Appointed Actuaries of life insurance companies domiciled in Australia (including friendly societies and eligible foreign life insurance companies) registered under the Life Insurance Act 1995 (Cth), who are undertaking an annual valuation of policy liabilities, Capital Base and/or Prescribed Capital Amount as required by APRA standards CPS 320, LPS 340 and LPS110.

This Professional Standard also applies to Members supporting the Appointed Actuary in performing the valuation(s). Throughout this Standard, references are made to the Appointed Actuary, and a Member supporting the Appointed Actuary must consider requirements applying to the Appointed Actuary as applying to them, as relevant to their contribution to the Services.

1.1.2. An Appointed Actuary who provides advice performed under this Professional Standard:

a. must be an Eligible Actuary; and

b. must exercise his or her independent professional judgement and give impartial advice.

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

1.1.3. All work performed under this Professional Standard, whether by the Appointed Actuary providing advice or by a Member supporting the Appointed Actuary 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 Appointed Actuary providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.

1.1.4. An Appointed Actuary may undertake valuations of policy liabilities, Capital Base and/or Prescribed Capital Amount other than those required under CPS 320. In these circumstances, the Appointed Actuary must take account of the general considerations in this Professional Standard. This clause also applies to Members who are undertaking a valuation who are not the Appointed Actuary.

1.1.5. This Professional Standard was first released in response to APRA's reconsideration of the functions of the Appointed Actuary role and subsequent release of CPS 320 Actuarial and Related Matters dated 6 June 2018, which was effective 1 July 2019.

1.1.6. An Appointed Actuary may be required, in respect of specific statutory duties under the regulatory regime, to provide the Entity with written advice. In doing so, the Appointed Actuary must bear in mind that one of the principal objectives of the Act is to protect the interests of the current Policy Owners and prospective Policy Owners of insurance policies in a manner consistent with the continued development of a viable, competitive and innovative insurance industry.

1.1.7. An Appointed Actuary has legal obligations to report certain matters, information or opinions to the Entity (including a director or officer of the Entity) or APRA (as relevantly set out in the Act). These obligations are referred to as “whistleblowing”. The obligations, details about what must be reported, related powers and protections are provided in sections 98, 98A, 98B and 99 of the Act. 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.

1.2. Previous Versions

1.2.1. This version of this Professional Standard replaces the version which was issued in March 2020 and incorporated conformance changes to align with the Institute’s new Code (effective 31 March 2020). The initial version of this Professional Standard was issued in June 2019. Prior to June 2019, all actuarial advice to life insurers and friendly societies was governed by a single standard, Professional Standard 200 Actuarial Advice to a Life Insurance Company or Friendly Society (PS 200), which was most recently issued in July 2015.

1.2.2. Changes were made from 1 October 2024 in line with the revised Policy fro Developing Professional Practice Documents adopted by Council in September 2024.

1.3. About this Professional Standard

1.3.1. This Professional Standard:

a. has been prepared in accordance with the Institute’s policy for Developing Documents to Guide and Regulate Professional Practice;

b. must be applied in the context of the Code;

c. binds Appointed Actuaries when they perform work that the Standard covers; and

d. defines the Institute’s requirements for all work the Standard covers.

1.3.2. If an Appointed Actuary believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute’s Professional Standards Committee for an interpretation.

1.3.3. An Appointed Actuary may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If an Appointed Actuary 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.

1.3.4. Notwithstanding clause 1.3.3, 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.

1.3.5. If an Appointed Actuary 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 1.3.3 and 1.3.4.

1.3.6. 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, Appointed Actuaries 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.

1.4. Other relevant documents

1.4.1. This Professional Standard must be applied in the context of the relevant law, and relevant accounting and auditing standards.

1.4.2. 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.

1.4.3. 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.

1.4.4. 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 version of this Professional Standard applies to valuations where the balance date is on or after 1 October 2024.

3. Definitions

3.1. In this Professional Standard:

'**Act**' means the Life Insurance Act 1995 (Cth).

'Applicable Services' mean Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

'**Appointed Actuary**' means a Member holding an appointment by the Entity under section 93 of the Act.

'**APRA**' means the Australian Prudential Regulation Authority.

'**APRA Standards**' means the Prudential Standards and Reporting Standards issued by APRA from time to time in accordance with the Act.

'**Capital**' means (unless otherwise specified) share capital, share premium, retained profits and subordinated debt approved for capital purposes by APRA.

