

GRF_115_0A_G: Outstanding Claims Liabilities - Insurance Risk Charge - Australia by Class of Business (G)

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Reporting entity

This form is to be completed by the parent entity of a Level 2 insurance group as defined in Prudential Standard *GPS 001 Definitions* (GPS 001) where the Level 2 insurance group does not have a reporting adjustment to report on an 'Australia by region' rather than 'Australia by class of business' basis. If the Level 2 insurance group has a reporting adjustment, it must complete *GRF 115.0B_G Outstanding Claims Liabilities – Insurance Risk Charge – Australia by Region*.

Consolidation at Level 2 should cover the Level 2 insurance group as defined under GPS 001.

Australian and international business

Level 2 insurance groups are required to report financial data on both Australian business and International Business (as defined in GPS 001). Diversification will be the primary adjustment made on group basis that affects the insurance risk charge and should be recognised in the risk margins for each class of business. The totals at the end of the form, i.e. Section 5, may take into account other group adjustments.

Direct business

Section 1 is to be completed for the Australian insurance business written directly by the Level 2 insurance group and is to be reported in accordance with the direct classes of business in Attachment B of GPS 001.

Section 2 is to be completed by summing the classes of business for each international region.

Reinsurance business

Section 3 is to be completed for the reinsurance business written by the reporting insurer and is to be reported in accordance with the reinsurance classes of business in Attachment B of GPS 001 and Attachment A of GPS 115. The classes of business are to be aggregated by the Category and Reinsurance Type in Table 2 of Attachment A of GPS 115 for reporting on this form.

Section 4 is to be completed by summing the classes of business for each international region.

Where a Level 2 insurance group underwrites an inwards reinsurance contract which spans multiple classes and the Level 2 insurance group cannot readily split the contract between classes, the contract must be allocated by using an appropriate method (provided the same method is used for all contracts and for all subsequent periods), including the methods set out in *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge* (GPS 115).

Class of business

Report the items in the Australian business sections by the direct or reinsurance classes of business in accordance with Attachment B of GPS 001.

For the purpose of calculating the Insurance Risk Charge in respect of the 'Other' class of business as per GPS 001 for direct business, the Appointed Actuary is required to determine the most appropriate category (i.e. category A, B or C) in Table 1 of Attachment A of GPS 115 that this business falls within. The choice must be based on the underlying risk characteristics of the business being written. This amounts reported in the Other direct - category A, Other direct - category B or Other direct - category C line items are to follow this basis.

For reinsurance business, the classes of business in Table 2 of Attachment A of GPS 115 are to be aggregated by the Category and Reinsurance Type for reporting on this form.

International region

For International regions, class of business data is not reported in this form. Level 2 insurance groups, however, will be required to map their international business to the Australian classes of business as defined in GPS 001 in order to assign an insurance risk capital charge and provide a reporting supplement to APRA. Diversification adjustments on international business should be recognised in the risk margin for each geographical region.

Instructions for specific items

Were actuarial services used to complete this return (Yes/No)

If actuarial services were used to complete this form input 'Yes', otherwise input 'No'.

Sections 1, 2, 3, 4 and 5

(2) Gross OCL - Central estimate

This is the value, as at the relevant date, of the central estimate component of outstanding claims liabilities (OCL), gross of any recoveries, determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

The central estimate will be measured as the present value of the future expected payments, i.e. discounted for future investment income, determined in accordance with GPS 320. 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), and so does not include any risk margin.

(3) Gross OCL - Risk margin

This is the value, as at the relevant date, of the diversified risk margin component of OCL, gross of any recoveries, determined in accordance with GPS 320. The diversified risk margin refers to the risk margin that has been applied to the class of business after allowance for diversification across the whole insurance portfolio.

The risk margin is the component of the value of OCL that relates to the inherent uncertainty that outcomes will differ from the central estimate. When added to the central estimate, it is intended to increase the likelihood that the OCL will be sufficient to the level required in GPS 320.

(4) Gross OCL - Total

This is the total of the central estimate and diversified risk margin for OCL, gross of any recoveries.

It is automatically calculated as: Column 2 plus Column 3.

(5) Non-reinsurance recoveries

This is the value, of recoveries under arrangements other than reinsurance arrangements, receivable by the Level 2 insurance group associated with the OCL, net of any provisions for depreciation or impairment. It is determined in accordance with GPS 320. Recoveries to be included at this item include salvage, subrogation, and input tax credit recoveries, amongst others.

(6) Reinsurance recoveries

Reinsurance recoveries has the same meaning as 'Reinsurance recoverables' in GPS 001. For each class of business and region report the reinsurance recoveries associated with the OCL calculated in accordance with GPS 320. The value reported must be net of any provisions for doubtful debts.

