
Explanatory Memorandum to Professional Standard 302 Valuations of General Insurance Claims

March 2023

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the changes to Professional Standard 302 Valuations of General Insurance Claims ("PS 302") in response to AASB17 and feedback received since the last major update of the standard.

2. Background

AASB17 came into force for accounting periods on or after 1 January 2023. There are a number of areas covered by PS 302 where the new accounting standard requires potentially different approaches to those required for APRA liability valuations for example discounting, and risk margins. To allow for these differences the standard has been rearranged to address the core principles that apply to all applications in the body and application specific guidance in the appendices.

During previous consultations on changes to PS302 (and its predecessors) questions have been raised about the application of PS 302. This update clarifies when PS 302 applies.

This update to the standard also incorporates the key points from the Information Note "Discount Rates and Inflation Assumptions for PS300 Claim Liabilities", which it replaces.

3. October 2022 exposure draft

An Exposure Draft (ED) of proposed updates to PS 302 was released for comment in October 2022.

4. Feedback on exposure draft and subsequent action

In response to the October 2022 ED, the GIPC received two formal submissions which identified two areas of the draft standard that needed to be clarified and a number of comments which resulted in some minor amendments. The material items raised related to sections 11.1 Estimates appropriate to the valuation date and 8.1 Actual vs expected experience.

Section 11.1 relates to circumstances where a material post balance date event occurs. The concern raised was that the current wording could create an open-ended commitment to amend the valuation if any such event occurred. To clarify the intention of this section the wording has been amended to reflect:

- That the standard does not prevent a Member from reissuing their report in such circumstances; and
- Refers the Member to section 3.2.4 (f) of PG 1 which is existing guidance covering such situations.

The concern raised about Section 8.1 was that it could be interpreted as requiring that an actual vs expected analysis be carried out between valuation dates which may not be appropriate (e.g. in the context of a roll forward valuation). The revised wording reflects that the period considered does not have to be between balance dates.

5. Changes to PS 302

The key changes to PS 302 including those reflected in the October ED and the final standard are:

Structure

PS302 will apply in a number of situations some of which have specific requirements under various regulations or accounting standards especially following the introduction of AASB17. The main body contains the broader principles-based aspects of the standard and the appendices contain guidance for each application type – APRA and other valuations excluding those under AASB17.

Section 1 Introduction

The application section of PS 302 has been criticized in the past for not being clear. This update to the standard aims to explicitly list those areas where PS 302 applies. In the case of Discretionary Mutual Funds, the Member should assess their circumstances against the definition of General Insurance Claims and the penultimate row of the table at 1.1.3. In other cases a Member may consider to what extent the principles of PS 302 should apply in that situation.

This section also provides a revised definition of General Insurance claims.

Section 3 Definitions

Some definitions have been added, Future Claims Liability has been reinstated, Previous Valuation has been adjusted to capture any valuation with a PS 302 compliant report with implications for analysis of change and actual vs expected analysis. Post Balance Date Event has also been amended to provide a broader definition.

Section 7 Information and data

Minor changes have been made to sections 7.2.1 and 7.3.1

Section 8 Actual versus expected experience

It has been clarified that the period used for comparison of the actual and expected experience does not have to be from the balance date of the Previous Valuation.

Section 9 Valuation methods

The wording has been updated to reflect common additional methods used.

Section 10 Valuation assumptions

Section 10.2 has been modified to include the key points from the information note "Discount Rates and Inflation Assumptions for PS 300 Claim Liabilities". Other minor changes have been made.

Section 11 Valuation estimates

Section 11.1.2 has been added to clarify that the Member can choose to update a signed report as a result of a post balance date event and refers Members to existing guidance on this situation in section 3.2.4 (f) of PG 1. This is also impacted by the broader definition of 'Post Balance Date Event'.

Other sections

The requirements relating to discounting in the body of the standard are now more general principles with specific requirements covered in the appendices.

Minor changes have been made elsewhere.

6. Commencement Date

This version of PS 302 applies to valuations conducted where the balance date is on or after 31 March 2023.

End of Explanatory Memorandum