'**Capital Adequacy Standards**' is as defined in LPS 001. For clarity, this includes LPS 110, LPS 112, LPS 114, LPS 115, LPS 117 and LPS 118.

'**Capital Base**' is a measure of capital, calculated in accordance with LPS 112. '**Code**' means the Code of Conduct of the Institute.

'**CPS 320**' means APRA Prudential Standard CPS 320 Actuarial and Related Matters.

'**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 Stress Margin is less than the sum of individually assessed Stress Margins, 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 the legal entity registered under the Act as the life insurance company, as the friendly society or otherwise, as the context requires. A reference in this Professional Standard to advice to the Entity includes advice to the Board of the Entity.

‘FCR’ means a Financial Condition Report prepared in accordance with the Institute’s Professional Standard 102 Financial Condition Report.

‘**General Fund**’ means, in accordance with the APRA Standards, the shareholders fund in the context of a life insurance company (other than a friendly society) or the management fund in the context of a friendly society.

‘**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.

‘**Life Insurance Business**’ has the same meaning as under the Act. ‘**LPS 001**’ means APRA Prudential Standard LPS 001 (Definitions).

‘**LPS 100**’ means APRA Prudential Standard LPS 100 Solvency Standard. ‘**LPS 110**’ means APRA Prudential Standard LPS 110 Capital Adequacy.

‘**LPS 112**’ means APRA Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital.

‘**LPS 114**’ means APRA Prudential Standard LPS 114 Capital Adequacy: Asset Risk Charge.

‘**LPS 115**’ means APRA Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge.

‘**LPS 117**’ means APRA Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge.

‘**LPS 118**’ means APRA Prudential Standard LPS 118 Capital Adequacy: Operational Risk Charge.

‘**LPS 340**’ means APRA Prudential Standard LPS 340 Valuation of Policy Liabilities.

'**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.

'**Policy Owner**' means the owner of a life policy as defined in the Act, and includes reference to a member of a benefit fund of a friendly society, as the context requires.

'**Prescribed Capital Amount**' is as defined in LPS 110.

'**Previous Valuation**' means the previous valuation (if any) undertaken at the most recent annual balance date of the Entity. (Interim valuations are not defined here as Previous Valuations, but can be used for additional comparison.)

'**Prudential Capital Requirement**' is as defined in LPS 110.

'**Report'** means a report or written advice prepared by an Appointed Actuary under this Professional Standard and includes an Actuarial Valuation Report prepared in accordance with CPS 320.

'Stress Margin' is as defined in LPS 115 and includes any positive amount added to the best estimate assumption in order to achieve a policy liability estimate appropriate for the purpose of the valuation.

'**Statutory Fund**' means, as the context requires, the statutory fund or benefit fund, as defined under the Act.

'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.

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

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

4. Materiality

4.1. The Appointed Actuary 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. Content of a Report

5.1.1. Where applicable, the Appointed Actuary must clearly disclose in the Report that it is a Report as required by the regulatory regime.

5.1.2. A Report must:

a. comply with any relevant documentation and reporting requirements set out in the Code;

b. include all items required by this Standard to be disclosed and any items required to be documented by applicable APRA Prudential Standards; and

c. disclose other things which the Appointed Actuary reasonably forms a view, as a matter of judgement, that are important to the recipient of the Report.

5.1.3. A statement must be included that the Report has been prepared in accordance with this Professional Standard.

5.1.4. In this Professional Standard, where an Appointed Actuary is placed under an obligation "where reasonably practicable", and the Appointed Actuary forms the view that it is not reasonably practicable, the Appointed Actuary must disclose a summary of and record their reasons.

5.1.5. The level of detail to be provided in a Report will depend on the purpose of the valuation, the size and complexity of the Entity's Life Insurance Business and considerations of Materiality. However, in determining the level of detail to be provided, the Appointed Actuary must provide information in the Report sufficient for an informed reader of that Report to draw a conclusion that the derivation of the results stated in the Report was reasonable.

5.1.6. If the Appointed Actuary is issuing an FCR, and the FCR satisfies all the requirements laid down in clauses 5.1.1 to 5.1.4, then a separate Report is not required.

5.2. Working papers and other records

5.2.1. 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.

5.2.2. An Appointed Actuary must include in their documentation, all items required by this Standard to be recorded. The items required by this Standard to be recorded must contain sufficient detail and clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the Appointed Actuary's work.

