
EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 699.02 (VALUATION OF HEALTH INSURANCE LIABILITIES)

December 2012

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the new Practice Guideline 699.02 (Valuation of Health Insurance Liabilities) ("PG 699.02") which replaces Guidance Note 650 (Actuarial Reports and Advice on Outstanding Claims in Health Insurance) ("GN 650"). The Practice Guideline is not mandatory.

B. Background to review

In August 2008, the Institute issued a Policy for Drafting and Developing Practice Guidelines ("Policy"). The Policy is designed to ensure that all Practice Guidelines are drafted and developed in a consistent manner and in consultation with relevant and interested members of the Institute (and, where necessary, external parties). As a result, all existing Guidance Notes are to be re-drafted in accordance with the Policy.

GN 650 was issued in June 1999. Changes to GN 650 were also made necessary following the adoption of a revised Code of Professional Conduct in November 2009, the introduction of the Private Health Insurance Act 2007 (Cth) ("Act") and its accompanying Rules, and changes to the accounting standards.

C. Review process and consultation

A Drafting Group consisting of members of the Health Practice Committee and Institute staff was established to review GN 650.

In August 2012, an Exposure Draft of PG 699.02 was released for comment. A total of four submissions were received on the Exposure Draft and the Institute thanks members for their comments. Two of the four were joint submissions from several Members.

A large number of the comments made in submissions were incorporated. In general, comments related to: tightening up language and definitions; clarifying application to Australian registered health insurers only; liability adequacy test and DAC amortisation; risk equalisation valuation approach; and various specific factors to be considered when undertaking liability valuations.

D. Key changes

The following are the key changes made to GN 650:

- ▶ updating for the significant legislation and accounting standards changes which occurred since GN 650 was issued; and
- ▶ the inclusion of future claims liability and the liability adequacy test (see section 11 of PG 699.02)

Other changes made are:

- ▶ updating to be consistent with the Act and its supporting Rules;
- ▶ where required, sections were expanded or included to reflect the additional requirements for insurance liability valuations as detailed in accounting standard AASB 1023; and
- ▶ the Reinsurance section was renamed Risk Equalisation and updated to reflect the risk equalisation arrangements introduced since GN 650 was issued.

E. Commencement

PG 699.02 commences on 31 December 2012.

END OF EXPLANATORY MEMORANDUM