



PROFESSIONAL STANDARD 300

VALUATIONS OF GENERAL INSURANCE CLAIMS

Explanatory Note to Members : September 2007

On 28 August 2007, the Council of the Institute of Actuaries of Australia approved a revised Professional Standard 300 (Valuations of General Insurance Claims) ("PS 300"). This explanatory note provides a brief summary of the key changes only. Members using PS 300 are strongly encouraged to familiarise themselves thoroughly with the content of the new standard.

Institute standards applicable in the drafting of new standard

The new standard has been prepared in accordance with the Institute's Policy for Drafting Professional Standards. In addition, the new standard takes into account the strengthening of the Code of Professional Conduct from March 2006. Members are reminded that the Code of Professional Conduct is applicable to all Actuarial Advice and the new PS 300 requirements are in addition to any specific requirements under that Code.

Commencement date of new standard

The new standard applies to both valuations performed, and valuation dates, from 31 December 2007 onwards.

Key changes

Application of standard

The application of the standard reflects mandatory practice requirements. The standard applies to a Member undertaking a valuation of General Insurance Claims if the valuation is intended to be used in the formulation of financial information for Entities to comply with regulatory or legislative reporting requirements.

Consistency was considered between PS 300 and PS 100 (External Peer Review for General Insurance and Life Insurance) in the drafting of PS 300.

Definitions

There are a number of definitions in the standard.



A definition of Insurance Business has been introduced. This definition refers to that in the Insurance Act 1973 (Cth). The purpose of the reference is merely to define what is considered a General Insurance Claim. The purpose is not to restrict the standard to business covered by the Act.

Members' attention is also drawn to the revised or new definitions of: General Insurance Claims, Claim Payments, Central Estimate, Outstanding Claim Liability, Future Claim Liability, IBNR, IBNER, Premium Adjustment, Risk Margin and Diversification Benefit.

Other changes

Other key changes include:

- ▶ dealing with the relationship between accounting standards and professional standards;
- ▶ allowing the exclusion of certain components of a valuation (such as discounting, indirect expenses, non-reinsurance and reinsurance recoveries) depending on the purpose and scope of the valuation. This is necessary since, if statutory requirements differ from each other, it is important that PS 300 is not in conflict with these;
- ▶ allowing for both underwriting year and accident year, as well as both 'claims made' and 'claims incurred' policies;
- ▶ excluding any paragraph on latent claims, as there was reasonable consensus of Members that the actuary should not be required to provide estimates of extreme events (of which unknown very late reported latent claims were one example) and, if an actuary does want to estimate extreme events, then a model with explicit assumptions should be applied; and
- ▶ rewording of Risk Margins and Diversification Benefits without reference to a probability of adequacy approach, as such an approach is not necessarily required for all valuation purposes.

Documentation

The new standard requires that many items are to be documented in the Actuarial Report. However, in doing so, Materiality needs to be taken into account when deciding the level of detail of such documentation. At the same time, Members should ensure that an Actuarial Report makes clear those aspects of the valuation and result which are important.

END OF EXPLANATORY NOTE