5.2.3. Nothing in this Standard requires the Appointed Actuary to disclose such additional materials to any party.

6. Valuation Requirements

6.1. In undertaking and reporting on a valuation of policy liabilities, Capital Base and/or Prescribed Capital Amount, the Appointed Actuary 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 Appointed Actuary 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 Appointed Actuary must also consider and disclose:

a. for the policy liability valuation, actual versus expected experience; and

b. for the Capital Base and Prescribed Capital Amount valuation, where reasonably practicable, an analysis of movement of the Capital Base in excess of the Prescribed Capital Amount, for each Statutory Fund and the General Fund of the Entity. The Report must disclose, for the Entity as a whole, the Capital Base in excess of the Prescribed Capital Amount, for both the current and Previous Valuation. This analysis must include the application of the fixed dollar minimum Prescribed Capital Amount if applicable.

7. Information And Data

7.1. Information requirements

7.1.1. The Appointed Actuary must request the Entity to provide:

a. relevant information required for the valuation(s), including data and other documents; and

b. access to staff and/or contractors of the Entity.

7.1.2. The Appointed Actuary must take reasonable steps to verify the consistency, completeness and accuracy of the information provided by the Entity.

7.1.3. The Appointed Actuary 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.

7.1.4. The Appointed Actuary must disclose in the Report comments on any of the operations or systems that are likely to have an impact upon the accuracy of the data. Where necessary, the risks involved because of any data inaccuracy must be quantified and appropriate liability provisions and capital reserves established in accordance with the APRA Standards.

7.2. Information controls and limitations

7.2.1. CPS 320 requires the Appointed Actuary to comment on the completeness and accuracy of data and information relied upon to derive the required policy liability, Capital Base and/or Prescribed Capital Amount.

7.2.2. The Appointed Actuary must consider, disclose a summary of and record the details of:

a. the processes and procedures that have been adopted to test or establish the quality of, and to minimise potential inaccuracies in, the data used in the valuation(s);

b. discrepancies that cannot be resolved with the Entity, together with consequent limitations;

c. comments the Appointed Actuary has on the data used, data extraction, data summarising, quality checking and auditing at source; and

d. consequent limitations arising from any reliance placed on others in accordance with clause 7.3 of this Professional Standard.

7.2.3. If:

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

7.2.4. If the Appointed Actuary believes that the information provided by the Entity is insufficient for the purpose of the assignment, then the Appointed Actuary must decline to undertake the assignment.

7.3. Reliance on others

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

a. inform the other person that they are relying on their work; and

b. assess the appropriateness of the other person’s work for that purpose.

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

7.3.3. In any Report prepared under this Professional Standard, the Appointed Actuary must disclose:

a. the information the Appointed Actuary has relied on that has been provided by another person; and

b. the steps the Appointed Actuary took to determine whether it was appropriate to rely on the other person’s work.

8. Valuation Method(S)

8.1. Selection of valuation method(s)

8.1.1. The Appointed Actuary must provide advice to the Entity regarding the valuation of the policy liabilities for each Statutory Fund of the Entity, and the valuation of the Capital Base and Prescribed Capital Amount for each Statutory Fund and the General Fund of the Entity in accordance with the APRA Standards.

8.1.2. The valuation methods the Appointed Actuary uses to determine the values must be methods that incorporate actuarial principles which, in the Appointed Actuary's judgement, are reasonable in the circumstances.

8.1.3. The Appointed Actuary 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. If the data or other factors limit the Appointed Actuary's choice of valuation methods, then the Appointed Actuary must disclose this limitation together with any consequent limitations of the Report.

8.1.4. When selecting the valuation methods, the Appointed Actuary must consider:

a. the purpose of the valuation;

b. the available information;

c. the nature and homogeneity of the data;

d. the type of business and nature of benefits being valued;

e. the maturity of the business;

f. the result of the analysis of experience;

g. the Entity's environment;

h. regulatory requirements;

i. relevant industry practice;

j. the suitability of approximations and simplifications by taking into account:

   i. the potential difference in valuation that results by adopting the approximation/simplification compared with a more sophisticated method;

   ii. the Materiality of the item/aspect for which an approximation and/or simplification is adopted; and

iii. the level of uncertainty about the future experience relevant to the valuation of the item/aspect regardless of the valuation method (i.e. even if a more sophisticated method was adopted);

k. the particular circumstances of the Entity; and

l. any other matters identified by the Appointed Actuary as being relevant.

