July 2008

Prudential Standard GPS 310

Audit and Actuarial Reporting and Valuation

Objective and key requirements of this Prudential Standard

This Prudential Standard aims to ensure that the Board and senior management of a general insurer are provided with impartial advice in relation to its operations, financial condition and insurance liabilities. This advice is designed to assist the Board and senior management in carrying out their responsibility for the sound and prudent management of the general insurer.

Accordingly, this Prudential Standard outlines the roles and responsibilities of a general insurer's Appointed Auditor and, where the general insurer is required to have one, its Appointed Actuary. It also outlines the obligations of a general insurer to make arrangements to enable its Appointed Auditor and Appointed Actuary to fulfil their responsibilities. In addition, the Prudential Standard establishes a set of principles and practices for the consistent measurement and reporting of insurance liabilities for all general insurers.

The key requirements of the *Insurance Act 1973* and this Prudential Standard in relation to audit and actuarial reporting and valuation are:

- an insurer must make arrangements to enable its Appointed Auditor and Appointed Actuary to undertake their roles and responsibilities;

- an insurer is exempt from the requirement to have an Appointed Actuary in certain circumstances;

- the Appointed Auditor must audit the yearly statutory accounts of the general insurer and must review other aspects of the general insurer's operations on an annual basis. The Appointed Auditor must prepare a certificate and a report on these matters and provide them to the Board of the general insurer. An Appointed Auditor may also be required to undertake other functions, such as a special purpose review;

- the Appointed Actuary must provide an assessment of the overall financial condition of the general insurer and advice on the valuation of its insurance liabilities on an annual basis. In particular, the Appointed Actuary must prepare a Financial Condition Report and an Insurance Liability Valuation Report and provide these reports to the Board. An Appointed Actuary may also be required to undertake other functions, such as a special purpose review;

- for the purposes of the capital standards and reporting requirements under the *Financial Sector (Collection of Data) Act 2001*, a general insurer's insurance liabilities must be valued in accordance with this Prudential Standard. This applies whether or not the general insurer is required to have an Appointed Actuary;

- a general insurer must arrange to have the Insurance Liability Valuation Report of its Appointed Actuary peer reviewed by another actuary; and

- a general insurer must submit to APRA all certificates and reports required to be prepared by its Appointed Auditor and Appointed Actuary.

APRA works closely with the Institute of Actuaries of Australia in the development of professional standards. As the Institute of Actuaries of Australia issues professional standards and guidance on financial condition reports for general insurance, valuations of general insurance claims and external peer review for general insurance that are complementary to this Prudential Standard, APRA does not deem it necessary to provide detailed guidance on these topics in addition to principles stated in this Prudential Standard.

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Prudential Standard

Attachments

Authority

1. This Prudential Standard is made under section 32 of the *Insurance Act 1973* (**the Act**) and includes a determination made under paragraph 7(1)(c) of the Act.

Application

2. This Prudential Standard applies to all **insurers** authorised under the Act.[1] Certain requirements in this Prudential Standard have been tailored for **Category C insurers**.

3. Certain requirements in this Prudential Standard also apply to all auditors and actuaries appointed by insurers under the Act.[2] In particular, this Prudential Standard requires the preparation of certain reports by these auditors and actuaries and specifies matters that must be dealt with in the reports.[3]

4. Subject to any specific transition rules, an insurer must comply with this Prudential Standard from 1 July 2008 (**effective date**).

5. Where specifically indicated in this Prudential Standard, certain requirements may be complied with on an **insurance group** basis.

Interpretation

6. Unless otherwise defined in this Prudential Standard, expressions in bold are defined in *Prudential Standard GPS 001 Definitions* (**GPS 001**).

Obligations of an insurer

7. Under the Act, an insurer must appoint an auditor (**Appointed Auditor**).[4]

8. Under the Act, an insurer must appoint an actuary (**Appointed Actuary**).[5]

9. Under the Act, APRA may exempt an insurer from the requirement to appoint an Appointed Auditor or Appointed Actuary.[6]

10. Under the Act, an insurer must make arrangements that are necessary to enable its Appointed Auditor and Appointed Actuary to undertake their functions as required by the Act and prudential standards made under the Act.[7] These arrangements include ensuring that an insurer's Appointed Auditor and Appointed Actuary are fully informed of all **prudential requirements** applicable to the insurer. These arrangements also include ensuring that an

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1 Refer to sections 32 and 35 of the Act.
2 Refer to section 39 of the Act.
3 Refer to subsections 49J(4) and 49K(3) of the Act.
4 Refer to section 39 of the Act.
5 Refer to section 39 of the Act.
6 Refer to paragraph 7(1)(c) of the Act.
7 Refer to sections 49J and 49K of the Act.

insurer's Appointed Auditor and Appointed Actuary are provided with any other information that:

(a) APRA has provided to the insurer and may assist Appointed Auditor or Appointed Actuary in performing their duties; and

(b) has been requested by the Appointed Auditor or Appointed Actuary in performing their duties.

11. An insurer must ensure that its Appointed Auditor and Appointed Actuary have access to all relevant data, information, reports and staff of the insurer (and must take all reasonable steps to ensure access to contractors of the insurer) that its Appointed Auditor and Appointed Actuary reasonably believe are necessary to fulfil their responsibilities. This will include access to the insurer's Board[8] and Board Audit Committee.

12. Under the Act, an insurer must submit to APRA all certificates and reports required to be prepared by its Appointed Auditor and Appointed Actuary.[9] An insurer must submit to APRA:

(a) certificates and reports, other than those relating to a special purpose review, on or before the day that the insurer's **yearly statutory accounts** are submitted in accordance with reporting standards made under the *Financial Sector (Collection of Data) Act 2001* (**Collection of Data Act**);[10] and

(b) certificates and reports relating to a special purpose review in accordance with the time specified in paragraph 43.

13. Prior to submitting to APRA an Insurance Liability Valuation Report (**ILVR**) prepared by its Appointed Actuary, an insurer must arrange for it to be peer reviewed by another actuary (**the Reviewing Actuary**).

14. Where an insurer is exempt from the requirement to have an Appointed Actuary, the insurer is not:

(a) required to submit the reports required to be prepared by an Appointed Actuary; and

(b) is not subject to the requirements for peer review.

However, for the purposes of the **capital standards** and reporting requirements under the Collection of Data Act, the insurer must still value its insurance liabilities in accordance with this Prudential Standard. The value of the insurance liabilities is the sum of the central estimate and the risk margin for both outstanding claims liabilities and premiums liabilities for all classes of

8 In the case of a Category C insurer, a reference to the 'Board' in this Prudential Standard shall be taken to include a reference to the senior officer outside Australia to whom authority has been delegated in accordance with *Prudential Standard GPS 510 Governance.*

9 Refer to section 49L of the Act.

10 This Prudential Standard sets out further detail regarding these certificates and reports.

business written by an insurer. Attachment A provides further detail on the requirements of this insurance liability valuation.

