Institute of Actuaries of Australia

PROFESSIONAL STANDARD 300

VALUATIONS OF GENERAL INSURANCE CLAIMS

August 2007

INDEX

1 INTRODUCTION

1.1 Application

1.1.1 This Professional Standard applies to a Member undertaking a valuation of General Insurance Claims if the valuation is intended to be used in the formulation of financial information for Entities to comply with regulatory or legislative reporting requirements. In these circumstances, compliance with Professional Standard 300 is mandatory and a statement of compliance must be given in the Actuarial Report.

1.1.2 If a Member undertakes any aspect of such a valuation, then the appropriate and relevant parts of this Professional Standard apply.

1.1.3 A Member undertaking a General Insurance Claims valuation for an Entity in a jurisdiction other than Australia does not have to comply with this Professional Standard if the local actuarial standards in that jurisdiction govern the valuation of General Insurance Claims.

1.2 Classification

1.2.1 This Professional Standard has been prepared in accordance with the Institute's Policy for Drafting Professional Standards, as varied from time to time. It must be applied in the context of the Institute's Code of Professional Conduct.

1.2.2 This Professional Standard is binding on Members of the Institute of Actuaries of Australia, in respect of all work covered by the Professional Standard.

1.2.3 Non-compliance with this Professional Standard by a Member engaged in work covered by the Professional Standard may constitute Actionable Conduct and may lead to penalties under the Institute's Disciplinary Scheme.

1.2.4 This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by the Professional Standard. If a Member believes that the Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Standards Committee for guidance as to the interpretation of the Professional Standard. Apart from legislation or regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.

1.2.5 Members who find that they cannot carry out work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

1.3 Background

1.3.1 Prior to 1994, the Institute's Guidance Note GN 350 applied to valuations of General Insurance Claims. From 1994, the Institute's Professional Standard 300 (*Actuarial Reports and Advice on General Insurance Technical Liabilities*) has applied to such valuations.

1.3.2 Valuations of General Insurance Claims have been required by APRA for authorised general insurers since 1 July 2002. The relevant APRA documents were Prudential Standard GPS 210, *Liability Valuation for General Insurers*, and the accompanying Guidance Note GGN 210.1, *Actuarial Opinions and Reports on General Insurance Liabilities*, issued by APRA in April 2002 and applicable for balance dates from 1 July 2002 to 29 June 2006.

1.3.3 An updated version of Professional Standard 300 was issued in April 2002. The Institute's Guidance Note 353, *Evaluation of General Insurance Technical Liabilities,* was issued in 2002 for the purpose of supplementing the Institute's Professional Standard 300, as it existed at the time.

1.3.4 A revised APRA prudential standard, Prudential Standard GPS 310, *Audit and Actuarial Reporting and Valuation* (replacing both GPS 210 and GGN 210) was issued in February 2006 to apply from 30 June 2006 balance dates.

1.3.5 For a number of years, Entities other than authorised insurers have also required actuaries to undertake valuations of General Insurance Claims for regulatory, financial reporting or other purposes.

1.3.6 In October 2005, the Institute's General Insurance Practice Committee established a sub-committee to supervise the drafting of the revised Professional Standard 300 in accordance with the strengthening of the Institute's professional governance framework. This updated and revised Professional Standard 300 replaces both the existing Professional Standard 300 and Guidance Note 353, and applies from the commencement date shown in Section 2.

1.4 Purpose

The purpose of this Professional Standard is to provide Members with principles and directions that must be followed with regard to technical aspects of the work described in Section 1.1.

1.5 Previous versions

This Professional Standard was first issued in May 1994, with an updated version issued in April 2002.

1.6 Legislation and other requirements

1.6.1 This Professional Standard must be considered in the context of applicable legislation. If there is a conflict between this Professional Standard and any applicable legislation, then the legislation takes precedence, and any differences must be documented in the Actuarial Report. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities, and standards issued by professional bodies. Paragraphs 1.6.2 to 1.6.6 indicate specific examples of such legislation that may affect the work undertaken under this Professional Standard.

1.6.2 The Act, as amended by the General Insurance Reform Act 2001 (Cth), provides for APRA to issue prudential standards, regulating the activities of, and imposing requirements on, authorised general insurers. APRA Prudential Standards mandate valuations of General Insurance Claims for authorised general insurers, with regard taken of the relevant Professional Standards of the Institute.

