



25 November 2020

Reporting Form Liabilities – Life Insurance (Non-participating)

REPORTING INSTRUCTIONS

These instructions assist completion of the *Reporting Form Liabilities – Life Insurance (Non-participating)*.

Report information on a best endeavours basis. Where information is not available within the timeframes requested, provide available information and do not delay the submission.

Please provide in a response letter, an explanation of the significant judgements made, assumptions used (including an indication of the current level of uncertainty in the working assumptions) and business lines excluded when preparing this QIS. This is to facilitate APRA's understanding of the data included in the QIS.

Liability calculation approach

This form collects data on underlying liabilities that insurers calculate to determine the capital requirements.

For this QIS exercise, life insurers are to apply the principles and parameters outlined in Chapter 2 of the discussion paper.

Reporting consolidation

Information in this form is to be completed by life insurers for each reporting period on a statutory fund basis. The information provided in the form by life insurers is for non-participating business (as per the *Life Insurance Act 1995* (Life Act)) only.

Reporting basis and units of measurement

Report values in this form in whole Australian dollars (AUD) with no decimal place.

General accounting basis

Convert amounts denominated in foreign currency to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates*.

Reporting periods and due dates

Each insurer must complete this form with information as at the most recent reporting year end. The form is required to be provided to APRA by **5pm AEST, 31 March 2021**.

Excel template - Shaded areas

- Shaded areas in grey: Insurers are not to complete these data items.

- Shaded areas in blue: Insurers are not to complete these data items. However, APRA may collect the data items under the revised reporting framework.

SPECIFIC INSTRUCTIONS

Approach to the liability data collection

APRA has outlined below its current thinking of ways of utilising the liability data to have views of profitability and liability profiles by APRA product groups. APRA is seeking feedback from insurers on ways to improve APRA's data collection approach to liabilities such that it can effectively perform profitability and actual vs expected analyses using the capital basis.

APRA views that this form could replace the existing *LRF 200 Capital Adequacy Supplementary Information*, *LRF 400 Statement of Policy Liabilities*, and *LRF 430 Sources of Profit*.

APRA product groups

The proposed APRA product groups are outlined in the discussion paper. Insurers are to refer to the proposed APRA product groups when completing this form.

Valuation basis

Within each APRA product group, some valuation data (actuals as at reporting date) will be collected on up to three bases, indicated as follows:

- LY/LY: Current position, based on previous year's valuation basis
- LY/TY: Current position, based on previous year's valuation basis substituting current year's investment and economic assumptions
- TY/TY: Current position, based on current year's valuation basis

Discount unwind

Discount unwind is a discounting component of actual in-force values (LY/LY) as at reporting date that were rolled-forward from the prior year reporting date to the current year reporting date.

Definition of new business

The form requests details of liabilities at the reporting date for business that was in-force at the end of the previous year and for new business that commenced during the reporting year. New business should be defined consistently with the definition in paragraph 22 of *LRF 750.0 Claims and Disputes*. Life insurers that adopt a short term contract boundary for AASB 17 and treat renewals as new business should not follow this approach for this form.

Value as at 12 months after reporting date

The form requests details of liabilities as at the reporting date and as at 12 months after the reporting date, but discounted to the reporting date.

For Liability for Remaining Coverage (LRC) (and Reinsurance Remaining Coverage (RRC)), the difference between these items is the value at the reporting date of the claims that are expected to be incurred in the next 12 months, the expected expenses for the next 12 months less the expected premiums for the next 12 months.

In the following year, APRA intends to collect values for actual incurred claims, expenses and premiums for business in-force at the end of the previous year. These values will be compared with the expected amounts derived from the prior year form.

For Liability for Incurred Claims (LIC) (and Reinsurance Incurred Claims (RIC)), liabilities as at 12 months after the reporting date are the projected roll-forward value of the liabilities. The difference between LIC (and RIC) as at the reporting date and as at 12 months after the reporting date is the value at the reporting date of the liability amounts that are expected to be released / paid from LIC (and RIC) in the next 12 months.

Section 1: Unstressed – In-force business

This section relates to business in-force as at the end of the previous reporting year. It excludes new business that commenced during the year. For the in-force business life insurers should report components of Net RFEFCF (LIC, LRC, RIC and RRC components) as at the reporting date under three separate bases.

APRA also intends to collect values for actual incurred claims, expenses and premiums in the preceding year for the in-force business. These values will be compared to expected values derived from the prior year form. APRA is considering whether it should separately collect expected values in the liabilities reporting form rather than using the values derived from the prior year form.

To assist APRA in deriving expected values for the following year, APRA proposes that life insurers report components of Net RFEFCF as at 12 months after the reporting date, discounted to the reporting date. This information is collected in Section 1 for in-force business and in Section 2 for new business. The in-force and new business values will be aggregated for comparison with actual in-force values reported in the following year.

The actual vs expected analysis of premiums, claims, expenses and liability values would assist APRA in assessing profitability drivers and sufficiency of previously selected assumptions and liability levels.