Exemption from requirement to appoint an actuary

15. A **small insurer** is exempt[11] from the requirement in paragraph 39(1)(b) of the Act to appoint an actuary when:

    (a) the insurer has provided APRA with documentary evidence that the criteria to be a small insurer under GPS 001 have been met; and

    (b) the insurer has attested to APRA, in writing, that it will meet these same criteria for the next 12 months. The chief executive officer (**CEO**)[12] of the insurer must provide this attestation.

16. In cases where APRA considers a small insurer to have a material amount of long-tail business inconsistent with paragraph (b) of the definition of small insurer under paragraph 6 of GPS 001, APRA may notify the insurer in writing that APRA considers that:

    (a) this criterion has not been satisfied; and

    (b) the insurer is not exempt from the requirement to appoint an actuary.

17. To maintain the exemption, an insurer must annually attest to APRA, in writing, that it:

    (a) has met the criteria to be a small insurer under GPS 001 for the previous 12 months; and

    (b) expects to meet these same criteria for the following 12 months.

    The CEO[13] of the insurer must annually provide this attestation.

18. Where an insurer fails to meet the criteria to be a small insurer under GPS 001, APRA may apply transition arrangements to the insurer for it to progressively meet the full actuarial requirements of this Prudential Standard. APRA may agree upon these transition arrangements with such insurers on a case-by-case basis. In agreeing upon these transition arrangements, APRA may take into account an insurer's rate of growth, which will be considered against both historic growth and expected growth according to the insurer's Business Plan[14].

19. An insurer may also be exempt from the requirement to appoint an actuary where APRA considers that the exceptional circumstances of the case merit an exemption. An insurer may apply to APRA for an individual exemption under

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11 The exemption is pursuant to a determination made under paragraph 7(1)(c) of the Act at the time this Prudential Standard was determined.

12 By whatever name called, or for a Category C insurer, the local equivalent.

13 By whatever name called, or for a Category C insurer, the local equivalent.

14 As defined in *Prudential Standard GPS 220 Risk Management*.

section 7 of the Act where it is of the view that its circumstances merit an exemption.

20. Notwithstanding any exemption, APRA may at any time require an insurer to commission, at the insurer's expense, an independent actuarial investigation of its insurance liabilities in accordance with the Act.[15] The insurer must appoint an actuary that meets the criteria specified in the Act and the criteria for an Appointed Actuary in *Prudential Standard GPS 520 Fit and Proper* (**GPS 520**).[16]

Roles and responsibilities of the Appointed Auditor

21. In addition to and without derogation from the role of an Appointed Auditor as provided for under the Act,[17] an Appointed Auditor's primary roles are to provide:

    (a) an independent and objective view on the truth and fairness of the insurer's financial statements; and

    (b) an assessment of the insurer's systems, procedures and controls used to address compliance with prudential requirements and for the purposes of producing reliable financial data.

    An insurer may also seek the advice of its Appointed Auditor in relation to other matters where the insurer considers this to be appropriate.

22. The Appointed Auditor must:

    (a) audit the yearly statutory accounts of the insurer; and

    (b) provide a certificate to the insurer relating to the yearly statutory accounts.[18] The certificate must fulfil the requirements set out in paragraphs 51 to 55.[19]

23. The Appointed Auditor must:

    (a) on an annual basis, review and test the insurer's systems, processes, and controls designed to:

        (i) address compliance with all prudential requirements; and

        (ii) enable the insurer to report reliable financial information to APRA; and

    (b) perform such other work as necessary to fulfil the Appointed Auditor's responsibilities under this Prudential Standard.

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15 Refer to section 49E of the Act.
16 Refer to section 49G of the Act.
17 Refer to section 49J of the Act.
18 Refer to paragraph 49J(1)(a) and subsection 49J(3) of the Act.
19 Refer to subsection 49(J)(3) of the Act.

24. The Appointed Auditor must provide a report to the insurer relating to the findings of this review.[20] The report must meet the requirements set out in paragraphs 56 to 58.[21]

25. The Appointed Auditor must provide the certificate and the report to the insurer within such time as to enable the insurer to provide the certificate and the report to APRA on or before the day that the insurer's yearly statutory accounts are required to be given to APRA in accordance with reporting standards made under the Collection of Data Act.[22]

Roles and responsibilities of the Appointed Actuary (other than of a run-off insurer)

26. Paragraphs 27 to 31 relate to an insurer (other than a **run-off insurer**) and its Appointed Actuary.

27. In addition to and without derogation from the role of an Appointed Actuary as provided for under the Act,[23] an Appointed Actuary's primary roles are to provide:

    (a) advice on the valuation of an insurer's insurance liabilities; and

    (b) an impartial assessment of the overall financial condition of the insurer.

    An insurer may also seek the advice of its Appointed Actuary in relation to other matters where the insurer considers this to be appropriate.

28. An Appointed Actuary must, on an annual basis (subject to paragraph 29), undertake an investigation to enable the preparation of the reports as required by this Prudential Standard.[24] These reports are:

    (a) the Financial Condition Report (**FCR**) and

    (b) the ILVR (which may form part of the FCR).

29. APRA may, in writing, specify that an FCR or ILVR (or both) in respect of an insurer are to be prepared:

    (a) more frequently than as required in paragraph 28 if, having regard to the particular circumstances of the insurer, APRA considers it necessary or desirable to obtain the reports more frequently for the purposes of the prudential supervision of the insurer; or

    (b) less frequently than as required in paragraph 28 if, having regard to the particular circumstances of the insurer, APRA considers it unnecessary to

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20 Refer to paragraph 49J(1)(c) of the Act.
21 Refer to subsection 49J(4) of the Act.
22 Refer to paragraphs 49L(1)(a) and (aa) of the Act.
23 Refer to section 49K of the Act.
24 Refer to paragraphs 49K(1)(a) and (b) of the Act.

obtain the reports on an annual basis for the purposes of the prudential supervision of the insurer.

30. An Appointed Actuary must provide the FCR and ILVR to the insurer within such time as to give the Board of the insurer a reasonable opportunity to:

(a) consider and use the FCR and ILVR in preparing the insurer's yearly statutory accounts; and

(b) provide the ILVR to the Reviewing Actuary for the purpose of peer review; and

(c) provide the FCR and ILVR to APRA on or before the day that the insurer's yearly statutory accounts are required to be given to APRA in accordance with reporting standards made under the Collection of Data Act.[25]

31. Where APRA has specified that an FCR or an ILVR (or both) are to be prepared more or less frequently under paragraph 29, APRA may also specify, in writing, the time within which:

(a) the Appointed Actuary must provide the reports to the insurer; and

(b) the insurer must provide the reports to APRA.[26]

In doing so, APRA will have regard to the particular circumstances of the insurer and the need to obtain the reports for the purposes of the prudential supervision of the insurer.