1.6.3 Valuation estimates of General Insurance Claims for self-insurers, specialised insurers, insurance pools and/or accident compensation schemes are required by various Commonwealth, State and Territory authorities in Australia.

1.6.4 In countries other than Australia, a valuation of General Insurance Claims may be required by regulators or government authorities.

1.6.5 Valuations of General Insurance Claims are in some cases required for Entities to satisfy accounting standards. In such cases, the Member must have regard to accounting standards and document in the Actuarial Report any relevant issues that may be in conflict with this Professional Standard.

1.6.6 In certain cases, the valuation of General Insurance Claims and the accompanying Actuarial Report will be subject to External Peer Review, which must be undertaken in accordance with the Institute's Professional Standard 100.

1.6.7 Actuaries undertaking a valuation of General Insurance Claims for authorised general insurers have legal obligations to report certain matters or information to APRA. These obligations are referred to as "whistleblowing". The obligations, details about what must be reported, related powers and protections are provided in section 49A of the Act. Members need to understand the obligations that apply to them in their circumstances. This may require Members to seek legal or other professional advice.

2 COMMENCEMENT DATE

This Professional Standard applies to both:

(a) valuations performed; and

(b) valuation dates,

from 31 December 2007 onwards.

3 DEFINITIONS

'Act' means the Insurance Act 1973 (Cth), as amended or replaced from time to time.

'Actuary' has the same meaning as defined in the Code.

'Actuarial Report' means the Actuarial Report that is required under the Code for work performed under this Professional Standard.

'Approved Actuary' means the person appointed by the Entity and approved by APRA under sections 39 and 40 of the Act.

'APRA' means the Australian Prudential Regulation Authority.

'Case Estimates' are the claim-by-claim estimates, set and recorded by an Entity at a particular date, of the amounts which are required to settle the reported and open General Insurance Claims.

'Central Estimate' is intended to be an unbiased estimate of the mean (statistical expectation) of the Outstanding Claim Liability or the Future Claim Liability.

'Claim Payments' are the amounts an Entity has paid, or is liable to pay in the future, in respect of its exposure to General Insurance Claims, comprising payments made directly to claimants and Direct Expenses.

'Class of Business' means a grouping of General Insurance Claims valued as a unit, which may be a regulator-defined class of business.

'Code' means the Code of Professional Conduct of the Institute.

'Direct Expense' means allocated third party costs. These include payments on behalf of claimants, medical and legal fees where these are allocated to particular General Insurance Claims.

'Diversification Benefit' means the amount by which an overall Entity Risk Margin is less than the sum of individually assessed Outstanding Claims

Liability and Future Claims Liability Risk Margins by Class of Business, where diversification between them occurs.

'Entity' means one or more companies, corporations or other bodies with a liability to pay insurance claims, or with a liability to compensate other parties.

'Future Claim Liability (FCL)' (also known as 'Premium Liability') means the value of Claim Payments and related Indirect Expenses, to be made after the valuation date, arising from future events for which the Entity is liable under its insurance policies. That value is unknown at the date of the valuation and is treated as a random variable. Such events would not have been reported as at the valuation date.

'General Insurance Claims' means claims for which an Entity is liable in respect of the Entity's Insurance Business. Claims arising from other than Insurance Business as defined under the Act are excluded.

'Incurred But Not Reported (IBNR)' refers to General Insurance Claims that are from events which have already occurred, but which have not yet been reported to the Entity as at the valuation date.

'Incurred But Not Enough Reported (IBNER)' refers to the estimated difference between the amount ultimately required to settle the General Insurance Claims which have been reported to the Entity at the valuation date, and the Case Estimates at the valuation date.

'Indirect Expense' means the management and administrative expenses incurred by the Entity in relation to the payment of the Outstanding Claims Liability and the Future Claims Liability. Indirect Expenses exclude Direct Expenses and are not allocated to claims, being usually measured on an aggregate basis across the Entity or Class of Business.

'Institute' means The Institute of Actuaries of Australia (ACN 000 423 656).

'**Insurance Business'** is as defined under the Act.

'Material' means important or essential in the opinion of the Member. For this purpose, 'Material' does not have the same meaning as in Australian accounting standards. 'Materiality' has a consistent meaning to 'Material'.

'Member' is a Fellow, Accredited, Associate or Affiliate (including student) Member of the Institute.

'Non-Reinsurance Recovery' means an amount recoverable, in respect of an Entity's Claim Payments, from (but not necessarily limited to) salvage, subrogation and sharing agreements.

