

# General Insurance Reporting Requirements

## General Instruction Guide

### 1. Introduction

The General Instruction Guide is intended to assist Level 1 general insurers (Level 1 insurers) and Level 2 general insurance groups (Level 2 groups), collectively referred to as reporting insurers in this document, in completing the reporting forms required to be lodged under the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

Detailed instructions for the individual reporting items are included in the specific instructions for each reporting form. These specific instructions need to be considered in conjunction with this document, the relevant reporting standards and the prudential standards.

These General Instruction Guide covers all reporting forms for reporting insurers.

### 2. Timing of submission

The time for submitting reporting forms varies according to whether the forms require the reporting of quarterly, semi-annual or annual information:

- forms requiring the reporting of quarterly information must be completed as at the end of each quarter based on the financial year of the Level 1 insurers (not the calendar year);
- forms requiring the reporting of semi-annual information must be completed in respect of each half year from the start of the financial year of the Level 2 group; and
- forms requiring the reporting of annual information must be completed as at the end of the financial year of the reporting insurer.

The financial information required to be reported must be reported as at the close of business for the last day of the reporting period, or for the year to date period up to the close of business on the last day of the reporting period, as relevant.

### 3. Basis of preparation

#### 3.1. Definition of insurance business

Reporting insurers are to follow the definition of insurance business provided in section 3 of the *Insurance Act, 1973 (the Act)* for completing the reporting forms.

#### 3.2. General accounting basis

Unless stated otherwise, reporting insurers are requested to follow the Australian accounting standards regarding the definition, recognition and measurement of assets,

liabilities and equity items, notably *AASB 1023 'General Insurance Contracts'* (AASB 1023).

### **3.3. Materiality**

Subject to APRA's discretion, the reporting forms must be prepared based on the concept of materiality as applied in the Australian accounting standards. APRA's discretion is likely to apply in instances where the application of materiality criteria is not suitable for prudential reporting purposes.

### **3.4. Fair value approach**

APRA applies the fair value approach to measurement of assets backing general insurance liabilities for its regulatory reporting which is consistent with the classification basis in AASB 1023 and the present value measurement approach for general insurance liabilities.

Fair value has the same meaning as defined in *AASB 139 'Financial Instruments: Recognition and Measurement'* (AASB 139), being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction, and is determined as follows:

- the quoted market price (i.e. bid or ask price) in an active and liquid market; or
- when there is infrequent activity in a market, and the market is not well established, small volumes are traded relative to the asset or liability to be valued, or a quoted market price is not available – a realistic estimate of fair value on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs (see AASB 139).

If an asset is in any way subject to a charge, covenant, encumbrance, option to purchase or any other arrangement by way of agreement or statute that restricts the fair value of the asset, the value attached to the asset needs to reflect the existence of these arrangements. For example, if the general insurer has agreed to deliver an asset to a purchaser at a price below the arms length value, the value attached to the asset cannot exceed the agreed price.

### **3.5. Units of measurement**

Unless otherwise indicated by the specific item instructions, all reporting forms covered by these General Instruction Guide are to be prepared in thousands of Australian dollars (AUD), with no decimal place. Ratios are to be expressed to 2 decimal places. Amounts denominated in foreign currency are to be converted to AUD in accordance with *AASB 121 'The Effects of Changes in Foreign Exchange Rates'* (AASB 121).

The general requirements of AASB 121 'The Effects of Changes in Foreign Exchange Rates' for translation are:

- foreign currency monetary items<sup>1</sup> outstanding at the reporting date must be translated at the spot rate<sup>2</sup> at the reporting date;
- foreign currency non-monetary items<sup>3</sup> that are measured at historical cost in a foreign currency must be translated using the exchange rate at the date of the transaction
- foreign currency non-monetary items that are measured at fair value will be translated at the exchange rate at the date when the fair value was determined:
  - transactions arising under foreign currency derivative contracts at the reporting date must be prepared in accordance with AASB 139. However, those foreign currency derivatives that are not within the scope of AASB 139 (e.g. some foreign currency derivatives that are embedded in other contracts) remain within the scope of AASB 121;
  - for APRA purposes equity items must be translated using the foreign currency exchange rate at the date of investment or acquisition. Post acquisition changes in equity are required to be translated on the date of the movement;
  - as foreign currency derivatives are measured at fair value, the currency derivative contracts are translated at the spot rate at the reporting date;
  - exchange differences should be recognised in profit and loss in the period in which they arise. For foreign currency derivatives, the exchange differences would be recognised immediately in profit and loss if the hedging instrument is a fair value hedge. For derivatives used in a cash flow hedge, the exchange differences should be recognised directly in equity; and
  - the ineffective portion of the exchange differences in all hedges would be recognised in profit and loss.
- Translation of financial reports of foreign operations:
  - a foreign operation is defined in AASB 121 as meaning an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity;

