



PS 300 WORKING GROUP

PROFESSIONAL STANDARD 300 : VALUATIONS OF GENERAL INSURANCE CLAIMS

ISSUES BRIEF : August 2008

A. Background

Professional Standard 300 – Valuations of General Insurance Claims (“PS 300”) was substantially amended in August 2007. Following its release, some issues were raised by members in 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.

Accordingly, 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 amended standard and raise any difficulties or issues members had experienced in applying the standard for further consideration. This input formed the basis of this Issues Brief.

Once this input was received, the General Insurance Practice Committee formed a PS 300 Working Group to undertake a review of the issues raised by members. Recent regulatory changes by APRA found in GPS 310 and GPS 311 regarding the preparation of Insurance Liability Valuation Reports have reinforced the need for a review.

The members of the PS 300 Working Group are:

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

B. Further member input

This Issues Brief provides a summary of the issues raised by members and APRA’s proposed regulatory changes which the PS 300 Working Group is reviewing.

The PS 300 Working Group is seeking member comment and feedback on the issues set out below for more detailed consideration of possible amendment of PS 300.

Comments and feedback can be sent to Anne Peters (anne.peters@actuaries.asn.au) or to the Institute (actuaries@actuaries.asn.au).

Comments are requested by close of business on 29 August 2008.



C. Scope and timing of application

Further member input is sought on two issues with respect to the scope of application of PS 300 (as set out in clause 1.1.1 of PS 300), namely:

- ▶ the circumstances when a PS 300-compliant report is required; and
- ▶ timing issues in respect of the use and delivery of a PS 300-compliant report.

These are discussed further below.

C.1 When a PS 300-compliant report is required

The intention is that PS 300 applies when a valuation of claims is undertaken for either general insurers, accident compensation schemes or corporations who self insure their general insurance risks, and results have material implications for stakeholders. Further, a PS 300-compliant report is also required when a regulator (for example, APRA and ASIC) expects an actuarial report on a general insurance claims valuation.

However, the current wording of clause 1.1.1 of PS 300 does not seem to clarify whether or not PS 300-compliant reports are required in the following situations:

1. when an entity reports at the half-year to shareholders, but general insurance liabilities are a small part of their operation;
2. when an entity is valuing general insurance claims at times other than year end;
3. when quarterly returns are provided to APRA; and
4. when APRA gives an exemption to a small insurer at year end to provide an actuarial liability report.

Member comment

The following questions are provided as a guide for member comment on this issue:

- Q.1** In each of the examples 1 to 4 above, should members be required to provide a PS 300-compliant report or not?
- Q.2** Are there any other instances where members should or should not be required to provide a PS 300-compliant report?
- Q.3** In respect of those instances where members should not be required to provide a PS 300-compliant report, is it possible (or appropriate, given that standards are to contain mandatory obligations only) to identify key principles or criteria that could be incorporated into PS 300 and against which members could exercise



their own judgment as to whether a PS 300-compliant report should be prepared?

Where your views relate to specific circumstances (for example, an unlisted entity), please note this in your comments.

C.2 Timing of a PS 300-compliant report

As members would be aware, there is frequently a disconnect in practice between the points in time when:

- ▶ the Board of an entity makes decisions which are reliant upon the type of information and conclusions which would be contained in a PS 300-compliant report; and
- ▶ APRA requires a PS 300-compliant report to be delivered.

Whilst not necessarily an appropriate option in the present case, the PS 300 Working Group notes that auditors provide a form of positive assurance at balance date and a negative assurance at other times, and that this may be an example of a mechanism to introduce flexibility.

Member comment

The following questions are provided as a guide for member comment on this issue:

- Q.4** Do you think members should be able to opt to provide to the Board of an entity either:
- (a) a draft PS 300-compliant report (recalling that, under the Code, a draft report is required to include the stated disclaimer with respect to reliance on a draft report); or
 - (b) a letter of advice to the Board with respect to the type of information and conclusions which would be contained in a PS 300-compliant report and state that the advice given is to be fully documented in a PS 300-compliant report following subsequently?

D. Reliance on others

Clauses 5.3.1 and 5.3.2 of PS 300 detail certain requirements when a Member relies on work by other Members in different situations. Clause 5.3.3 of PS 300 makes certain provisions for when a Member relies on the work of other parties.

As noted above, APRA released in April 2008 its proposed Prudential Standard GPS 311 (which requires compliance from 1 January 2009). Paragraph 44 of GPS 311 requires that



the preparation of an Insurance Liability Valuation Report ("ILVR") for a Level 2 insurance group be consistent with professional standards issued by the Institute.

This may create an issue for Institute member actuaries employed by an Australian-based general insurance company who have to rely on figures produced by overseas qualified actuaries or other persons (who may be applying professional standards which differ from PS 300) in producing a group ILVR. However, over and above the implications arising from GPS 311, there may be an issue for members more generally in terms of their ability to rely on the work of third parties.

There are two possible relevant interpretations of the requirements in clause 5.3 of PS 300:

- ▶ clause 5.3 of PS 300 requires that Institute member actuaries only rely on the work of other Institute members; or
- ▶ the use, in clauses 5.3.1 and 5.3.2 of PS 300 of the opening words "*[i]f* the Member relies on [the work of other Institute members]" (emphasis added) renders silent a member's obligations where he or she relies on the work of other parties (be they qualified actuaries or not) except insofar as is provided for in clause 5.3.3 of PS 300 (which deals only with a member's obligations where such information of other parties is limited or not forthcoming).