Level 2 insurance groups should recognise reinsurance recoveries, which are calculated in accordance with GPS 320, but which are due from reinsurance arrangements that do not fully meet the reinsurance documentation tests specified in *Prudential Standard GPS 230 Reinsurance Management*.

Reinsurance recoveries would normally be estimated on the basis of each class of business written by the Level 2 insurance groups. However, there are certain forms of reinsurance where recoveries depend on the combined claims experience of several or all classes of business underwritten by the Level 2 insurance group. In such instances, the estimation will be required to factor in all the individual results by class of business covered by the reinsurance arrangement.

(7) Net OCL – Central estimate

This is the value, as at the relevant date, of the central estimate component of OCL, net of any reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320.

(8) Net OCL - Stand-alone risk margin

This is the value, as at the relevant date, of the stand-alone risk margin component of OCL, net of any reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320. The stand-alone risk margin refers to the risk margin that would be applied to a class of business where no allowance for diversification with other classes of business has been allowed.

(9) Net OCL - Diversified risk margin

This is the value, as at the relevant date, of the diversified risk margin component of OCL, net of any reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320. The diversified risk margin refers to the risk margin that has been applied to the class of business after allowance for diversification across the whole insurance portfolio.

(10) Net OCL - Total

This is the total of the central estimate and diversified risk margin for OCL, net of any reinsurance and non-reinsurance recoveries.

It is automatically calculated as Column 7 plus Column 9 in sections 1 and 3 and Column 7 plus Column 8 in Sections 2 and 4.

(11) OCL capital factor %

Sections 1 and 3 (Australian business by class): This is the outstanding claims risk capital factor applicable to each class of business as per Attachment A of GPS 115.

Sections 2 and 4 (International business by class): As part of the supplementary information provided to APRA, Level 2 insurance groups are required to have mapped their international business to the Australian classes of business as defined in GPS 001. For international business, this column requires Level 2 insurance groups to report a weighted average capital factor which applies to the total of all the classes for each region.

(12) OCL Insurance Risk Charge

This is the Insurance Risk Charge in respect of outstanding claims risk, which relates to the risk that the value of the net OCL is greater than the value determined in accordance with GPS 320.

It is automatically calculated as Column 10 multiplied by Column 11 in sections 1 and 3 and Column 9 multiplied by Column 10 in sections 2 and 4.

Section 5

Total direct Australian business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 1.

Total direct International business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 2.

Total reinsurance Australian business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 3.

Proportional

Each item in this row is automatically calculated as the sum of each corresponding column across the proportional classes of business in Section 3.

Non-proportional

Each item in this row is automatically calculated as the sum of each corresponding column across the non-proportional classes in Section 3.

Total reinsurance International business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 4.

Group adjustments

Adjustments not recognised in Sections 1 to 4 are to be reported in this section of the form. Group adjustments are to be reported as negative values.

Adjustments to OCL Insurance Risk Charge as approved by APRA

If APRA is of the view that the Standard Method for calculating the OCL Insurance Risk Charge component of the prescribed capital amount does not produce an appropriate outcome in respect of a Level 2 insurance group, or a Level 2 insurance group has used inappropriate judgement or estimation in calculating the OCL Insurance Risk Charge, APRA may adjust the OCL Insurance Risk Charge calculation for that Level 2 insurance group.

Approved adjustments are to be reported separately in the associated table highlighting the description of the adjustment given, transitional status and amount of adjustment applied. An increase in the risk charge is to be reported as a positive amount.

This is calculated automatically as the sum of Column 3 in the table that follows.

OCL surplus / (deficit)

Include in this item the value of OCL that are recognised in *GRF 300.0_G Statement of Financial Position* (GRF 300.0_G), that are in excess of the OCL valuation required by GPS 320 as reported in this form (positive value); or those that are in deficit to the OCL valuation required by GPS 320 (negative value).

This is calculated on a net basis as per the following:

Calculate the total net OCL as reported in GRF 300.0_G as:

- Item 16 (GRF 300.0_G) *Outstanding claims liabilities*;
- Less: sum of reinsurance recoveries and non-reinsurance recoveries:
 - Item 2.4.1 (GRF 300.0_G) *Net amount recoverable from reinsurance contracts on outstanding claims and paid claims: On outstanding claims*; plus
 - Item 2.2.1 (GRF 300.0_G) *Total net recoveries other than reinsurance receivable: On outstanding claims*;
- Less: *Net OCL - Total* for all classes of business (including group adjustments) in this form.

This value will be included in Item 1.1.6.1 of *GRF 112.0_G Determination of Capital Base*.