
EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD PS 202 ACTUARIAL VALUATIONS FOR LIFE INSURANCE COMPANIES (INCLUDING FRIENDLY SOCIETIES AND ELIGIBLE FOREIGN LIFE INSURANCE COMPANIES)

June 2019

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the rationale underlying Professional Standard 202 Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies) (PS 202).

PS 202 is one of four professional standards applying to actuarial advice provided to life insurers including friendly societies (hereafter in this Explanatory Memorandum references to life insurers includes friendly societies).

These standards address the requirements under the Australian Prudential Regulation Authority's (APRA's) Prudential Standard CPS 320 Actuarial and Related Matters, which comes into effect 1 July 2019 (CPS 320). For life insurers, it replaces LPS 320 Actuarial and Related Matters (LPS 320). The four new standards are as follows:

- ▶ PS 102 Financial Condition Report - cross practice standard addressing the production of Financial Condition Reports.
- ▶ PS 103 Actuarial Review - cross practice standard addressing actuarial reviews required by APRA.
- ▶ PS 201 Actuarial Advice to a Life Insurance Company or Friendly Society.
- ▶ PS 202 Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies) – the subject of this Explanatory Memorandum.

Currently, professional standards for advice to life insurers are set out in a single standard, PS 200 Actuarial Advice to a Life Insurance Company or Friendly Society (PS 200), which was most recently issued in July 2015.

B. Feedback on Exposure Draft

The Exposure Draft for PS 202 was released for member consultation during the period 19 February 2019 to 22 March 2019. Five pieces of written feedback were received, detailed feedback from two large consulting firms and shorter feedback from individual members.

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On 5 March 2019 an Actuaries Institute Insight session presented on the new professional standards. This included a summary of the work done to produce the standards, the specific issues relevant for each practice area, and the key questions on which feedback was sought.

A summary of the main points raised through the session and the written feedback is as follows:

- ▶ The standards should not contain excessive use of “must” and “disclose”, which could be detrimental either in terms of requiring an increase in the length of a formal report or not being appropriate in all circumstances.
- ▶ There was a request for clarity on the commencement date of the standards, particularly for companies with an annual balance date of 30 June 2019.
- ▶ There were suggestions that there was a need to consider “customer value” or customer needs when giving actuarial advice and discussion of whether this should be mandated in professional standards or addressed through other guidance.
- ▶ There was a suggestion to include an option to seek APRA guidance when Members were unsure of or require specific guidance regarding their legal obligations.
- ▶ There was a suggestion to include commentary to better support the aim of making the Appointed Actuary’s role more strategic in an organisation.

This resulted in the following significant changes for PS 202:

Additional wording in clause 1.3.7 to include seeking regulator clarification if required;

- ▶ Further clarification of the terms ‘disclose’ and ‘record’ (clause 3.1) as outlined in Section D below.
- ▶ Inclusion of a requirement to include a statement that the Report has been prepared in accordance with this professional standard (clause 5.1.3).
- ▶ Clarification that the reference to industry experience in clause 9.1.3 is to “relevant available” industry experience.
- ▶ Clarification that the Appointed Actuary must, where reasonably practicable, disclose the sources of change in the Capital Base in excess of the Prescribed Capital Amount (clause 11.2.1).
- ▶ Change to the commencement date (clause 2), as discussed in Section E below.

Other minor grammar corrections have also been made which do not change the obligations on Members.

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C. Background to PS 202

There was no requirement for a valuation report under LPS 320. A number of additional requirements compared with the requirements in PS 200 (insofar as they relate to advice on valuations) have also been included in PS 202.

This Standard has some similarities with General Insurance Professional Standard 302 Valuations of General Insurance Claims, however, there are a number of differences:

- ▶ Differences in the nature of the business, key focus areas and risks.
- ▶ For life insurers “valuations” are required for the Capital Base and the Prescribed Capital Amount (which are not required to be included in general insurance actuarial valuations) as well as for insurance liabilities/policy liabilities.

D. Key additions and differences from PS 200

Key changes in PS 202 compared with the requirements in PS 200 applicable to valuations are set out below.

The description of the requirements for valuations in PS 200 is reasonably brief.

Therefore, while some of the main additions and differences in PS 202 compared with PS 200 are set out below, a reading of PS 202 in its entirety is needed to fully understand the differences.

Section 1 Introduction

This section is overall similar to PS 200.

PS 202 applies to annual valuations of policy liabilities, Capital Base and/or Prescribed Capital Amount as required by the regulatory regime (PS 200 applied to any Appointed Actuary advice, including advice on valuations, required under the regulatory regime).

Further, there is a requirement to take account of the general considerations in PS 202, along with relevant provisions of the Code, when conducting a valuation in other circumstances.

Clauses 1.3.3, 1.3.4 and 1.3.5 outline the requirements where a Member finds that they cannot carry out their work in a way that complies with PS 202.

Section 3 Definitions

There are 2 important new definitions that Members should be aware of:

- ▶ **‘To disclose’** means to include information within a written communication, such as a Report where one is prepared.

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- ▶ **'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

Previous professional standards across practice areas were not always clear on what was meant when information had to be 'documented'. All standards being released in June 2019 introduce the terms 'disclose' and 'record' to clarify expectations of Members when carrying out actuarial work. PS 202 introduces these terms to indicate when the Member has to include information in a Report when giving actuarial advice (i.e. **disclose**) or when the information need only be recorded in working papers (i.e. **record**).

An additional key concept for PS 202 is the concept of a "Previous Valuation". Where an Actuarial Valuation has not been produced previously, this would normally be expected to be that advised on in a Financial Condition Report (FCR) (the Standard sets out where an alternative more recent valuation can be adopted).

Section 4 Materiality

This section is similar to PS 200.

Section 5 Documentation

This section is similar to PS 200. The following points are noted:

- ▶ A separate Actuarial Valuation Report is not required if details contained in the FCR satisfy all the requirements of this Standard.
- ▶ There are minor changes in documentation retention requirements to reflect differences between CPS 320 and LPS 320.

Section 6 Valuation Requirements, Section 7 Information and Data, Section 8 Valuation Method(s) and Section 9 Valuation Assumptions

The description of the requirements for valuations in PS 200 is reasonably brief. PS 202 sets out considerations and required documentation in significantly greater detail.

Section 10 Results

The Standard includes a requirement that the Appointed Actuary comment on the possible effect of any post balance date events they are aware of (before signing the report).

Section 11 Analysis of Change

The Standard sets out considerations and required documentation in significantly greater detail than in PS 200.

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It includes a new requirement to conduct an analysis of the change in the Capital Base in excess of the Prescribed Capital Amount, for each Statutory Fund and the General Fund of the Entity.

E. Commencement date

This Professional Standard applies to valuations where the balance date is on or after 1 July 2019 unless an Entity adopts CPS 320 from an earlier date. If an Entity adopts CPS 320 from an earlier date, including the option of adopting for a 30 June 2019 balance date, then this Professional Standard will apply from this adoption date.

The option of adopting for a 30 June 2019 balance date is consistent with APRA guidance issued on 8 April 2019, namely that “insurers with a 30 June 2019 balance date may elect to comply with the FCR and AVR requirements set out in either CPS 320 or in the prudential standard relevant to the insurer (Prudential Standard GPS 320 Actuarial and Related Matters, Prudential Standard LPS 320 Actuarial and Related Matters or Prudential Standard HPS 320 Actuarial and Related Matters).”

The aspects of PS 200 relevant to the matters covered by PS 202 will be withdrawn at the time that PS 202 becomes effective.

END OF EXPLANATORY MEMORANDUM