Run-off insurers

32. Paragraphs 33 to 40 relate to a run-off insurer and its Appointed Actuary.

33. In addition to and without derogation from the role of an Appointed Actuary as provided for under the Act,[27] the primary roles of the Appointed Actuary of a run-off insurer are to provide:

(a) advice on the valuation of the insurer's insurance liabilities; and

(b) an impartial review of the insurer's run-off plan.

An insurer may also seek the advice of its Appointed Actuary in relation to other matters where the insurer considers this to be appropriate.

34. The Appointed Actuary must, on an annual basis (subject to paragraph 38), undertake an investigation to enable the preparation of the reports as required by this Prudential Standard.[28] These reports are:

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25 Refer to paragraph 49L(1)(b) of the Act. In exceptional cases, an insurer may apply to APRA extend the time within which these reports are to be provided to APRA.

26 Refer to paragraph 49L(1)(b) of the Act.

27 Refer to section 49K of the Act.

(a) the report of a review of the insurer's run-off plan; and

(b) the ILVR.

35. The Appointed Actuary must review the run-off plan and provide a report indicating the Appointed Actuary's opinion as to whether the run-off plan and the supporting financial projections are reasonable and adequate having regard to the nature of the insurer, its historical performance and expected future trends in the industry.

36. Where the Appointed Actuary believes the assumptions made in the run-off plan and the supporting financial projections are not reasonable or adequate, the Appointed Actuary must propose recommendations designed to address the issues.

37. The report of the review of the run-off plan must include the matters listed in the right column of the table at Attachment A to *Prudential Standard GPS 220 Risk Management* (**GPS 220**).

38. APRA may, in writing, specify that the report of a review of the insurer's run-off plan or ILVR (or both) in respect of an insurer are to be prepared less frequently than as required in paragraph 34 if, having regard to the particular circumstances of the insurer, APRA considers it unnecessary to obtain the reports on an annual basis for the purposes of the prudential supervision of the insurer.

39. An Appointed Actuary must provide the report of a review of the insurer's run-off plan and ILVR to the insurer within such time as to give the Board of the insurer a reasonable opportunity to:

(a) consider and use the report of a review of the insurer's run-off plan and ILVR in preparing the insurer's yearly statutory accounts; and

(b) provide the ILVR to the Reviewing Actuary for the purpose of peer review; and

(c) provide the report of a review of the insurer's run-off plan and ILVR to APRA on or before the day that the insurer's yearly statutory accounts are required to be given to APRA in accordance with reporting standards made under the Collection of Data Act.[29]

40. Where APRA has specified that the report of a review of the insurer's run-off plan or an ILVR (or both) are to be prepared less frequently under paragraph 38, APRA may also specify, in writing, the time within which:

(a) the Appointed Actuary must provide the reports to the insurer; and

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[28] Refer to paragraphs 49K(1)(a) and (b) of the Act.

[29] Refer to paragraph 49L(1)(b) of the Act. In exceptional cases, an insurer may apply to APRA extend the time within which these reports are to be provided to APRA.

(b) the insurer must provide the reports to APRA.[30]

In doing so, APRA will have regard to the particular circumstances of the insurer and the need to obtain the reports for the purposes of the prudential supervision of the insurer.

Special purpose review

41. When APRA specifies in writing, an Appointed Auditor or Appointed Actuary must:

   (a) undertake a special purpose review of matters specified by APRA relating to the insurer's operations, risk management or financial affairs; and

   (b) prepare a report in respect of that review.[31]

42. The review must be completed in accordance with any relevant professional standards and guidance notes (as appropriate to the nature of the special purpose review), to the extent that they are not inconsistent with the requirements of this Prudential Standard. Where APRA considers, having regard to the nature of the insurer's operations and the purpose of the special purpose review, that the review should not be completed in accordance with those professional standards and guidance notes, APRA may advise the insurer in writing that an alternative standard must be used.

43. The cost of a special purpose review will be borne by the insurer. The Appointed Auditor or Appointed Actuary must submit the report to APRA and the insurer simultaneously within three months of the review being commissioned unless APRA grants an extension of time in writing.

Non-routine reporting by Appointed Auditors and Appointed Actuaries

44. The Act specifies certain circumstances where Appointed Auditors and Appointed Actuaries are required to report to APRA on a non-routine basis.[32] This may be where:

   (a) APRA requests specific information; or

   (b) where an Appointed Auditor or an Appointed Actuary has information that is specified in the Act or that they consider would assist APRA in performing its functions.

45. APRA may require an Appointed Auditor or an Appointed Actuary to provide information, or to produce books, accounts or documents, about an insurer if it will assist APRA in performing its functions under the Act.[33] To ensure that an

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30 Refer to paragraph 49L(1)(b) of the Act.

31 Refer to paragraphs 49J(1)(b) and (c), subsection 49J(4), paragraphs 49K(1)(a) and (b) and subsection 49K(3) of the Act.

32 Refer to sections 49 and 49A of the Act for details of these requirements. See also section 49B of the Act in relation to voluntary reporting.

33 Refer to section 49 of the Act.

Appointed Auditor and an Appointed Actuary are able to comply with any such request from APRA, the Appointed Auditor and Appointed Actuary must retain all working papers and other documentation in relation to the insurer for a period of seven years after the date of the report or certificate to which the working papers or documentation relate, as required under the *Corporations Act 2001*.[34]

46. In assessing whether the interests of policyholders may be materially prejudiced,[35] an Appointed Auditor and an Appointed Actuary must consider not only a single activity or a single deficiency in isolation. Policyholder interests may be materially prejudiced by a number of activities or deficiencies that may not individually result in a material threat to policyholder interests but, when considered in total, do amount to a material threat. In such cases, the Appointed Auditor or Appointed Actuary must provide such information to APRA as required under the Act if they have reasonable grounds for believing that the interests of policyholders may be materially prejudiced.[36]

47. In most cases, matters reported to APRA by an Appointed Auditor or an Appointed Actuary should also be reported by that person to the insurer to which the matter relates.[37] An Appointed Auditor or an Appointed Actuary must not notify the insurer where:

    (a) that person considers that, by doing so, the interests of policyholders would be jeopardised; or

    (b) where there is a situation of mistrust between the Appointed Auditor or the Appointed Actuary and the Board or senior management of the insurer.

48. An Appointed Auditor or an Appointed Actuary who is required to provide information to APRA on a non-routine basis[38] is not excused from such a requirement on the ground that doing so would tend to incriminate them or make them liable to a penalty.[39] Certain protection is provided under the Act[40] to Appointed Auditors and Appointed Actuaries who supply information to APRA in these circumstances.