Section 1 and section 2 also propose to collect the following categories of Insurance Acquisition Cash Flows (IACF):

- AASB 17 IACF component within LRC (and RRC) valued under Premium Allocation Approach (PAA) and General Measurement Model (GMM);
- AASB 17 IACF asset item for insurance contracts (IACF liability item for reinsurance contracts)¹; and
- AASB 17 IACF written off under PAA for insurance and reinsurance contracts.

APRA would like to use the capital basis (in conjunction with the AASB 17 financial data) to perform financial and profitability analyses. In this context, APRA views that it can use LRC and RRC of RFEFCF, and IACF data to obtain a proxy view of expected future profitability by APRA product groups and perform benchmarking analysis across insurers.

¹ APRA is currently assessing how reinsurance initial commission received would be treated under AASB 17 PAA and GMM for reinsurance contracts. The definitions will be updated once the reporting position is confirmed.

APRA views that this approach results in significantly lower regulatory burden as opposed to APRA asking insurers to separately calculate and determine CSM by APRA product groups for APRA reporting (indicative direction outlined in the APRA letter dated 27 September 2019).

Item 1.1	<p>LIC - Claims in Course of Payment (CICP)</p> <p>This item is the present value of expected claim payments and expenses in respect of CICP which forms part of LIC.</p> <p>This item also includes other related liabilities such as reopened claims and closed but not reported liabilities.</p>
Item 1.2	<p>LIC - Reported but Not Admitted (RBNA)</p> <p>This item is the present value of expected claim payments and expenses in respect of RBNA which forms part of LIC.</p>
Item 1.3	<p>LIC - Incurred but Not Reported (IBNR)</p> <p>This item is the present value of expected claim payments and expenses in respect of IBNR which forms part of LIC.</p>
Item 1.4	<p>LIC – Other LIC component</p> <p>This item is the present value of other LIC components that do not fall under the categories of CICP, RBNA and IBNR.</p> <p>In the QIS workbook, APRA asked insurers to outline the components reported under this item.</p>
Item 1.5	<p>LRC – Present value of expected premiums</p> <p>This item is the present value of all future premiums expected to be received after the reporting date in respect of LRC.</p> <p>This item must exclude premiums invoiced but not received (i.e. premiums receivable component) in relation to the insurance arrangements that are in place.</p> <p>[Similarly, “RRC – Present value of expected premiums” must exclude reinsurance premiums invoiced but not paid (i.e. premiums payable component) in relation to the reinsurance arrangements that are in place.]</p>
Item 1.6	<p>LRC – Present value of expected future incurred claims</p> <p>This item is the present value of all expected future incurred claims after the reporting date in respect of LRC.</p>
Item 1.7	<p>LRC – Present value of expected commissions</p> <p>This item is the present value of all expected commissions after the reporting date in respect of LRC.</p>
Item 1.8	<p>LRC – Present value of expected other maintenance and overhead costs</p>

	<p>This item is the present value of all expected other maintenance and overhead costs after the reporting date in respect of LRC.</p>
Item 1.9	<p>LRC – Present value of expected other LRC component</p> <p>This item is the present value of expected other LRC components that do not fall under the categories of premiums, claims, commissions and other maintenance and overhead costs.</p> <p>In the QIS workbook, APRA asked insurers to outline the components reported under this item.</p>
Item 1.10	<p>Insurance contract - Actual premiums received over the reporting year</p> <p>This item is actual premiums received over the reporting year from underlying insurance contracts of in-force business.</p>
Item 1.11	<p>Insurance contract - Actual claims incurred over the reporting year</p> <p>This item is actual claims incurred over the reporting year from underlying insurance contracts of in-force business.</p>
Item 1.12	<p>Insurance contract - Actual commissions incurred over the reporting year</p> <p>This item is actual commissions incurred over the reporting year from underlying insurance contracts of in-force business.</p>
Item 1.13	<p>Insurance contract - Actual maintenance and overhead costs incurred over the reporting year</p> <p>This item is actual maintenance and overhead costs incurred over the reporting year from underlying insurance contracts of in-force business.</p>
Item 1.14	<p>Insurance contract - Actual other LRC component incurred over the reporting year</p> <p>This item is actual LRC component incurred over the reporting year from underlying insurance contracts of in-force business.</p>
Item 1.15	<p>Insurance contract - AASB 17 - IACF component within LRC</p> <p>This is an estimate of IACF components within the AASB 17 LRC under PAA and GMM by APRA product groups.</p> <p>The estimation is to be based on a considered analysis reflecting the financial and cash flow profiles of individual APRA product groups.</p> <p>The aggregate of APRA product group IACF components must reconcile with the overall AASB 17 IACF component for underlying insurance contracts of in-force business (excludes new business).</p> <p>Report the asset component as a positive number (not as a negative liability number).</p>