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<sup>1</sup> Monetary items are defined to mean units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

<sup>2</sup> Spot rate means the exchange rate for immediate delivery.

<sup>3</sup> Examples of non-monetary items include amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; physical assets; and provisions that are to be settled by the delivery of a non-monetary asset.

- Exchange differences relating to foreign currency monetary items that form part of the net investment of an entity in a foreign operation, must be recognised as a separate component of equity; and
- Translation of financial reports should otherwise follow the requirements in AASB 121.

### **3.6. Related parties**

Where this term is used or referenced in the reporting forms, related parties is taken to have the meaning set out in *AASB 124 'Related Party Disclosures'* (AASB 124).

In accordance with AASB 124, related party means a party that directly or indirectly through one or more intermediaries:

- (a) controls, is controlled by or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- (b) has significant influence over the entity or has joint control over the entity; or
- (c) is an associate (as defined in *AASB 128 Investments in Associates*) of the entity; or
- (d) is a joint venture in which the entity is a venturer (see *AASB 131 Interests in Joint Ventures*); or
- (e) is a member of the key management personnel of the entity or its parent; or
- (f) is a close member of the family of any individual referred to in (a), (b) or (e); or
- (g) is an entity that its controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (e) or in (f); or
- (h) is a post-employment benefit plan for the benefit of the employees of the entity, or of any entity that is a related party of the entity.

### **3.7. Netting**

Reporting insurers are allowed to take advantage of netting agreements for preparing the following forms:

- *GRF 300.0 Statement of Financial Position (L) and GRF 300.0 Statement of Financial Position (G)*
- *GRF 310.0 Income Statement (L) and GRF 310.0 Income Statement (G)*
- *GRF 310.1 Premium Revenue and Reinsurance Expense*
- *GRF 310.2 Claims Expense and Reinsurance Recoveries*
- *GRF 310.3 Details of Income and Expenses*

Reporting insurers are to comply with the requirements for netting outlined in Australian accounting standards *AASB 7 'Financial Instruments: Disclosures'*, *AASB 139* and *AASB 132 'Financial Instruments: Presentation'*.

### **3.8. Term to maturity**

Reference to term to maturity refers to residual terms to maturity not original terms to maturity in the reporting forms.

## **4. Audit requirements**

The reporting forms must be subjected to audit review and testing as detailed in *Prudential Standard GPS 310 Audit and Related Matters*.

## **5. General instructions**

### **5.1. Inside Australia**

Section 28 of the Act requires all Level 1 general insurers to maintain assets in Australia (excluding goodwill and other amounts excluded by *Prudential Standard GPS 120 Assets in Australia* (GPS 120)) of a value that equals or exceeds the total amount of the general insurer's liabilities in Australia.

This requirement is designed to ensure that the total value of assets held within the jurisdictional reach of APRA and the Australian courts is sufficient to meet a general insurer's Australian liabilities. It assists in the application of subsection 116(3) of the Act, which provides that in the winding up of a general insurer, the assets in Australia shall not be applied in the discharge of its liabilities other than its liabilities in Australia unless all the liabilities in Australia have first been discharged.

For the purposes of section 28 of the Act, a number of assets and liabilities are to be treated as assets or liabilities in Australia which would not be treated as such under the common law. Further, GPS 120 specifies certain assets, which are assets in Australia under the common law, that are not to be counted as 'assets in Australia' for the purposes of section 28 of the Act. Apart from these exceptions whether an asset or a liability is an asset or a liability in Australia will otherwise turn on its character under the common law.

GPS 120 excludes certain assets which would otherwise fall within the definition of 'assets in Australia' under section 28 of the Act but which APRA considers to have doubtful value in the event of an insurer becoming insolvent.

### **5.2. Securities purchased (sold) under agreements to resell (repurchase) and stock lending/borrowing**

The treatment of these securities needs to be consistent with AASB 139.