Meetings with Appointed Auditors and Appointed Actuaries

49. APRA liaison with either an Appointed Auditor or an Appointed Actuary will normally be conducted under trilateral arrangements involving:

    (a) APRA;

34 Refer to section 307B, *Corporations Act 2001* for further requirements in relation to audit working papers.

35 Within the meaning of paragraph 49A(2)(d) of the Act.

36 Refer to subsection 49A(2) of the Act.

37 Note the operation of section 38E of the Act in relation to disclosure of certain information to directors and officers of the insurer.

38 Refer to sections 49 or 49A of the Act.

39 Refer to subsection 38F(1) of the Act.

40 Refer to section 49C and subsection 38F(2) of the Act.

(b) an insurer; and

(c) the insurer's Appointed Auditor or Appointed Actuary.

50. Any one of these parties may initiate a meeting or discussion when the party considers it necessary. Notwithstanding the trilateral relationship, APRA and an insurer's Appointed Auditor or Appointed Actuary may meet on a bilateral basis where either party considers this to be necessary.

Audit certificate and report

51. As required under the Act, an insurer's Appointed Auditor must:

(a) prepare a certificate relating to the insurer's yearly statutory accounts on an annual basis; and

(b) provide that certificate to the insurer within the time specified in paragraph 25.[41]

52. The certificate must be:

(a) addressed to the Board of the insurer; and

(b) provide the Appointed Auditor's opinion in respect of the insurer's yearly statutory accounts.

53. In preparing the certificate, the Appointed Auditor must have regard to relevant professional standards and guidance notes issued by the Auditing and Assurance Standards Board (**AUASB**), to the extent that they are not inconsistent with the requirements of this Prudential Standard.

54. The certificate must specify whether, in the Appointed Auditor's opinion, the yearly statutory accounts of the insurer present a true and fair view of the results of the insurer's operations for the year and financial position at year end, in accordance with:

(a) the provisions of the Act and prudential standards, the Collection of Data Act and reporting standards; and

(b) to the extent that they do not specify any requirements that conflict with the aforementioned:

(i) Australian Accounting Standards; and

(ii) other mandatory professional reporting requirements in Australia.

55. Where, for reasons beyond their control, the Appointed Auditor is unable to provide a certificate that complies with paragraph 54 (for example, if there are accounting records that have not been appropriately kept, transactions that appear irregular or that have not been accurately or properly recorded, requests

[41] Refer to subsection 49J(3) of the Act.

for information and explanation that have not been met, or aspects of the accounts that do not represent a true and fair view of the transactions and financial position), the certificate must be qualified and contain details of these matters.

56. An Appointed Auditor must prepare a report on an annual basis and provide that report to the insurer by the time specified in paragraph 25.[42] The report must:

(a) be addressed to the Board of the insurer; and

(b) provide the Appointed Auditor's opinion on a range of matters.

57. In preparing the report, the Appointed Auditor must have regard to professional standards and guidance notes issued by the AUASB, to the extent that they are not inconsistent with the requirements of this Prudential Standard. The Appointed Auditor must base this report on at least a limited assurance engagement.[43]

58. The Appointed Auditor must specify in the report the results of their investigations, including the matters listed at Attachment B.

Financial Condition Report

59. An Appointed Actuary must prepare an FCR.[44] The FCR must:

(a) provide the Appointed Actuary's objective assessment of the overall financial condition of the insurer; and

(b) form an important input into decision-making by the Board and senior management in respect of the operations of the insurer.

60. Paragraph 59 does not apply to the Appointed Actuary of a run-off insurer provided that:

(a) the run-off insurer prepares a run-off plan; and

(b) the Appointed Actuary prepares a report of the review of the run-off plan.

Where APRA is of the view that a run-off plan is not adequate in a particular case, APRA may, in writing, require that the Appointed Actuary prepare an FCR according to this Prudential Standard in respect of the run-off insurer.

61. The FCR must be:

(a) prepared on an annual basis; and

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[42] Refer to paragraph 49J(1)(c), subsection 49J(4) and paragraph 49L(1)(aa) of the Act.

[43] Limited assurance is defined in *Framework for Assurance Engagements* issued by the AUASB.

[44] Refer to paragraph 49K(1)(b) and subsection 49K(3)of the Act.

(b) provided to the insurer within the time required by paragraph 30 (unless APRA requires more regular or less frequent reporting under paragraph 29).

62. The FCR must:

(a) be addressed to the Board of the insurer; and

(b) provide the Appointed Actuary's objective assessment of the overall financial condition of the insurer.

63. In preparing an FCR, an Appointed Actuary must have regard to relevant professional standards issued by the Institute of Actuaries of Australia, to the extent that they are not inconsistent with the requirements of this Prudential Standard. In the event of any inconsistency arising from application of the professional standards and this Prudential Standard, the requirements of this Prudential Standard prevail.

64. An FCR must include (but need not be limited to) the matters listed at Attachment C.

65. The Appointed Actuary must consider the future implications and outlook for each of the matters listed in Attachment C. Where these implications are adverse, the Appointed Actuary must propose recommendations designed to address the issues.

66. As a general rule, an Appointed Actuary must complete an FCR in respect of each insurer. An insurer may submit to APRA an FCR in respect of its insurance group where:

(a) the Appointed Actuary completing the FCR is the Appointed Actuary for each insurer included in the insurance group FCR; or

(b) it is practical to produce a single over-arching FCR.

67. This insurance group FCR must adequately consider and address the operations of each insurer within that insurance group. Where APRA is of the view that the insurance group FCR does not adequately address the operations of each insurer or that a separate FCR is desirable to ensure that the requirements of this Prudential Standard are met, APRA may, in writing, do either or both of the following:

(a) require one or more insurers within the insurance group to prepare and submit to APRA a separate FCR;

(b) require the preparation and submission to APRA of an FCR for a different insurance group within the corporate group by a time specified by APRA.

68. For Category C insurers, an Appointed Actuary must prepare the FCR in respect of the Australian branch operation, but with consideration given to the financial position of the head office.

Valuation of insurance liabilities

69. An insurer must value its insurance liabilities in accordance with this Prudential Standard, whether or not the insurer is required to have an Appointed Actuary. Attachment A provides further details on this valuation. The valuation must then be used for the purpose of:

    a) calculating the insurer's Minimum Capital Requirement in accordance with the capital standards; and

    b) completing the insurer's yearly statutory accounts in accordance with reporting standards made under the Collection of Data Act.