If the former interpretation is correct then, as noted above, this will create difficulties for members affected by the requirements of GPS 311. It may also be unduly restrictive in respect of the work of other members.

If the latter interpretation is correct, then there may be an issue as to whether the consequent silence is appropriate.

As a specific circumstance of note, members are also encouraged to consider and comment on the interaction with auditors and reliance on their work.

Member comment

The following questions are provided as a guide for member comment on this issue:

- Q.5** Which interpretation of clause 5.3 of PS 300 do you consider to be correct?
- Q.6** If you favour the former interpretation, do you consider that an expansion of the scope of parties upon whom members can rely should be restricted to situations arising under GPS 311 or, alternatively, whether all members should be entitled to the benefit of such an expansion?
- Q.7** If you favour the latter interpretation, do you consider that clauses 5.3.1 and 5.3.2 of PS 300 should be amended so as to impose the substantive obligations in all cases of reliance?



- Q.8** In expanding the scope of parties upon whom members can rely:
- (a) Do you think members should be required to undertake any formal steps to verify the competency of those parties?
 - (b) If so, should PS 300 specify what steps must be taken or should the obligation be stated in general terms?
 - (c) If a member should be required to verify the competency of an expanded scope of parties upon whom reliance may be placed, should this include a requirement to verify the competency of another member of the Institute?
 - (d) What specific changes do you consider should be made to PS 300 to accommodate your views on paragraphs (a)-(c) inclusive directly above?
- Q.9** If the scope of parties upon whom members can rely were expanded, do you think a member should be required to provide a formal sign-off in his or her PS 300-compliant report regarding, for example: the reliance upon any such parties by the member; the competency checks undertaken by the member; and the steps taken to verify the information or work being relied upon?
- Q.10** Is guidance needed as to the circumstances in which a member may rely on an auditor to verify valuation data? If so, what are the relevant circumstances? Alternatively, what general principles might be stated to be applied by a member?

E. Valuations in advance of balance date/post-balance date events

It is relatively common industry practice for valuations to be performed in advance of the valuation date. Results are then either updated or "rolled forward" to the valuation date according to specific items of experience, sometimes subject to materiality. Members are invited to comment on the current wording of PS 300 in respect to this process.

The PS 300 Working Group notes the following two circumstances where members have expressed views that PS 300 is too restrictive:

1. clause 7.1.5(b) appears too restrictive in cases where insurers or self insurers are unable to obtain full valuation data exactly at the valuation date; and
2. clause 8.2.2 appears too restrictive in cases where there have been immaterial movements in discount rates in the period from when initial valuation results have been produced, to the valuation date.

In addition, the PS 300 Working Group notes that there have been queries around the criteria to be applied as to when a member must take a post-balance date event



into account. At present, PS 300 includes no specific comment to deal with the circumstance of material developments after the valuation date. The PS 300 Working Group notes that other actuarial guidance, such as the Lloyd's guidance for Statements of Actuarial Opinion, do address this issue.

Member comment

The following questions are provided as a guide for member comment on this issue:

- Q.11** Do you agree that either or both of the examples cited above are too restrictive?
- Q.12** How, and to what degree, do you think PS 300 should provide more flexibility to deal with such circumstances?
- Q.13** Should PS 300 address post-balance date events? If so, what criteria should apply as to when a member must take a post-balance date event into account?

F. Reconciliations and comparisons

Feedback from members to date has been that there have been certain difficulties in practice with applying clauses 6 and 11.2 of PS 300.

The intention of PS 300 was that each of: (a) the extent to which the central estimate of the liability made at the previous actuarial review has proved more or less sufficient to provide for amounts paid in the inter-valuation period; (b) the residual central estimate (inclusive of the effect of any basis changes) remaining at the current review; and (c) the additional liability associated with new exposure since the previous valuation, should be identified in the actuary's report. However, based on comments received from members, the existing wording of PS 300 is sometimes interpreted as imposing different requirements.

Another issue being considered is whether there are circumstances in which the 'previous valuation' to which the current valuation is compared or reconciled may be a valuation other than that undertaken at the entity's most recent annual balance date. Possible such circumstances may include:

- (a) actual experience may be compared with expected experience over a period which does not necessarily start or finish on a valuation date – for example, where the current or previous valuation has been carried out in advance of the balance date;
- (b) actual experience may be compared with expected experience from an interim valuation rather than the previous year-end valuation – for example, where a PS 300-compliant valuation has been carried out at the half-year; and



- (c) reconciliation and documentation of the change in central estimate(s) may refer to an interim valuation rather than the previous year-end valuation – for example, where a PS 300-compliant valuation has been carried out at the half-year.

In addition, the circumstance may exist where the previous valuation was completed by a different actuary. As a result, the models may have altered materially and/or access to the detail of prior models may be unavailable or cost-prohibitive.

Member comment

The following questions are provided as a guide for member comment on this issue:

- Q.14** Should there be a requirement to separately compare outstanding claims and premium liability against the previous valuation?
- Q.15** What individual components should be specified when performing the reconciliation required under clause 11.2.3 of PS 300?
- Q.16** What valuation should a reconciliation under clause 11.2.3 be compared with in terms of the requirements of clause 6?
- Q.17** Where the previous valuation was completed by a different actuary, should the requirements differ to those that otherwise apply?

END OF ISSUES BRIEF