'Outstanding Claim Liability (OCL)' means the value at the valuation date of Claim Payments and related Indirect Expenses, to be made after the valuation date, arising from events occurring on or before the valuation date. The value is unknown at the valuation date and is treated as a random variable.

'Premium Adjustment' means an increase or a decrease of the premium made after the insurance policy start date (including premium refunds) on Insurance Business in force at the valuation date.

'Previous Valuation' means the previous valuation undertaken at the most recent annual balance date of the Entity (interim valuations are not defined here as Previous Valuations, but can be used for additional comparison).

'Professional Standard' is a document setting out practice requirements in a particular situation or area that has been: (1) prepared in accordance with the Institute's Policy for Drafting Professional Standards; and (2) issued by the Institute.

'Reinsurance Cost' means the cost to the Entity of purchasing reinsurance cover in respect of the General Insurance Claims being valued.

'Reinsurance Recovery' means an amount recoverable, in respect of an Entity's Claim Payments, from reinsurance agreements.

'Replicating Portfolio' means a notional portfolio of current, observable, market-based, fixed-interest investments of highest rating, which has the same payment profile (including currency and term) as the relevant claim liability being valued.

'Risk Margin' means any positive amount added to the Central Estimate in order to achieve a liability estimate for General Insurance Claims appropriate for the purpose of the valuation.

'Unclosed Premium' refers to the premium revenue from insurance policies that have not yet been processed, but for which the Entity is liable at the valuation date.

4 VALUATION REQUIREMENTS

4.1 Materiality

4.1.1 The Member must take Materiality into account when undertaking a valuation. Whether something is Material or not will always be a matter requiring the exercise of the Member's professional judgment.

4.1.2 The level of detail to be provided in the Actuarial Report will depend on the purpose of the valuation, the size and complexity of the Classes of Business and considerations of Materiality.

4.2 Documentation

4.2.1 A Member must issue an Actuarial Report on the valuation.

4.2.2 If the Member is issuing a Financial Condition Report under the Institute's Professional Standard 305 (or a replacement thereof), and if the Financial Condition Report satisfies all the reporting requirements under this Professional Standard, then a separate Actuarial Report is not required.

4.2.3 The Actuarial Report must state:

(a) that the Member's valuation of General Insurance Claims has been prepared in accordance with this Professional Standard;

(b) who commissioned the valuation and who will receive the Member's Actuarial Report and valuation of the General Insurance Claims;

(c) the scope and purpose of the valuation;

(d) any specific terms of reference; and

(e) the applicable standards and any restrictions or limitations placed on the Member.

4.2.4 Where this Professional Standard states that items must be documented, this documentation must form part of the Actuarial Report.

4.2.5 In deciding on the content and the level of detail for the Actuarial Report, the Member is referred to the reporting requirements specified in the Code. This is particularly relevant if a Member is undertaking the valuation of General Insurance Claims of an authorised insurer that is exempt by APRA from providing a report to APRA.

4.2.6 In deciding on the content and level of detail for the Actuarial Report, the Member must be cognisant of a reviewer's requirements under the Institute's Professional Standard 100, where External Peer Review is performed on the valuation.

4.3 Matters for consideration

4.3.1 In undertaking a valuation of a General Insurance Claims liability, a Member must consider and document each of the matters listed below:

(a) purpose of valuation and terms of reference;

(b) information and data;

(c) valuation methods;

(d) valuation assumptions;

(e) valuation estimates;

(f) uncertainty; and

(g) any other matter the Member identifies as a Material matter relevant to the valuation that is not detailed elsewhere in this Professional Standard.

If a Previous Valuation has been conducted, the Member must also consider and document:

(h) actual versus expected experience; and

(i) a reconciliation of the valuation results with the Previous Valuation results.

4.3.2 If the Member is of the opinion that a matter referred to in Paragraph 4.3.1, or any aspect of a matter covered in this Professional Standard, is not relevant to the valuation in the circumstance, then the Member must document that the matter is not relevant and provide reasons for forming that opinion.

5 INFORMATION AND DATA

5.1 Information requirements

5.1.1 The Member must ask the Entity to provide:

(a) all relevant information required for the valuation, including data and reports; and

(b) access to staff and/or contractors of the Entity.

The Member must take reasonable steps to verify the consistency, completeness and accuracy of the information provided by the Entity. For example, by undertaking reconciliations against the Entity's financial statements, trial balances and/or other relevant records, if these are available.