70. Where an insurer includes in its yearly statutory accounts a value for insurance liabilities which is inconsistent with the advice of its Appointed Actuary, the insurer must notify APRA in writing at the same time it submits its yearly statutory accounts to APRA. This written notification must include:

    (a) the reasons for not accepting the Appointed Actuary's advice; and

    (b) where relevant, details of the alternative assumptions and methodologies used for determining the value of the insurance liabilities.

71. In determining the value of its insurance liabilities, an insurer (after taking advice from its Appointed Actuary) must determine a value for both its:

    a) outstanding claims liabilities and

    b) premiums liabilities

    for each class of business.[45]

72. Outstanding claims liabilities relate to all claims incurred prior to the valuation date, whether or not they have been reported to the insurer. The value of the outstanding claims liabilities must include an amount in respect of the expenses that the insurer expects to incur in settling these claims. An insurer must determine the outstanding claims liabilities on a prospective basis, both net and gross of:

    a) **reinsurance recoverables**; and

    b) non-reinsurance recoveries.

73. Premiums liabilities relate to all future claim payments arising from future events post the valuation date that will be insured under the insurer's existing policies that have not yet expired. The value of the premiums liabilities must include an amount in respect of the expenses that the insurer expects to incur in administering and settling the relevant claims and allow for expected premium

[45] An insurer's insurance liabilities may also include its exposure from surety bond business, depending on the treatment adopted under *Prudential Standard GPS 114 Capital Adequacy: Investment Risk Capital Charge* (**GPS 114**).

refunds. In respect of premiums liabilities for which reinsurance has not yet been purchased, allowance must be made for this reinsurance (refer to Attachment A for further details on the assumptions relating to this reinsurance). Premiums liabilities are to be determined on a prospective basis, both net and gross of:

a) **expected reinsurance recoveries**; and

b) non-reinsurance recoveries.

74. The value of outstanding claims liabilities and premiums liabilities must not include any Government charges imposed such as levies, duties and taxes. Also, a deferred acquisition cost asset must not be reported.

75. Premiums liabilities relating to insurance and reinsurance contracts written on a long-term (or continuous) basis, with the option for the party accepting the risk to cancel the contract prior to the expiry date, must make allowance for future claims anticipated to arise from risks covered up to the next possible cancellation date. For instance, a multi-year contract may be written on the basis that it may be cancelled by the risk carrier on a particular date (**cancellation date**) or within a particular period (so that the earliest cancellation date may be determined). In this case, the insurer or reinsurer would need to account for premiums liabilities for any unexpired risks which may:

a) arise up to and including the cancellation date; or

b) remain after the cancellation date.

76. Where the treatment in paragraph 75, when applied to an intra-group arrangement that existed prior to 1 October 2006, results in a premiums liability valuation that is unsuitable in the Appointed Actuary's opinion, the insurer and the Appointed Actuary must approach APRA to determine a suitable alternative valuation methodology. Insurers and Appointed Actuaries must not consider or propose alternative valuation methodologies for contracts entered into after 1 October 2006.

77. The valuation of insurance liabilities for each class of business must comprise:

(a) a central estimate value of the outstanding claims liabilities;

(b) a central estimate value of the premiums liabilities; and

(c) risk margins that relate to the inherent uncertainty in the central estimate values for outstanding claims liabilities and premiums liabilities. Allowance for diversification or reinsurance or both can be made in determining the risk margin.

78. The valuation of insurance liabilities reflects the individual circumstances of the insurer. In any event, the minimum value of insurance liabilities must be the greater of a value that is:

(a) determined on a basis that is intended to value the insurance liabilities of the insurer at a 75 per cent level of sufficiency; and

(b) the central estimate plus one half of a standard deviation above the mean for the insurance liabilities of the insurer.

79. For run-off insurers[46] wanting to repatriate capital, the liability valuation has to be at a higher level of sufficiency. This is explained in greater detail in the capital standards.

Insurance Liability Valuation Report

80. An Appointed Actuary must prepare an ILVR on an annual basis and provide that ILVR to the insurer within the time required by paragraph 30.[47] The ILVR must:

a) be addressed to the Board of the insurer; and

b) provide the Appointed Actuary's advice in respect of the value of the insurer's insurance liabilities, determined in accordance with this Prudential Standard.

81. In preparing an ILVR, an Appointed Actuary must have regard to professional standards issued by the Institute of Actuaries of Australia, to the extent that they are not inconsistent with the requirements of this Prudential Standard. In the event of any inconsistency arising from application of the professional standards and this Prudential Standard, the requirements of this Prudential Standard prevail.

82. The ILVR must, in respect of each class of business underwritten by the insurer, provide details (or abbreviated details for classes of business that are not material) of the matters listed in paragraph 45 of Attachment A. Further detail on the measurement and reporting of insurance liabilities is provided at Attachment A.

83. The Appointed Actuary must, at least annually, reassess the appropriateness of the assumptions and valuation methods used to determine the insurance liabilities of the insurer. Where a change in assumptions or method is made, the effects of that change on the value of the insurance liabilities must:

a) emerge in the current calculation period; and

b) not be spread over future calculation periods.

The effects must be disclosed in the ILVR.

84. The ILVR must provide sufficient information in relation to the assumptions and methods used for the valuation of liabilities so that another actuary reading the ILVR will be able to obtain a sound understanding of:

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[46] As defined in GPS 001.

[47] Refer to paragraph 49K(1)(b), subsection 49K(3) and paragraph 49L(b) of the Act.

a) the valuation process and results;

b) any inherent limitations in the process and results; and

c) the key risks pertaining to the insurance liabilities of the portfolio.

85. An Appointed Actuary must ensure that results are not presented in a way that gives the impression of greater reliability than is actually the case. This particularly applies in situations where materially different results could reasonably be justified.

Peer review

86. An insurer must arrange to have the ILVR prepared by the Appointed Actuary peer reviewed by a Reviewing Actuary. An insurer may apply to APRA for an exemption from this requirement where its exceptional circumstances merit an exemption. An exemption may be subject to any specified period of time or other conditions as APRA deems appropriate to the insurer's circumstances.

87. The FCR or a report of the review of a run-off plan is not required to be subject to review by the Reviewing Actuary. However, an insurer may choose to have the FCR or a report of the review of a run-off plan subject to peer review if the insurer considers it appropriate to do so.

88. An insurer must ensure that its Reviewing Actuary meets the eligibility and fit and proper criteria required to be met by Appointed Actuaries.[48] Where APRA does not consider that the Reviewing Actuary meets these criteria, APRA may, in writing, require that the insurer engage an alternate actuary to conduct the peer review.

89. The insurer must take all practical steps to ensure that the Reviewing Actuary is given full access to the insurer's Appointed Actuary and the ILVR, including appendices. Where the Reviewing Actuary believes the provision of further information is necessary, the insurer must provide equivalent access to other items on file supporting the report, relevant source data and staff or relevant contractors. The insurer must provide all information electronically if available in this form. This will include informing the Reviewing Actuary of all prudential requirements applicable to the insurer.