Item 1.16	<p>Insurance contract - AASB 17 - IACF asset item</p> <p>This is an allocated amount of the aggregate AASB 17 IACF asset item by APRA product groups. The AASB 17 IACF asset item is recognised under AASB 17 paragraph 28B.</p> <p>The allocation is to be based on a systematic and rational approach reflecting how each APRA product group contributed to the origination of the IACF asset item.</p> <p>The aggregate of APRA product group IACF asset items must reconcile with the overall AASB 17 IACF asset item for underlying insurance contracts of in-force business (excludes new business).</p> <p>Report the asset item as a positive number (not as a negative liability number).</p>
Items 1.17 to 1.47	<p>Refer to the corresponding items above when reporting items 1.17 to 1.47.</p> <p>If a component of RRC or RIC is an asset, report the component as a positive number (not as a negative liability number).</p> <p>For Reinsurance contract - AASB 17 - IACF component within RRC and Reinsurance contract - AASB 17 - IACF liability item, report the respective liability component and item as positive numbers (not as negative asset numbers).</p>

Section 2: Unstressed – New business commenced during the reporting year

This section reports the values of the LRC, RRC, LIC and LRC components as at reporting date and as at 12 months after reporting date but for underlying contracts of new business commenced during the reporting year.

Refer to the definitions of the Section 1 items and the items below when completing Section 2.

Items 2.12 and 2.23	<p>Insurance contract - AASB 17 - IACF written off under PAA in the reporting year</p> <p>Reinsurance contract - AASB 17 - IACF written off under PAA in the reporting year</p> <p>This is an allocated amount of the aggregate AASB 17 IACF written off under AASB 17 paragraph 59(a) by APRA product groups for insurance and outwards reinsurance contracts.</p> <p>This excludes impairment expense recognised after assessing the recoverability of the IACF asset item.</p> <p>The allocation is to be based on a systematic and rational approach reflecting how each APRA product group contributed to the origination of the IACF that was written off.</p> <p>Report IACF written off amounts for insurance contracts and reinsurance contracts as positive numbers.</p>
---------------------	--

Section 3: Stressed – All business

This section reports the values of the LRC, RRC, LIC and LRC components as at reporting date and as at 12 months after reporting date but post the effect of insurance risk stresses and management actions for all business.

Refer to the definitions of the Section 1 items when completing Section 3.

Section 4: Components of Termination Value (net of reinsurance) – All business

This section reports Termination Values of all business.

Item 4.1	Net outstanding claims (LIC - RIC) This item is the value after deducting RIC from LIC.
Item 4.2	Annuity and investment liability value This item is the Termination Values in respect of L2, L15, L16, L17 and L18 product groups.
Item 4.3	Unexpired Risk Reserve This item is the total expected future claim payments and expenses associated with unexpired proportion of past premiums received prior to the reporting date.
Item 4.4	Premium refund in excess of Unexpired Risk Reserve This item is the value of any premium refund payable (in excess of the Unexpired Risk Reserve held) at policy's termination based on the policy document's contractual agreement.
Item 4.5	Other components of TV This item is the value of any other components that must be included in the Termination Value in addition to items 4.1 to 4.4.
Item 4.6	TV This item is the total Termination Value, in respect of each of the APRA product groups, used in calculating Adjusted Policy Liabilities for the purpose of determining the capital base.
Item 4.7	IFR This item is the value of Investment Fluctuation Reserve as defined in LPS 001.

Section 5: Termination Value groups – All business

Item 5.1	TV for TVG1 and TVG3, and TV + Max (0, IFR) for TVG2 This item is the sum of the total Termination Value and the positive IFR, in respect of TVG1, TVG2 and TVG3.
----------	--

Item 5.2	<p>Net RFEFCF</p> <p>This is the value of Net RFEFCF in respect of TVG1, TVG2 and TVG3.</p>
Item 5.3	<p>Adjusted Policy Liabilities</p> <p>This is the value of Adjusted Policy Liabilities in respect of TVG1, TVG2 and TVG3.</p>

Section 6: Impact of stress margin on Net RFEFCF – All business

This section reports change impact of Net RFEFCF as a result of applying the individual insurance stresses for each APRA product group for underlying insurance and outwards reinsurance contracts of all business. The data fields report:

- the impact of the specific individual stresses across the APRA product groups prior to any allowance for diversification benefits between the insurance stresses; and
- the impact of the aggregate stresses across the APRA product groups post allowance for diversification benefits between the insurance stresses.

Allocation of the total post diversified stress to the APRA product groups is to be based on a systematic and rational approach reflecting how each APRA product group contributed to the stress.

Section 7: Other items

As outlined in the discussion paper, APRA proposes no change in the overall approach to the application of the liability regulatory adjustment, but proposes additional regulatory adjustments to minimise capital impact from AASB 17 changes. APRA intends to collect data on the additional regulatory adjustments at an aggregate level.

Item 7.1	<p>Insurance contract - Premiums invoiced but not received</p> <p>This item is premiums invoiced but not received (i.e. premiums receivable component) in relation to the insurance arrangements that are in place.</p>
Item 7.2	<p>Reinsurance contract - Premiums invoiced but not paid</p> <p>This item is reinsurance premiums invoiced but not paid (i.e. premiums payable component) in relation to the reinsurance arrangements that are in place.</p>