5.1.2 The Member must consider:

(a) the administration and accounting procedures for policies and claims;

(b) the characteristics of insurance policies, underwriting and claim processes; and

(c) the relevant economic, legal and social environments and trends.

5.2 Information controls

5.2.1 The Member must consider and document:

(a) data controls, including reconciliations undertaken or relied upon;

(b) material discrepancies that cannot be resolved with the Entity, together with any consequent limitations;

(c) any comments they have on the data used, data extraction, data summarising, quality checking and auditing at source; and

(d) the degree to which the Member relies on information, including data and reports, provided by the Entity, or on testing of the information by the Entity's internal auditor or third parties, with any consequent limitations.

5.2.2 If the Member is unable to obtain timely access to some or all of the required information, then the Member may omit, from the Actuarial Report, analysis that depends on that information. However, the Member must provide details in the Actuarial Report as to why that analysis has been omitted and explain any consequent limitations.

5.2.3 If the Member believes that the information provided by the Entity is insufficient for the purpose of the assignment, then the Member must decline to undertake the assignment.

5.3 Information reliance

5.3.1 If the Member relies on work by other Members, then the Member must communicate this reliance to the other Members, verifying the appropriateness of the investigations undertaken, and the appropriateness of the results obtained, by the other Members. If the Member cannot form an opinion on the appropriateness of the work, then the Member must undertake and document supplementary and/or alternative analyses.

5.3.2 If the Member relies on other Members to prepare estimates on limited parts of the General Insurance Claims liability, then the Member must document this. It is acceptable for these ancillary valuations not to meet all the requirements of this Professional Standard if:

(a) the other Members' ancillary valuations and Actuarial Reports document the matters on which they are materially non-compliant with this Professional Standard;

(b) the Member's overall valuation of General Insurance Claims, together with the work of the other Members, meets this Professional Standard in full; and

(c) the Member taking overall responsibility for the valuation of General Insurance Claims and relying on other Members to prepare estimates on limited parts of the liability for General Insurance Claims, is an Actuary.

5.3.3 If the Member relies on other parties to provide information that is required, and this information is limited or not forthcoming, then the Member must communicate this to the other parties and document the circumstances, together with any consequent limitations.

6 ACTUAL VERSUS EXPECTED EXPERIENCE

6.1.1 If a Previous Valuation exists, then the Member must provide and document a comparison of the actual experience to the expected experience by Class of Business. The expected experience is that implied at the Previous Valuation by the valuation basis of either:

(a) the Central Estimate of the Outstanding Claim Liability; or

(b) the sum of the Central Estimate of the Outstanding Claim Liability and the Central Estimate of the Future Claim Liability.

6.1.2 The Member must decide what aspects of the actual experience compared to the expected experience is relevant for this analysis. The Member must consider whether to compare one or more of the aspects of the claim experience listed in Paragraph 7.1.3 which are relevant to the valuation basis selected.

6.1.3 The Member must document the known or assumed reasons for deviations from the expected experience.

7 VALUATION METHODS

7.1 Selection of valuation methods

7.1.1 The valuation methods the Member uses to determine the Central Estimate of an Outstanding Claim Liability and/or the Central Estimate of a Future Claim Liability, applied separately by Class of Business, must be methods that incorporate actuarial principles that the Member considers reasonable in the circumstances.

7.1.2 The valuation methods and the Class of Business subdivisions selected will depend on:

(a) the purpose of the valuation;

(b) the available information;

(c) the nature and homogeneity of the data;

(d) whether analysis is by accident period or underwriting period;

(e) the type of business being valued;

(f) the maturity of the business;

(g) the results of the analysis of experience;

(h) the Entity's environment;

(i) relevant industry practice;

(j) the particular circumstances of the Entity; and

(k) any other matters identified by the Member as being relevant.

7.1.3 When selecting valuation methods, the Member must consider whether to analyse the following aspects of claim experience (by Class of Business):

(a) claim frequency;

(b) average claim size;

(c) pattern of claim occurrence (or seasonality);

(d) development of reporting of claims;

(e) development of claim settlement or finalisation;

(f) development of Claim Payments;

(g) development of Case Estimates;

(h) incidence and development of large claims;

(i) potential impact of catastrophes; and

(j) any other aspect of claim experience that may be relevant to the valuation.