90. An insurer must ensure that its Reviewing Actuary prepares a report (**review report**) that:

a) provides an assessment of the reasonableness of the Appointed Actuary's investigations and report(s) (including the results specified within); and

b) is addressed to either the insurer or the insurer's Appointed Auditor.

91. The insurer must ensure that its Reviewing Actuary provide copies of the review report to its:

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48 Refer to GPS 520.

a) Appointed Actuary;

b) Appointed Auditor; and

c) Board and management of the insurer

within the time specified by paragraph 30. The review report is not required to be provided to APRA but the insurer must make it available to APRA upon request.

92. The review report must be prepared consistently with relevant professional standards issued by the Institute of Actuaries of Australia, to the extent that they are not inconsistent with the requirements of this Prudential Standard. In the event of any inconsistency arising from application of the professional standards and this Prudential Standard, the requirements of this Prudential Standard prevail.

93. An insurer must ensure that a review report includes:

(a) a description of the scope of the review, including details of the investigations and the reports being reviewed and the processes followed in the review;

(b) a description of the extent to which the Reviewing Actuary had access to relevant data, information, reports and staff (and contractors) of the insurer, and to the Appointed Actuary;

(c) an assessment of the appropriateness to the ILVR of the data, information and reports to which the Reviewing Actuary had access; and

(d) an assessment of the reasonableness of the Appointed Actuary's investigations and report(s) (including the results specified within).

Determinations made under previous GPS 310

94. An approval, determination, direction or requirement made by APRA under a provision specified in Column 1 of the following table that is in operation immediately prior to the commencement of this Prudential Standard is taken, on and from the effective date, to have been made under the provision of this Prudential Standard specified in the same row of Column 2 of the table.

Column 1: Provision of *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation made on 9 February 2006*	**Column 2: Provision of this Prudential Standard**
Paragraph 27: require an FCR or ILVR to be prepared more frequently or less frequently.	Paragraph 29

Column 1: Provision of *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation made on 9 February 2006*	**Column 2: Provision of this Prudential Standard**
Paragraph 29: specify the time within which a more or less frequent FCR or ILVR is to be completed.	Paragraph 31
Paragraph 47(a): require one or more insurers within an insurance group to prepare and submit a separate FCR.	Paragraph 67(a)
Paragraph 47(b): require the preparation and submission of an FCR for a different insurance group within a corporate group.	Paragraph 67(b)
Paragraph 66: require the insurer to engage an alternate actuary to conduct peer review.	Paragraph 88

Attachment A

Insurance Liability Valuation

1. Where an insurer is required to have an Appointed Actuary, it is the role of the Appointed Actuary to provide advice to the insurer in respect of the value of the insurer's insurance liabilities. This advice must be specified in an ILVR.

2. This Attachment sets out requirements relating to the measurement and reporting of insurance liabilities that must be considered by insurers and Appointed Actuaries in determining or providing advice in respect of an insurer's insurance liabilities. In relation to data, materiality and uncertainty, Appointed Actuaries must comply with paragraphs 4 to 13 of this Attachment when preparing an ILVR. The remainder of this Attachment must be complied with by:

   (a) all insurers in relation to the valuation of their insurance liabilities (whether or not the insurer is required to have an Appointed Actuary); and

   (b) all Appointed Actuaries when preparing an ILVR.

3. Where an Appointed Actuary has provided the insurer with any other actuarial report in relation to liability valuation during the preceding 12 months, the Appointed Actuary must note this in the ILVR and attach the actuarial report to the ILVR where relevant. An Appointed Actuary must exercise judgement in the amount of detail included in the ILVR in respect of advice already given.

Data

4. An insurer must make the arrangements that are necessary to enable its Appointed Actuary to prepare an ILVR.[49] The Appointed Actuary must therefore advise the insurer of:

   a) the data, information and reports that the Appointed Actuary will need; and

   b) staff and relevant contractors of the insurer with whom the Appointed Actuary will need to consult

   in order to prepare the ILVR. Where the insurer does not provide adequate and timely access to data, information, reports and staff as required, the Appointed Actuary may omit from the ILVR analysis that is dependent on that information but must provide details as to why it has been omitted and explain any consequent limitations of the ILVR.

5. The Appointed Actuary must take reasonable steps to verify the consistency, completeness and accuracy of the data provided by the insurer with reference to

[49] Refer to subsection 49K(2) of the Act.

the insurer's financial and other records. The Appointed Actuary must specify in the ILVR:

a) any discrepancies that cannot be resolved with the insurer; and

b) any consequent limitations of the ILVR.

6. The Appointed Actuary must be familiar with:

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

b) the characteristics of the insurance policies and claim processes that may materially impact upon the estimation of insurance liabilities.

7. The Appointed Actuary must be familiar with, or obtain advice on, the economic, technological, medical, legal and social trends within the broader community that may impact upon the value of insurance liabilities.

8. The Appointed Actuary must explain in the ILVR together with any consequent limitations of the ILVR the degree to which the Appointed Actuary relies on:

a) data, information or reports provided by the insurer; or

b) testing of the data or other information by the insurer's internal auditor, Appointed Auditor or other external auditor.

9. Where the Appointed Actuary is relying on work undertaken by other actuaries, the Appointed Actuary must be satisfied as to the suitability of assumptions and methods used by the other actuaries. Where the Appointed Actuary is not so satisfied, the Appointed Actuary must use alternative methods and explain them in the ILVR.

Materiality

10. The Appointed Actuary must take into account materiality when preparing an ILVR. Where information, if misstated or omitted, would cause the results or opinions of the Appointed Actuary to be misleading to users of the ILVR, that information would be considered material[50]. Whether something is material or not will always be a matter for an Appointed Actuary's judgement.

Uncertainty

11. The Appointed Actuary must:

a) describe, qualitatively, the key drivers of uncertainty for each class of business or portfolio being valued; and

50 'Materiality' for this purpose is independent of materiality within the meaning of Australian Accounting Standards.

b) explain and, if appropriate, quantify in the ILVR material changes in these key drivers, or uncertainty generally, since the previous valuation.

12. The Appointed Actuary must explain in the ILVR any material changes or significant emerging experience since the previous evaluation in the insurance liability outcomes by class of business.

13. The Appointed Actuary must explain in the ILVR the practical consequences of the uncertainty of the estimates included in the ILVR. In many cases, the range of reasonable values of the liabilities will be very large. The conclusions that may be drawn from a value at one end of this range may be very different from the conclusions drawn by a value at the other end.

Valuation of insurance liabilities

14. An insurer must determine a value for both its outstanding claims liabilities and its premiums liabilities for each class of business underwritten by the insurer (after taking advice from its Appointed Actuary).