8.2. Disclosure of valuation methods

8.2.1. The Appointed Actuary must disclose a summary of and record a description of the valuation methods used, including:

a. the reasons for the chosen valuation approach and associated risks. If the data or other factors limit the Appointed Actuary's choice of valuation methods, then the Appointed Actuary must disclose this limitation together with any consequent limitations of the Report; and

b. any control processes undertaken when checking that the application of the valuation methods occurs as intended; and

c. the reasons for any change to the valuation methods adopted since the Previous Valuation.

9. Valuation Assumptions

9.1. Selection of policy liability valuation assumptions

9.1.1. In setting the policy liability valuation assumptions the Appointed Actuary 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 experience or other information;

b. consider the results of the analysis of change (from clause 11);

c. consider the level of granularity at which the assumptions are to be determined;

d. understand the method and approach to analysis of actual historical experience. Apply assumptions selected based on this analysis appropriately and consistently in the valuation model(s);

e. take into account any special features of, or trends in, the experience; and

f. consider the relevant economic, legal and social environments and trends.

9.1.2. The Appointed Actuary must disclose a summary of, and record the risks or limitations of the assumptions.

9.1.3. When taking into account relevant available industry experience or other information under clause 9.1.1 for setting policy liability valuation assumptions, the Appointed Actuary must consider the impact on experience owing to differences in the Life Insurance Business of the Entity and the business on which the industry experience is based. It may also be the case that industry experience and tables may not include explicit factors to adjust for all risk factors relevant to the Entity's business. For this purpose, the Appointed Actuary must consider:

a. the underwriting processes;

b. the distribution channels and the mix of business;

c. the policy benefits and features;

d. the policy terms and conditions;

e. the claims management approach; and

f. any other matters identified by the Appointed Actuary as being relevant.

9.1.4. The Appointed Actuary must disclose a summary of, and record 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 have changed from the Previous Valuation, then reasons for the change must be explained and disclosed, including a discussion on the financial significance of the changes in assumptions. Assumptions include all inputs to the valuation calculation: demographic assumptions, economic assumptions and management actions.

9.1.5. The Appointed Actuary must identify and disclose in the Report any Material and significant features or trends in the Entity's recent experience to the extent that such experience exists.

9.1.6. Management actions assumed for the policy liability valuation (this includes not taking action where management discretions are available) must be consistent with regulatory requirements and, in the Appointed Actuary's judgement, be reasonable in the circumstances. For this purpose, the Appointed Actuary must consider:

a. the extent to which the discretions are within the insurer's control;

b. delays in receiving information and determining and implementing management actions (such as premium rate changes, investment mix changes, bonuses/crediting);

c. the potential actions of other insurers consistent with the scenario being envisaged;

d. consequential impacts that management actions may have on assumptions; and

e. any costs of implementing and maintaining a management action(s).

9.2. Selection of Stress Margins and diversification benefit assumptions

9.2.1. The method for determining Stress Margins for the valuation of the Prescribed Capital Amount must be consistent with the methods in the APRA standards, in particular, the Capital Adequacy Standards.

9.2.2. For the quantification of Stress Margins, the Appointed Actuary must disclose a quantitative indication of the variability. This can be achieved by examining scenario analyses, sensitivity analyses and/or statistics such as the estimated standard deviation of any assumed probability distribution of claim cost outcomes.

9.2.3. Where the Appointed Actuary selects assumptions for determining a Diversification Benefit, the justification for, and method of determining them, must be recorded. The estimation process for the Diversification Benefit must be reasonable in aggregate for the Statutory Fund. The Appointed Actuary must disclose both the stand-alone Stress Margins and the diversified Stress Margins for each fund of the Entity, including any relevant industry and internal experience or other information used to derive the stress margins.

9.2.4. The Appointed Actuary must disclose the Stress Margins adopted and explain the rationale, including the extent to which the Stress Margins used are based on the historical experience of the Entity. If the Stress Margins, or other assumptions that impact the Capital Base or Prescribed Capital Amount valuations, have changed from the Previous Valuation, then reasons for the change must be explained and disclosed, including a discussion on the financial significance of the changes. Assumptions include all inputs to the Capital Base or Prescribed Capital Amount calculations: demographic assumptions, economic assumptions and management actions.