7.1.4 The Member must document the reasons for the chosen valuation approach. If the data or other factors limit the Member's choice of valuation methods, then the Member must document this limitation together with any consequent limitations.

7.1.5 The Member must use valuations methods that:

(a) produce valuation results appropriate to the valuation date;

(b) appropriately allow for changes in claim experience up to the valuation date (particularly if the valuation is carried out using information and claim data current at a date that is before the valuation date using a roll forward process); and

(c) appropriately allow for changes in experience after the valuation date (if the impact is extreme and known to the Member and there is sufficient time for making such allowance prior to finalising the valuation results).

7.2 Employment of valuation methods

The Member must document a description of the valuation methods used, including:

(a) how any roll forward process is carried out;

(b) the reasons (and an explanation of the rationale) for selecting the valuation methods employed;

(c) any control processes undertaken when checking that the application of the valuation methods occurs as intended;

(d) the criteria used for selecting between the valuation methods, or for weighting the valuation methods (if more than one valuation method is used) with the rationale explained; and

(e) the reasons for any change to the valuation methods adopted since the Previous Valuation, by Class of Business or grouping, with the rationale for the changes explained.

8 VALUATION ASSUMPTIONS

8.1 Selection of assumptions

8.1.1 In setting the valuation assumptions to determine the Central Estimate of an Outstanding Claim Liability and/or the Central Estimate of any Future Claim Liability, the Member must:

(a) consider the relevant experience of the Entity. (If the relevant experience of the Entity is not sufficiently credible, then the Member must consider the available relevant industry statistics or other information.);

(b) consider the valuation methods used and the analysis of the Entity's relevant actual historical claims experience (from Paragraph 7.1.3);

(c) take into account any special features of, or trends in, the claims experience; and

(d) consider the consistency of the valuation basis as a whole, including: consistency between the Central Estimate of the Outstanding Claim Liability and the Central Estimate of any Future Claim Liability allowing for changes in underwriting, pricing or similar issues, as well as consistency with the results of the actual versus expected analysis undertaken in Section 6.

8.1.2 The Member must document, by Class of Business, the assumptions adopted with the rationale explained, including the extent to which the assumptions used are based on the experience of the Entity. If the assumptions for a Class of Business or grouping have changed from the Previous Valuation, then reasons for the change must be explained and documented.

8.2 Economic assumptions

8.2.1 The Member must allow for any future escalation of Claim Payments (often called "claim inflation"). Whether the allowance is explicit or implicit will depend on the valuation methods being used. The escalation assumptions must consider:

(a) wage and/or price inflation; and

(b) superimposed inflation (any residual claim inflation arising for reasons other than wage and/or price inflation).

8.2.2 Legislative and/or regulatory requirements may prescribe whether Claim Payments are to be discounted. The Member must consider the purpose of the valuation and document whether the future Claim Payments are to be discounted. Discount rates used must be based on the redemption yields of a Replicating Portfolio as at the valuation date, or the most recent date before the valuation date for which such rates are available.

8.2.3 If the projected payment profile of the future Claim Payments cannot be replicated (for example, for Classes of Business with extended runoff periods), then discount rates consistent with the intention of Paragraph 8.2.2 must be used.

8.3 Claim Payment assumptions

8.3.1 The Member must consider and document whether analysis of historical development of Claim Payments is before or after allowance for Non-Reinsurance Recoveries and/or Reinsurance Recoveries.

8.3.2 In the projection of the future Claim Payments to be made after the valuation date, the Member must consider:

(a) the items listed in Paragraph 7.1.3;

(b) the Claim Payment experience of the Entity (if available); and

(c) how these relate to the assumptions about the future that are being made.

8.4 Indirect Expense assumptions

8.4.1 Accounting, legislative and/or regulatory requirements prescribe whether an allowance needs to be made for Indirect Expenses. In that light, the Member must consider the terms of reference and the purpose of the valuation and document whether to make an allowance for relevant Indirect Expenses.

8.4.2 For the Outstanding Claim Liability, the relevant Indirect Expenses include future ongoing claim management and administration expenses for all incurred claims (including both reported and IBNR claims).

8.4.3 For the Future Claim Liability, the relevant Indirect Expenses include:

(a) policy management and administration expenses to allow for the cost of managing unexpired policies for which the Entity is on risk; and

(b) claims management and administration expenses for claims establishment and runoff.

8.4.4 The Member can use either or both of the following to estimate future Indirect Expenses:

(a) the Entity's historical Indirect Expense information that is reasonably allocated; and/or

(b) the Entity's internal information that is available to notionally allocate expenses.