15. In determining the value for outstanding claims liabilities and premiums liabilities, an insurer must determine a value for the central estimate and associated risk margin by class of business (subject to considerations of materiality and the professional judgement of the Appointed Actuary). The insurer must therefore calculate and report separately to APRA, and by class of business, central estimates and risk margins for outstanding claims liabilities and premiums liabilities.[51] However, this should not prevent analysis being undertaken on a basis which is more suitable, taking into account the nature of the data and the particular circumstances of the insurer.

16. The principles of this Prudential Standard must be applied to the calculation of both gross and net insurance liabilities.

The central estimate

18. The central estimate is intended to reflect the mean value in the range of possible values for the outcome (that is, the mean of the distribution of probabilistic outcomes). The determination of the central estimate must be based on assumptions as to future experience which reflect the experience and circumstances of the insurer and which are:

(a) made using judgement and experience;

(b) made having regard to available statistics and other information; and

(c) neither deliberately overstated nor understated**.**

19. Where experience is highly volatile, model parameters estimated from the experience can also be volatile. The central estimate must therefore reflect as

[51] Such reporting is required in both an ILVR and in statutory reporting (refer to reporting standards made under the Collection of Data Act).

closely as possible the likely future experience of the insurer. Judgement may be required to limit the volatility of the assumed parameters to that which is justified in terms of the credibility of the experience data.

20. The central estimate will be measured as the present value of the future expected payments. This measurement process will involve prospective calculations and modelling techniques, and will require assumptions in respect of the expected future experience, taking into account all factors which are considered to be material to the calculation, including:

    (a) discount rates;

    (b) claims escalation;

    (c) claims and policy management expenses; and

    (d) claims run-off.

21. In establishing the central estimate assumptions, regard must be given to the materiality of:

    (a) the class of business being considered; and

    (b) the effect of particular assumptions on the determined result.

22. The assumptions used must be consistent for the estimation of both outstanding claims liabilities and premiums liabilities. Where they are not, the reasons must be documented.

The risk margin

23. The risk margin is the component of the value of the insurance liabilities that relates to the inherent uncertainty that outcomes will differ from the central estimate. It is aimed at ensuring that the value of the insurance liabilities is established at an appropriate and sufficient level. The risk margin does not relate to the risk associated with the underlying assets, such as asset-liability mismatch risk.

24. Risk margins must be determined, for each class of business and in total, on a basis that reflects the experience of the insurer. In any event, the risk margins must be valued so that the insurance liabilities of the insurer, after any diversification benefit, are not less than the greater of a value that is:

    (a) determined on a basis that is intended to value the insurance liabilities of the insurer at a 75 per cent level of sufficiency; and

    (b) the central estimate plus one half of a standard deviation above the mean for the insurance liabilities of the insurer.

25. When selecting the methodology and assumptions to be used in determining the risk margin for a class of business, consideration should be given to a range of factors, including:

(a) the robustness of the valuation models;

(b) the reliability and volume of the available data and other information;

(c) past experience of the insurer and the general insurance industry; and

(d) the particular characteristics of each class of business.

26. The risk margins must be determined having regard to the uncertainty of the gross insurance liabilities and to any uncertainty related to the estimate of **reinsurance assets** and non-reinsurance recoveries that are deducted from the estimate of gross insurance liabilities.

27. Estimation of a standard deviation above the mean may present technical difficulties when components of the uncertainty in the central estimate do not permit statistical analysis to be undertaken. Estimation of a standard deviation above the mean will generally require both the exercise of judgement and technical analysis.

28. The risk margin plays a role in achieving an appropriate pattern of profit emergence for a class of business. However, the risk margin must not be used as a tool for smoothing the effect of changes in assumptions or valuation methods.

29. From year to year, risk margins would generally be a similar percentage of the central estimate for each class of business, unless there has been a material change in uncertainty. Changes in uncertainty may derive from changes in a number of elements such as reinsurance arrangements, the insurer's risk profile or volume of business, or external factors (for example, legislative requirements). The Appointed Actuary must document any material changes.

30. Allowance for diversification or reinsurance or both may be made in determining the risk margin. The Appointed Actuary must clearly document the justification for and method of determining such diversification allowance (which must be assessed on a holistic basis for the insurer) and reinsurance assets.

Discount rates

31. The value of an insurer's insurance liabilities is typically independent of the value of the insurer's underlying assets. A discount rate that is based on current observable, market-based and objective rates that directly relate to the nature, structure and term of the future obligations must therefore be used.

32. The rates to be used in discounting the expected future claims payments for a class of business are derived from the gross redemption yields, as at the calculation date, of a portfolio of sovereign risk securities in the currency of, and with a similar expected payment profile to, the insurance liabilities for that class (for example, Commonwealth Government securities for Australian liabilities). It is acceptable to use either the average rate or a series of discount rates taken from the relevant yield curve.

33. Where the expected payment profile of the insurance liabilities cannot be matched (for example, because the duration is too long), a discount rate regarded as consistent with the intention of paragraphs 31 and 32 of this Attachment must be used.

Methods for valuing insurance liabilities

34. A method, or methods, must be adopted for valuing an insurer's insurance liabilities. Comprehensive actuarial analysis and modelling techniques should be employed, subject to considerations of materiality. The appropriateness of any method, or methods, will depend on:

    (a) the class of business being considered;

    (b) the nature, volume and quality of the available data in relation to the experience of the insurer and the industry;

    (c) the circumstances of the insurer; and

    (d) considerations of materiality.

35. Approximate methods may be used when valuing an insurer's insurance liabilities subject to the principles of this Prudential Standard, and where the result is not material or not materially different from that which would result from a full valuation process. Approximate methods may, for example, be justified for short-tail classes of business where the effect of not discounting future expected claims is not material.

36. The onus for justification of the appropriateness of any valuation method rests with:

    (a) the Board of the insurer; and

    (b) the Appointed Actuary. Where an Appointed Actuary has been involved in the valuation of the insurance liabilities, the Appointed Actuary must explain in the ILVR the reasons for any valuation methods used.

Claims escalation

37. Appropriate allowance must be made for future claims escalation when determining the central estimates of both outstanding claims liabilities and premiums liabilities. Future claims payments may increase over current levels as a result of wages or price increases (inflation) and/or court-awarded interest, other environmental or economic causes (superimposed inflation), and appropriate allowance must be made for this. Claims payments include third party costs incurred in settling those claims, for example, investigation, medical and legal fees.

