



EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 300

VALUATIONS OF GENERAL INSURANCE CLAIMS

February 2010

A. About this Explanatory Memorandum

1. This Explanatory Memorandum has been prepared to assist Members in understanding changes made to the final of Professional Standard 300 – Valuations of General Insurance Claims (“PS 300”) since the Second Exposure Draft of the standard which was released in November 2009.
2. To assist Members, archive copies of the previous Exposure Drafts of the standard and associated Explanatory Memoranda have been placed on the Institute’s website. Click [here](#) to access this archive material.

B. Background

3. PS 300 was substantially amended in August 2007. Following its release, some issues were raised by Members concerning the application of the revised standard. It was apparent from the issues raised that there had been unintended consequences flowing from the revised PS 300 and which it was desirable to address.
4. The General Insurance Practice Committee formed the PS 300 Working Group to undertake a review of the issues raised by some Members. Regulatory changes by APRA to GPS 310 and GPS 311 regarding the preparation of Insurance Liability Valuation Reports reinforced the need for a review. The members of the PS 300 Working Group were:

Elaine Collins (Convenor)
Nick Allsop
Peter Hardy
Andrew Houltram
Blair Nicholls (alternating, where required, with Elaine Yang)
Adam Searle
Bruce Watson
Anne Peters (Institute representative)



5. Following the formation of the PS 300 Working Group, all Members were invited – through media such as the General Insurance Practice Committee Newsletter, Actuary Australia and the Institute Information Bulletin – to provide comments on the August 2007 standard and raise any difficulties or issues Members had experienced in applying the standard for further consideration.
6. This input formed the basis of an Issues Brief released to Members in August 2008. A series of 17 questions were posed, and Member comment invited, on specific issues with respect to PS 300. A total of nine submissions in response to the Issues Brief were received.
7. In June 2009, an Exposure Draft of proposed changes to the standard was released for Member comment. A total of thirteen submissions were received. In November 2009, a Second Exposure Draft was released for Member comment. Four submissions were received and duly considered.
8. The balance of this Explanatory Memorandum provides an overview of the key changes made since the Second Exposure Draft (Section C), as well as the changes made with respect to determining estimates which are appropriate to the valuation date (Section D).

C. Key changes to final of PS 300 since the Second Exposure Draft

9. The key changes since the Second Exposure Draft was released are:
 - (a) clause 3 – the definition of “Indirect Expense” has been amended to reflect the usual practice of estimating – rather than measuring – such on an aggregate basis across the Entity or Class of Business;
 - (b) clause 6.3(b) – the additional words “relevant but” have been added to the beginning of the clause for clarity;
 - (c) clause 12.1.3 – allowance has been made for the use of sensitivity analyses and/or scenario analyses and/or descriptive statistics “if reasonably practical and as appropriate”, rather than merely “as appropriate” as set out in the Second Exposure Draft;
 - (d) clause 13.2.1 – the additional words “subject to clause 13.2.2” have been added to the beginning of the clause for clarity and greater ease of use of the document. Similarly, the inclusion of the additional words “unless the Member has invoked clause 13.2.2” at the beginning of clause 13.2.3; and
 - (e) clause 13.3 – Members are now required to explain the amount determined by them in clause 13.2.1 (namely, 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). This to be done by quantifying the contribution of the components of such, including but not limited to, the components referred to in paragraphs (a)-(c) of the clause.

D. Estimates appropriate to the valuation date

10. Members' attention is drawn particularly to the changes since the Second Exposure Draft with respect to ensuring that estimates are appropriate to the valuation date. These are reflected in clause 11.1 of the standard.
11. 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, the Member must allow for Material changes up to the valuation date (refer clause 11.1.1).
12. If, before signing the Actuarial Report, the Member 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 Member must:
 - (a) disclose in the Member's Actuarial Report that such events have occurred and comment on the possible effect on the valuation results in the Member's Actuarial Report; and
 - (b) if time reasonably permits, consider allowing for such events in the Member'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 Member's valuation (refer clause 11.1.2).
13. As Members would be aware, the August 2007 version of PS 300 used, in part, a touchstone of "extreme" as to whether the impact of a post-valuation date event was such that the Member was required to appropriately allow for such changes in experience after the valuation date. The shift from "extreme" to "Material" was debated at length by the General Insurance Practice Committee, the PS 300 Working Group and the Professional Standards Committee, taking into account the many comments received from submitters on the clause during the exposure periods.
14. On balance, the view was taken that the final wording – although, at first blush, appearing to widen the scope of the clause – still made clear, through the reference in clause 11.1.2(b) to "taking into account the nature of the event and other relevant matters, such as the regulations and/or accounting standards relevant to the Member's valuation", that the question of "Materiality" would be informed by the context of, *inter alia*, a late adjustment. As such, it might well be



the case that a Member would, exercising professional judgment, draw different conclusions as to Materiality between clauses 11.1.1 and 11.1.2 (that is, between pre-balance date events and post-balance date events) in light of this. The definition of "Materiality" provides some scope for such different conclusions.

15. Another consideration taken into account was the difficulty in formulating an appropriate definition of "extreme".

D. Other

16. For the avoidance of doubt, clause 1.1.2 of the standard has the effect that PS 300 applies to the Insurance Liability Valuation Report for all of an Australian Level 2 Insurance Group (including international parts of the group).

END OF EXPLANATORY MEMORANDUM