If such information is unavailable or is unreliable, the Member must consider any available external benchmarks to assist in setting an appropriate assumption for the Indirect Expenses, and ensure that the overall expense assumptions adopted for the Entity are reasonable.

8.5 Non-Reinsurance Recovery assumptions

8.5.1 The Member must consider and document whether to make an allowance for any relevant future Non-Reinsurance Recovery.

8.5.2 In evaluating any future Non-Reinsurance Recovery, the Member must consider:

(a) the Non-Reinsurance Recovery Case Estimates (if available);

(b) analysis of the Entity's past Non-Reinsurance Recovery experience (if available); and

(c) how these relate to the assumptions about the future that are being made.

8.6 Reinsurance Recovery and Reinsurance Cost assumptions

8.6.1 The Member must consider and document whether to make an allowance for any relevant future Reinsurance Recovery.

8.6.2 In evaluating any future Reinsurance Recovery, the Member must consider:

(a) the reinsurance program structure, the Reinsurance Recovery Case Estimates (if available);

(b) the past Reinsurance Recovery experience (if available) of the Entity;

(c) how these relate to the assumptions about the future that are being made;

(d) whether the evaluation of Reinsurance Recoveries is consistent with the evaluation of the gross Claim Payments to which they relate; and

(e) whether to allow for the associated credit risk or whether reinsurance contracts may not be enforceable or may be disputed, as well as the potential distributions from liquidators of past reinsurers.

8.6.3 If a Central Estimate of a Future Claims Liability net of future Reinsurance Recovery is being evaluated, then the Member needs to consider the Reinsurance Cost associated with this Reinsurance Recovery. Where reinsurance has not yet been arranged, an allowance for Reinsurance Cost needs to be made. In projecting the Reinsurance Cost, the Member must consider the terms of any relevant existing reinsurance and any relevant information relating to changes in the reinsurance terms and pricing of the underlying business.

8.7 Premium Adjustment and Unclosed Premium assumptions

If the Future Claim Liability is being estimated, then the Member must consider:

(a) unexpired contractual obligations arising from the Insurance Business for which the Entity is liable as at the valuation date, particularly how long after the valuation date events may occur for which the Entity is on risk;

(b) any projected Premium Adjustments and make reasonable allowance for the effect of the anticipated Premium Adjustments; and

(c) the Entity's Unclosed Premiums and other commitments arising from its insurance policies, and make reasonable allowance.

8.8 Taxation assumptions

8.8.1 The Member must consider how the taxation environment impacts the valuation assumptions. If necessary, the Member must make reasonable allowance and document this.

8.8.2 The impact of government charges such as Goods & Services Tax (GST), any related Input Tax Credit (ITC), Decreasing Adjustment Mechanism (DAM) amounts and other taxes, levies and duties must be considered and documented.

8.9 Risk Margin and Diversification Benefit assumptions

8.9.1 The Member must consider:

(a) Risk Margins (if the scope of the valuation does not include the estimation of Risk Margins, then the Member must document this with the reasons); and

(b) the nature and extent of the Risk Margins estimation process, which should be reasonable to cover potential future deviation from the Central Estimate.

8.9.2 If the scope of the valuation includes the estimation of Risk Margins, then the Member must provide a quantitative indication of the variability. This can be achieved by examining scenario analyses, sensitivity analyses and/or statistics such as the estimated standard deviation of any assumed probability distribution of claim cost outcomes.

8.9.3 If Risk Margins are required for an Entity, or for multiple Classes of Business, then the estimation process must be reasonable in aggregate and must allow for any Diversification Benefit if required for the purpose of the valuation.

8.9.4 If Risk Margins are required for a Class of Business in isolation, then the relevant undiversified Risk Margin must be evaluated and documented before the application of any Diversification Benefit.

9 VALUATION ESTIMATES

9.1 Outstanding Claim Liability

9.1.1 The results of the Outstanding Claim Liability valuation must be documented. If possible, the Member must separately document the results by relevant Class of Business, both gross and net of any

Non-Reinsurance Recovery, Reinsurance Recovery, any Risk Margin and any Diversification Benefit.

9.1.2 If the Central Estimate of the Outstanding Claim Liability includes an allowance for Indirect Expenses (refer to Paragraph 8.4.1) the allowance must be separately documented.