9.2.5. When taking into account industry experience or other information for quantifying Stress Margins for the valuation of the Prescribed Capital Amount, the Appointed Actuary must consider the impact of differences in the Life Insurance Business of the Entity and the business on which the industry margins and/or experience is based. This includes differences in diversification allowances/benefit, credibility and mix of business, reinsurance and history/volumes.

9.2.6. The Appointed Actuary must consider the items listed in clause 9.1.6 when allowing for management actions in the Prescribed Capital Amount valuation.

9.3. Taxation assumptions

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

10. Results

10.1. Valuation results

10.1.1. The Appointed Actuary must clearly disclose each of the following elements:

a. the value of the policy liabilities for each Statutory Fund of the Entity, gross and net of reinsurance;

b. the value of the Capital Base and Prescribed Capital Amount for each Statutory Fund, the General Fund and the Entity as a whole.

10.1.2. The Appointed Actuary must record in working papers a description of the control process around the valuation results, including any high-level reasonableness tests undertaken during the valuation.

10.2. Estimates appropriate to the valuation date

10.2.1. The Appointed Actuary 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.

10.2.2. If, before signing the Report, the Appointed Actuary becomes aware of events after the valuation date which (based on reasonable grounds) are expected to have a Material financial impact on the valuation results, then the Appointed Actuary must:

a. Disclose that such 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 reasonably practicable and time reasonably permits, allow for such events in the Appointed Actuary's valuation, taking into account the nature of the event and other relevant matters, such as the regulations and/or accounting standards relevant to the Appointed Actuary's valuation

10.3. Uncertainty

10.3.1. The Appointed Actuary must review the Material risks reflected in the valuations of the Entity and the Statutory Funds and discuss the principal means by which those risks are managed and/or controlled. This analysis must, among other things, address exposure to large claims, claims variation and potential liability "shock" events (for example, catastrophes), liability options or guarantees, expense risks, asset valuation risks and risks associated with other experience items.

10.3.2. The Appointed Actuary must disclose a qualitative description of the main sources of uncertainty in the valuation and communicate the consequences of that uncertainty in the Report.

10.4. Sensitivity analysis for policy liability valuation

10.4.1. The Appointed Actuary must consider and disclose the implications of the uncertainty identified in key assumptions of the valuation of policy liabilities. 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.

10.4.2. 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 Appointed Actuary must disclose the results of the sensitivity analysis and comment on the reasonableness of the alternative assumptions. The Appointed Actuary must state in the Report that the variations selected in the sensitivity analyses do not indicate upper or lower bounds of all possible outcomes.

11. Analysis Of Change

11.1. Analysis of profit

11.1.1. The Appointed Actuary must disclose an analysis of the sources of profit that identifies the key drivers of the emerging profit over the year. These drivers include differences between the actual experience and the expected experience implied by the valuation basis of the most relevant preceding valuation of policy liabilities. The “most relevant preceding valuation” is a matter for the Appointed Actuary’s judgement, but possible such valuations include, but are not limited to:

a. a Previous Valuation; or

b. an interim valuation for which a Report which meets all the requirements laid down in clause 5.1 was prepared.

11.1.2. The Appointed Actuary must decide which aspects of the actual experience compared to the expected experience are relevant for this analysis.

11.1.3. In relation to any Material experience items, deviations of actual experience from the expected experience of the Entity over the last period since the previous balance date must also be disclosed, including an assessment of the reasons for these deviations.

11.2. Analysis of change in excess capital

11.2.1. Where reasonably practicable, the Appointed Actuary must disclose the sources of change in the Capital Base in excess of the Prescribed Capital Amount, for each Statutory Fund and the General Fund of the Entity, from the most relevant preceding valuation of the Capital Base and the Prescribed Capital Amount. The “most relevant preceding valuation” is a matter for the Appointed Actuary’s judgement, but possible such valuations include, but are not limited to:

a. a Previous Valuation; or

b. an interim valuation for which a Report that meets all the requirements laid down in clause 5.1 was prepared.

11.2.2. The Appointed Actuary must decide which aspects of the change are relevant for this analysis.

11.2.3. Any items that Materially impacted the Capital Base in excess of the Prescribed Capital Amount over the last period since the previous balance date must also be disclosed, including an assessment of the extent to which these were anticipated.

END OF PROFESSIONAL STANDARD 202