Where the transferee of the security effectively receives a lender's rate of return, or a return that does not correlate with ownership of the securities (i.e. the risks and rewards of ownership of the underlying securities are not effectively transferred), these transactions are to be accounted for as collateralised borrowing or lending activities.

Under this method of accounting, for transactions that satisfy the above, do not adjust (i.e. increase or decrease) the physical investment security holdings/portfolios (interest rate and equity investments) for the securities that are subject to these agreements.

### **5.3. Securities transacted not settled (i.e. trade date accounting)**

For the purpose of the reporting forms, include market related securities that are recorded on a trade date basis and transacted in accordance with accepted financial market settlements periods. Such securities are to be included in the respective investments forms. These do not constitute forward asset purchases for the purposes of the GRF 114 series.

### **5.4. Securities listed on a recognised exchange**

It will generally be appropriate to treat an exchange organisation as 'recognised' where it meets the following criteria:

- it is subject to authorisation, licensing or other means of recognition by a government or other competent authority;
- it has rules, issued or approved, by the government or other competent authority defining the conditions:
  - for the operation of the exchange;
  - for access to the exchange; and
  - that must be satisfied by a contract before it can be executed on the exchange;
- it has a mechanism that provides clearing services for contracts executed through the exchange;
- it functions regularly;
- the exchange has a prudent and frequent margining system where relevant;
- the exchange requires settlement on a particular day as applicable;
- members of the exchange are themselves subject to supervision by the exchange or a competent authority; and
- the operations of the exchange in turn are supervised by government or other competent authority.

### **5.5. Limited risk transfer arrangements**

An insurer must submit to APRA details of all proposed limited risk transfer arrangements for approval prior to entering into such arrangements. APRA may approve a limited risk transfer arrangement as either a reinsurance arrangement or a financing arrangement.

APRA will generally consider a limited risk transfer arrangement to be a reinsurance arrangement where the purpose and effect of the arrangement is to genuinely transfer significant insurance risk from the insurer to another re(insurer).

A limited risk transfer arrangement that is approved by APRA as a reinsurance arrangement must be treated accordingly by the insurer for prudential purposes.

A limited risk transfer arrangement that is approved by APRA as a financing arrangement must be accounted for by the insurer so that:

- (a) the arrangement has a legitimate purpose and effect; and
- (b) the arrangement will not misrepresent, or is not designed to disguise, a material risk to the insurer's current or continuing profitability, solvency or capital adequacy so as to mislead or be likely to mislead any party.

The terms and conditions of the financing arrangement will determine the appropriate accounting treatment for prudential purposes.

Where APRA determines that a limited risk transfer arrangement is to be treated as a financing arrangement, the insurer must not treat the arrangement as reinsurance for the purpose of determining the Prudential Capital Requirement under the Prudential Standards or as reinsurance for any other purpose.

## **5.6. Policyholders' / Shareholders' funds**

The term 'Policyholders' funds' is also referred to as 'technical reserves/funds'. Use of the term does not imply ownership of these funds by policyholders, like under life insurance. The term is used particularly in establishing the investment management mandates to reflect the different cashflow/ risk and return requirements from that of shareholders' funds.

Investments can be assigned to shareholders' funds where the insurer has established the investment management mandates to reflect the different cashflow / risk and return requirements of shareholders' funds from policyholders' funds / technical reserves.

## **6. Specific instructions for Level 2 groups**

This section is applicable to Level 2 groups only.

### **6.1. Completion of reporting forms**

The reporting forms for Level 2 insurance groups are to be completed by the parent entity of a Level 2 insurance group as defined under Prudential Standard GPS 001 Definitions (GPS 001). Consolidation at Level 2 should cover the Level 2 insurance group as defined under GPS 001.

### **6.2. Definition of 'Australian Business' and 'International Business'**

Level 2 groups are required to report financial data on both Australian and international exposures. 'Australian Business' is defined in *GPS 001 Definitions* (GPS

001) and means insurance business carried on by any Level 1 insurer within a Level 2 group.

‘International Business’ is also defined in GPS 001 and means insurance business carried on by an entity within the group that is not authorised under the Insurance Act 1973. Therefore, for the purposes of prudential reporting, all insurance business written by Level 1 insurers (as defined in GPS 001) is deemed to be Australian business. This treatment is different to the requirements of AASB 1023 and other Australian accounting standards.