9.1.3 If the Central Estimate of the Outstanding Claim Liability explicitly allows for Government charges imposed, such as levies, duties and taxes, then they must be separately documented.

9.1.4 If possible, comparisons of the Central Estimate of the Outstanding Claim Liability to the Case Estimates must be documented, both gross and net of any Non-Reinsurance Recovery and Reinsurance Recovery.

9.1.5 If possible, comparisons by relevant accident or underwriting periods of the past Claim Payments plus the Central Estimate of the Outstanding Claim Liability (both gross and net of the Non-Reinsurance Recovery) to earned premium (or other relevant exposure measure such as wages), must be documented, both gross and net of any Reinsurance Recovery.

9.2 Future Claim Liability

9.2.1 If Future Claim Liability results are required, then the Member must evaluate and document those results. If possible, the results must be separately documented by relevant Class of Business, both gross and net of Non-Reinsurance Recovery, Reinsurance Recovery, Risk Margin and Diversification Benefit.

9.2.2 If the Central Estimate of the Future Claim Liability includes an allowance for Indirect Expenses (refer to Paragraph 8.4.1), the allowance must be separately documented.

9.2.3 If the Central Estimate of the Future Claim Liability explicitly allows for Government charges imposed such as levies, duties and taxes, then they must be separately documented.

9.2.4 If possible, comparisons of the Central Estimate of the Future Claim Liability (net of any Non-Reinsurance Recovery and Reinsurance Recovery) to unearned premium (net of unearned reinsurance premium) less deferred acquisition expenses must be documented.

10 UNCERTAINTY

10.1 Uncertainty

10.1.1 The Member must consider the level and the implications of the uncertainty related to the assessment of possible future claims cost outcomes and any potential future deviations they may cause to the results obtained.

10.1.2 The Member must describe, qualitatively, the main sources of uncertainty in the valuation and communicate the consequences of that uncertainty in the Actuarial Report.

10.1.3 To assist in quantitatively describing these sources of uncertainty, the Member must, as appropriate, use sensitivity analyses and/or scenario analyses and/or descriptive statistics (such as the estimated standard deviation of any assumed probability distribution of claim cost outcomes).

10.1.4 The Member must document the key risks and uncertainties identified during the valuation.

10.2 Sensitivity

10.2.1 The Member must consider and document the implications of the uncertainty identified in key assumptions of the valuation. Sensitivity and/or scenario analyses on key assumptions must be undertaken as a means of quantitatively illustrating the impact of the uncertainty related to the key assumptions.

10.2.2 The assumptions used in these analyses must be selected to illustrate the impact on results when a reasonable variation to key assumptions is made. The Member must document the results of the sensitivity analyses and comment in the Actuarial Report on the reasonableness of the alternate assumptions. The Member must state that the variations selected in the sensitivity analyses do not indicate upper or lower bounds of all possible outcomes.

11 RESULTS AND RECONCILIATION WITH PREVIOUS VALUATION

11.1 Valuation results

11.1.1 The Member must provide a clear statement of each of the following elements (if relevant) in the Actuarial Report:

(a) the Central Estimate of the Outstanding Claim Liability;

(b) the Central Estimate of the Future Claim Liability;

(c) Risk Margin; and

(d) sum of relevant items.

11.1.2 The Member must document the control process around the valuation results, including any high-level reasonableness tests undertaken during the valuation.

11.2 Reconciliation

11.2.1 If a Future Claim Liability is not required or evaluated, then the Member must reconcile and document the change since the Previous Valuation of the Central Estimate of the Outstanding Claim Liability.

11.2.2 If a Future Claim Liability is required, then the Member must reconcile and document, by Class of Business, either:

(a) the change since the Previous Valuation of the Central Estimate of the Outstanding Claim Liability and the Central Estimate of the Future Claim Liability, separately; or

(b) the change since the Previous Valuation in the sum of the Central Estimate of the Outstanding Claim Liability and the Central Estimate of the Future Claim Liability.

11.2.3 If possible, the reconciliation in Paragraph 11.2.1 or 11.2.2 must include the separate quantification of the impact of:

(a) the difference between actual and expected claim experience, outlined in Section 6;

(b) the difference caused by overall valuation basis change, required to be outlined in Paragraph 7.2 (methods) and Paragraph 8.1.2 (assumptions); and

(c) the additional liability associated with any new exposure of the Entity to General Insurance Claims since the Previous Valuation.

END OF PROFESSIONAL STANDARD 300