Estimation of reinsurance assets

38. The estimation of the value of the insurance liabilities may be undertaken on a gross basis, with a separate estimate of the value of reinsurance recoveries (that is, amounts expected to be recovered under the insurer's reinsurance arrangements), or on a net basis. In either case, the principles of this Prudential Standard must be applied. Where the process is undertaken on a net basis, it is still necessary to value separately the estimates of the gross insurance liabilities and the reinsurance assets.[52]

39. For the purpose of calculating an insurer's insurance liabilities, it must be assumed initially that:

    (a) reinsurance arrangements are fully documented;

    (b) reinsurance arrangements are 100 per cent placed, that is, there are no gaps in the insurer's reinsurance arrangements; and

    (c) reinsurance assets will be received in full.[53]

    Where reinsurance arrangements are not fully documented or are not fully placed, or there is a risk that reinsurance assets will not be received from a reinsurer, the insurer will either not be able to recognise the reinsurance assets or will be required to hold capital against these risks.[54]

40. The Appointed Actuary[55] must make a specific assessment of and comment on the recoverability of reinsurance recoverables from **non-APRA authorised reinsurers**. The Appointed Actuary must consider all relevant matters including the following:

    (a) quality of information and data available on potential reinsurance recoverables;

    (b) credit risk;

    (c) willingness to pay;

    (d) documentation and placement of contracts; and

    (e) any legal or other issues that may create an impediment to the insurer realising the reinsurance asset.

41. Aggregate reinsurance assets must be separated into subsets which identify those that derive from documented and non-documented reinsurance

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[52] This is also required to comply with reporting standards made under the Collection of Data Act.

[53] For further detail in respect of documentation of reinsurance arrangements, refer to *Prudential Standard GPS 230 Reinsurance Management*.

[54] Refer to reporting standards made under the Collection of Data Act for recognition of assets. Refer to *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* for detail in respect of capital requirements in relation to these risks.

[55] If an insurer is exempt from the requirement to appoint an actuary, the insurer must make the assessment and comment as required by this paragraph.

arrangements, those that derive from reinsurance arrangements that are fully placed and not fully placed, and those likely to be recoverable and those not likely to be recoverable from reinsurers. In providing this advice, the Appointed Actuary must consider the materiality of reinsurance assets. If they are material, the Appointed Actuary must assess the potential range of amounts not recoverable from reinsurers, based on the uncertainty of individual and aggregate gross losses. For the purposes of GPS 114, the reinsurance recoverables due from non-APRA-authorised reinsurers for each accident year must be identified in the ILVR.

42. The estimation of expected reinsurance recoveries in respect of premiums liabilities for which reinsurance has not yet been purchased can assume that the necessary reinsurance related to those liabilities will be purchased and documented. Allowance must be made for the purchase cost of this reinsurance. This assumption must only be made when existing reinsurance arrangements are documented and when the estimated expected reinsurance recoveries relate to the same classes of business that are currently covered by the existing documented reinsurance arrangements, and it is fully expected that the reinsurance will be replaced on similar terms when current arrangements expire.

43. The estimation of the value of reinsurance assets would normally be undertaken on the basis of each class of business written by the insurer. However, there are certain forms of reinsurance where reinsurance assets receivable depend on the combined claims experience of several or all classes of business underwritten by the insurer. In such instances, the estimation will be required to factor in all the individual results by class of business covered by the reinsurance arrangements.

Non-reinsurance recoveries

44. Non-reinsurance recoveries are amounts that may be recovered under arrangements other than reinsurance arrangements, such as salvage, subrogation and sharing agreements. The treatment of non-reinsurance recoveries must be consistent with that required by reporting standards made under the Collection of Data Act.

Matters to be included in an ILVR

45. For the purposes of paragraph 82 of this Prudential Standard, details of the following matters must be provided in an ILVR:

(a) the value of insurance liabilities determined in accordance with this Prudential Standard;

(b) assumptions used in the valuation process, including the extent to which the assumptions used are based on the experience of the insurer;

(c) availability and appropriateness of the data;

(d) significant aspects of recent experience;

(e) the methodologies used to model the central estimates of outstanding claims liabilities and premiums liabilities;

(f) an indication of the uncertainty in the central estimates, including statistics such as the standard deviation;

(g) the sensitivity analyses undertaken;

(h) a description of probability distributions and parameters, or approaches adopted to estimate uncertainty if these are not specifically determined; and

(i) risk margins that relate to the inherent uncertainty in the central estimate values for outstanding claims liabilities and premiums liabilities.

Attachment B

Matters to be addressed in an Appointed Auditor's report

For the purposes of paragraph 58 of this Prudential Standard, the Appointed Auditor's report must address whether:

(a) there exist systems, procedures and controls that are kept up to date and address compliance with all prudential requirements. If the Appointed Auditor is of the opinion that the insurer does not have such systems, procedures and controls, it must specify in the report the reasons for this opinion;

(b) systems, procedures and controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing returns to APRA in accordance with the Collection of Data Act) are adequate and effective;

(c) during the course of testing the insurer's systems, procedures and controls, instances of non-compliance with prudential requirements have been identified. If so, details are to be provided;

(d) the insurer has complied, in all significant respects, with its Risk Management Strategy (**RMS**) and Reinsurance Management Strategy (**REMS**).[56] If the Appointed Auditor is of the opinion that the insurer has not complied with its RMS and REMS, it must specify in the report the reasons for this opinion;

(e) the insurer has systems, procedures and controls in place to ensure that reliable statistical and financial data are provided to APRA in the quarterly returns required by reporting standards made under the Collection of Data Act. If the Appointed Auditor is of the opinion that the insurer does not have such systems, procedures and controls, it must specify in the report the reasons for this opinion; and

(f) there are matters which have come to the Appointed Auditor's attention that will, or are likely to, adversely affect the interests of policyholders of the insurer. If so, the Appointed Auditor must provide details in the report.

[56] As defined in GPS 220 and *Prudential Standard GPS 230 Reinsurance Management* respectively.

Attachment C

Matters to be included in an FCR

For the purposes of paragraph 64 of this Prudential Standard, the following matters must be included in an FCR, where relevant:

(a) business overview;

(b) assessment of the insurer’s recent experience and profitability, including at least the experience during the year ending on the valuation date;

(c) summary of the key results of the ILVR (prepared in accordance with this Prudential Standard);

(d) assessment of the adequacy of past estimates for insurance liabilities (where appropriate, this may include references to the ILVR or past ILVRs);

(e) assessment of asset and liability management, including the insurer’s investment strategy;

(f) assessment of current and future capital adequacy and a discussion of the insurer’s approach to capital management;

(g) assessment of pricing, including adequacy of premiums;

(h) assessment of the suitability and adequacy of reinsurance arrangements, including the Maximum Event Retention, documentation of reinsurance arrangements and the existence and impact of any limited risk transfer arrangements; and

(i) high-level assessment of the suitability and adequacy of the risk management framework.[57]

[57] As defined in GPS 220.