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## Explanatory Memorandum to Exposure Draft of Professional Standard PS 600

### Valuations of Health Insurance Claims

October 2023

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#### 1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the proposed implementation of a new Professional Standard, PS 600 Valuations of Health Insurance Claims which is to apply when a Member is undertaking certain types of valuations of Health Insurance claims for an entity. The Explanatory Memorandum also requests feedback from Members on the Standard's scope and requirements.

This Professional Standard is intended to replace Practice Guideline PG 699.02 Valuations of Health Insurance Liabilities (March 2018).

#### 2. Background

Recent events have impacted the operating landscape of Private Health Insurance (PHI) including:

- Implementation of AASB17 for accounting periods on or after 1 January 2023.
- Implementation of an updated APRA PHI Capital Framework from 1 July 2023, with APRA seeking closer alignment to the LAGIC framework for General and Life Insurance.
- Increased risk and uncertainty arising from the COVID-19 pandemic.

These recent events have led the Institute to consider that both the profession, and entities and regulators that rely on actuarial valuations of health insurance liabilities to protect and safeguard the interests of policyholders, would benefit from the additional confidence and integrity provided to users by a Professional Standard. This approach would align with General and Life Insurance practice streams, where valuations of claims are covered by a Professional Standard.

#### 3. Application of the Professional Standard

It is proposed that PS 600 apply to Members who are:

- (a) Conducting a valuation as required under the *PHI(PS) Act* including via APRA Prudential Standards; or
- (b) Conducting a valuation for the purposes of preparing financial statements either where accounting standard AASB 17 applies or where a different accounting standard applies; or
- (c) In a foreign jurisdiction without local actuarial standards, where the valuation is required by foreign regulators or government.

#### **4. Requirements of the Professional Standard**

The requirements within PS 600 have been drafted having regard to the existing PG 699.02, and the requirements of PS 302, Valuation of General Insurance Claims and seek to balance existing practice with expectations of stakeholders across the Institute, industry and regulators.

When applying PS 600 the Member must consider all factors relevant to the valuation including the agreed terms and scope of the valuation, information and data available, methods and assumptions appropriate to the valuation, uncertainty and accuracy of prior valuations, and other matters the Member identifies as relevant.

The Professional Standard also specifies instances when a Member performing a valuation to which PS 600 applies must prepare a Report on the valuation, and the requirements to be satisfied therein. A Report is to be prepared when:

- (a) Valuation results are intended to be used in, or as part of, the Financial Condition Report (FCR), other Regulatory Reporting, or published financial statements (however a separate report is not required if the conditions of PS 600 are already satisfied in the FCR); or
- (b) Valuation results are intended to be used in connection with a change or transfer of ownership of liabilities for Health Insurance Claims; or
- (c) The Member forms a view, as a matter of judgment, that the circumstances surrounding or affecting that valuation warrant it.

#### **5. Consultation**

This new Professional Standard was drafted by the Health Practice Committee (HPC), which is a formal committee of Members practising in health insurance and the broader health industry. The HPC includes Members from major health insurance consulting firms and Australian Private Health Insurers.

Given the material impact of implementing a new Professional Standard for Members and stakeholders, HPC is requesting feedback through consultation on the draft PS 600. Specific areas that HPC is requesting feedback include (but are not limited to):

- (a) Suitability of the proposed application of PS 600 in the context of the new APRA Capital Standards and AASB17;
- (b) Whether the application of PS 600 is consistent with the role, requirements and expectations of the Appointed Actuary, and Actuaries more generally within PHI; and
- (c) Appropriateness and proportionality of the proposed reporting and valuation requirements, and the value to users of valuations from the strengthened reporting, including whether the requirements align with current practice and Member and stakeholder expectations.

HPC requests that feedback on the draft PS 600 be provided to Terrie Gibson [Terrie.Gibson@actuaries.asn.au](mailto:Terrie.Gibson@actuaries.asn.au) prior to 30 November 2023.

#### **6. Commencement Date**

It is proposed that PS 600 applies to relevant valuations conducted where the balance date is on or after 1 April 2024.

**End of Explanatory Memorandum**