For entities which are not insurers within the Level 2 group, items should be reported as:

- ‘Australian Business’ when they relate to an entity incorporated in Australia; and
- The international region that most appropriately reflects the business and / or operational segments of the group, when they relate to an entity incorporated outside of Australia.

Level 2 groups may apply to APRA to be exempt from having to report international business according to the format specified in some reporting forms. This exemption, however, will be subject to the group providing information to APRA in another suitable and agreed upon format.

### **6.2.1. Australian business**

Australian business of a Level 2 group is as per the definition in GPS 001.

### **6.2.2. International business**

For the international operations of a Level 2 group, only report insurance business deemed to be general insurance business<sup>4</sup>.

International business is to be reported according to the following geographical regions and these regions should be defined consistently across all the Level 2 reporting forms that require data to be split by international region:

- New Zealand;
- South East Asia;
- Asia Pacific;
- USA;
- Americas;
- UK/Europe; and
- Other.

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<sup>4</sup> For the purposes of reporting, Lloyd’s syndicates business is to be reported as international business.

Amounts reported for Australia and other regions should be reported on the basis that these entities (or regions) are separate from the group before consolidation.

Once regions are defined, they should generally be maintained thereafter for consistency. However, this does not prevent the Level 2 group from altering its reporting regions where necessary, provided APRA is notified of any change.

### **6.2.3. Inter-region eliminations**

The value of inter-region transactions, which are eliminated on consolidation, need to be reported under 'Inter-region elimination'.

## **6.3. Insurance risk charge calculations**

For the purposes of calculating the insurance risk charge, the class of business data is not reported for 'International regions' in the 115 series of forms. Level 2 groups, however, will continue to 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.

### **6.3.1. Forms to be used for calculating the insurance risk charge**

GRF 115.0A\_G and GRF 115.1A\_G must be completed by Level 2 groups that currently do not have reporting adjustments to report Australian business as a single region. These insurance groups must complete the insurance risk charge calculation reporting forms on an 'Australia by class of business' basis.

If Level 2 groups currently have a reporting adjustment under GRS 210.0\_G and GRS 210.1\_G, they must complete GRF 115.0B\_G and GRF 115.1B\_G to report Australian business as a single region.

### **6.3.2. Valuation of insurance liabilities**

Insurance liabilities of Level 2 insurance groups are to be valued in accordance with the requirements of *Prudential Standard GPS 320 Actuarial and Related Matters*. Where there is reinsurance between regions, regions are to be reported on a separate basis. That is, the region directly assuming the risks must report the business as direct business. The region receiving reinsurance should treat this as direct business as well. Where reinsurance occurs between entities in one region, the reinsurance transaction is to be eliminated on consolidation within the region reported. Consolidation adjustments for intra-group reinsurance transactions between entities in different regions should be reported under 'Group adjustments' in Table 5 of reporting forms GRF 115.0A\_G, GRF 115.1A\_G, GRF 115.0B\_G and GRF 115.1B\_G.

Level 2 groups are required to calculate the insurance risk charge on premium liabilities needed for completing GRF 115.1A\_G or GRF 115.1B\_G in accordance with GPS 320. These forms may be completed in three possible ways. The method is to be determined in consultation with APRA. The method used for calculating the premium liabilities will affect the level of excess technical provisions that can be recognised as part of Tier 1 capital by Level 2 insurance groups. APRA allows the

recognition of excess technical provisions (in respect of premiums liabilities) in limited circumstances. Further details of these are included in the specific reporting forms.

#### **6.4. Measurement of assets**

The measurement of assets is to be done on the basis of AASB 1023 and other Australian accounting standards. For Level 1 insurers, APRA requires that assets backing insurance liabilities must be measured at fair value for regulatory reporting purposes.

Unlike for Level 1 insurers, APRA will accept the notion of assets backing insurance liabilities for the Level 2 group, provided these assets represent all assets controlled and managed by the group to support insurance liabilities. Investments backing general insurance liabilities must be measured at fair value.

#### **6.5. Reporting Supplement**

Level 2 groups are currently required to submit separate information to APRA as supporting documentation for completing the reporting forms. These reporting supplements will continue to be required to be submitted to the Level 2 group's APRA Responsible Supervisor.