

## **GRF\_118\_0\_G: Operational Risk Charge (G)**

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

### **Explanatory notes**

#### **Intra-group exposures**

The Operational Risk Charge for a Level 2 insurance group is calculated after consolidation of intra-group exposures.

### **Instructions for specific items**

#### **1. Operational Risk Charge for inwards reinsurance business (ORCI)**

This is the Operational Risk Charge relating to the Level 2 insurance group's inwards reinsurance business.

This is automatically calculated by the form using values reported in Items 1.1, 1.2 and 1.3, in accordance with paragraph 9 of *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge* (GPS 118).

##### **1.1 GWP for the 12 months ending on the reporting date (ORCI)**

This is the value of gross written insurance premium revenue relating to the Level 2 insurance group's inwards reinsurance business, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* (the Act) and unclosed business. This is gross of any associated outwards reinsurance expense.

##### **1.2. GWP for the 12 months ending on the date 12 months prior to the reporting date (ORCI)**

This is the value of gross written insurance premium revenue relating to the Level 2 insurance group's inwards reinsurance business, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

##### **1.3. Central estimate of net insurance liabilities (ORCI)**

This is the value, relating to the Level 2 insurance group's inwards reinsurance business, of the central estimate component of outstanding claims liabilities (OCL) and premiums liabilities (PL), net of any recoveries that relate to the gross OCL and

gross PL, determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

Under GPS 320, a Level 2 insurance group may use accounting entries to determine its PL. For the purposes of this item, where accounting entries have been used to determine net PL, the Level 2 insurance group must use the accounting net PL instead of the net central estimate.

## **2. Operational Risk Charge for business that is not inwards reinsurance (ORCNI)**

This is the Operational Risk Charge relating to business written directly by the Level 2 insurance group.

This is automatically calculated by the form using values reported in Items 2.1, 2.2 and 2.3, in accordance with paragraph 10 of GPS 118.

### **2.1. GWP for the 12 months ending on the reporting date (ORCNI)**

This is the value of gross written insurance premium revenue relating to business written directly by the Level 2 insurance group, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

### **2.2. GWP for the 12 months ending on the date 12 months prior to the reporting date (ORCNI)**

This is the value of gross written insurance premium revenue relating to business written directly by the Level 2 insurance group, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

### **2.3. Central estimate of net insurance liabilities (ORCNI)**

This is the value, relating to business written directly by the Level 2 insurance group, of the central estimate component of OCL and PL, net of any recoveries that relate to the gross OCL and gross PL, determined in accordance with the relevant prudential standard. The OCL and PL relate to business written directly by the Level 2 insurance group.

Under GPS 320, a Level 2 insurance group may use accounting entries to determine its PL. For the purposes of this item, where accounting entries have been used to determine net PL, the Level 2 insurance group must use the accounting net PL instead of the net central estimate.

### **3. Adjustments to Operational Risk Charge as approved by APRA**

If APRA is of the view that the Standard Method for calculating the Operational 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 Operational Risk Charge, APRA may adjust the Operational 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.

### **4. Total Operational Risk Charge**

This is the minimum amount of capital a Level 2 insurance group must hold against the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is calculated in accordance with GPS 118.

It is automatically calculated as Item 1 plus Item 2 plus Item 3.