

GRF_115_1B_G: Premiums Liabilities - Insurance Risk Charge - Australia by Region (G)

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

Explanatory notes

Reporting by region

A Level 2 insurance group may apply to APRA for a reporting adjustment to report Australian business as a single region. If the reporting adjustment is not in place, the Level 2 insurance group must not complete this form, and instead complete *GRF 115.1A_G Premiums Liabilities – Insurance Risk Charge – Australia by Class of Business*.

This form requires the premiums liabilities (PL) of an Australian business of the Level 2 insurance group to be reported as a single region and the international business to be reported by region.

For both Australian and International business, while class of business is not required to be reported on this form, Level 2 insurance groups are expected to map their business to the classes of business as defined in *Prudential Standard GPS 001 Definitions* (GPS 001) in order to assign an Insurance Risk Charge. The details of the mapping and the calculation of the insurance risk charge for businesses are to be provided as a reporting supplement to APRA.

Direct business (Australian)

The Level 2 insurance group should report the total of all direct Australian business.

Direct business (International)

The Level 2 insurance group should report the sum of the classes of business for each international region.

Reinsurance business

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*.

Reinsurance business (Australian)

The level 2 insurance group should report the total of all reinsurance Australian business.

Reinsurance business (International)

The level 2 insurance group should report the sum of the classes of business for each international 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'.

Basis of preparation

Select, from the drop down list, the basis by which PL are reported in this form. The options provided are: GPS 320 basis; AASB Basis; or Combination of GPS 320 and AASB basis.

Sections 1, 2, 3, 4 and 5

(2) Gross PL - Central estimate

This is the value, as at the relevant date, of the central estimate component of PL, 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 PL - Risk margin

This is the value, as at the relevant date, of the risk margin for the gross PL determined in accordance with GPS 320.

The risk margin is the component of the value of PL 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 PL will be sufficient to the level required in GPS 320.

(4) Gross PL - Total

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

It is automatically calculated as the sum of Columns 2 and 3.

(5) Non-reinsurance recoveries

Non-reinsurance recoveries are amounts that may be recovered under arrangements other than reinsurance arrangements, such as salvage, subrogation and sharing agreements.

For each region report the non-reinsurance recoveries associated with the PL, estimated in a manner consistent with the methodology used in the most recent Insurance Liability Valuation Report prepared by the Group Actuary as defined in GPS 320.

The estimates of non-reinsurance recoveries expected to be received must be based on the nature of the expected claims and the history of non-reinsurance recoveries compared to claims.

(6) Expected reinsurance recoveries

Expected reinsurance recoveries means any amounts due to an insurer from a reinsurer that arise from the recognition of PL referred to in GPS 320. This is distinguished from reinsurance recoverables and forms part of reinsurance assets.

(7) Net PL - Central estimate

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

(8) Net PL - Risk margin

This is the value, as at the relevant date, of the risk margin component of PL, net of any expected reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320.

(9) Net PL - Total

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

It is automatically calculated as the sum of Columns 7 and 8.

(10) PL capital factor %

As part of the supplementary information provided to APRA, Level 2 insurance groups are required to have mapped their Australian and international business to the Australian classes of business as defined in GPS 001 in order to assign an insurance risk capital charge. For both Australian and international businesses, 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.

(11) PL Insurance Risk Charge

This is automatically calculated as Column 9 multiplied by Column 10.

Sections 2, 4 and 5

(12) PL surplus / (deficit)

Include in this item the value of PL that are calculated in accordance with *Australian Accounting Standard AASB 1023 General Insurance Contracts* (AASB 1023) that are in excess of (positive value) or deficit to (negative value) the PL valued in accordance with GPS 320 in Part A.

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

For Australian business, the PL surplus / (deficit) is calculated using the following items reported under 'Australian business' in *GRF 302.0_G Statement of Financial Position by Region*, and any other items which form the total of AASB 1023 net PL as outlined below:

- Item 17 Unearned premium liability;
- Less: Item 8 Deferred reinsurance expense;
- Less: Item 9 Deferred acquisition costs;
- Plus: Item 18 Unexpired risk liability;
- Less the net value of any other items which form the total of AASB 1023 net PL. This is as defined for Column 7 of Part B.
- Less: Net PL - Total in Column 11 of Part A.

This is to be reported for direct and reinsurance business in Section 5.

For International business, the PL surplus / (deficit) must be determined separately for each geographical region using the approach described above. For each region, the value of PL surplus / (deficit) is to be reported in: Section 2 for direct business; and Section 4 for reinsurance business.

Sections 6, 7, 8, 9 and 10

(2) Unearned premium liability

This is the unearned premium liability determined in accordance with the recognition requirements of AASB 1023. AASB 1023 requires that premium revenue is recognised in accordance with the expected pattern of risk and any unearned portion must be deferred and recognised on the balance sheet.

(3) Deferred acquisition costs

This is the amount of deferred acquisition costs (DAC), determined in accordance with the recognition requirements of AASB 1023, which existed prior to any liability adequacy test (LAT) write-downs.

(4) AASB gross premiums liabilities (UPL - DAC)

This is automatically calculated as Column 2 less Column 3.

(5) Deferred reinsurance expense

This is the value of premiums ceded to reinsurers which are deferred in accordance with the pattern of reinsurance service received as per AASB 1023.

(6) Unexpired risk liability

Report the value of any unexpired risk liability as a result of the application of the liability adequacy test (LAT) required under AASB 1023. This LAT may be different from the LAT required in accordance with GPS 320. Where the test applied under AASB 1023 is identical to that required under GPS 320, there will be no recognition of a deduction of excess technical provisions as set out below.

(7) Other

Include in this column the net value of any other items which form the total of AASB 1023 net PL. This would include:

- Deferred reinsurance exchange commission (to be entered as a positive value);
- Unearned commission revenue (to be entered as a positive value); and
- Deferred levies and charges (to be entered as a negative value).

It is automatically calculated as Column 8 less Column 4 plus Column 5 less Column 6.

(8) AASB net premiums liabilities

This is the value of PL, net of expected reinsurance and non-reinsurance recoveries as calculated in accordance with AASB 1023.

(9) Technical provision deficiency

Report any deficiency recognised in premium liability valuations due to the application of the LAT specified in GPS 320. The LAT must be applied to net PL (unearned premium less deferred acquisition costs less deferred reinsurance expense plus unexpired risk liability) at a 75 per cent level of sufficiency. This treatment is different to the requirements of AASB 1023. Where a Level 2 insurance group reports PL on Australian business using accounting entries, the LAT must be applied at the class of business level. For international business, the LAT must be applied to each geographic region.

For the purposes of Part B, diversification adjustments may be taken into account when determining the threshold amount for the LAT.

APRA specifies the probability of sufficiency and the portfolios to which this is applied. This prescription does not apply under AASB 1023. If the Level 2 insurance

group chooses to apply a LAT for the purposes of AASB 1023 that meets these specifications then the LAT required for prudential reporting purposes will also be satisfied.

Any deficiency in premiums liabilities is to be reported as a positive value. Where premiums liabilities exceed the threshold amount determined under the LAT, the value reported under this item will be zero. Consequently, Level 2 insurance groups will not be able to include in their capital base the value of PL (determined using accounting entries) that exceed the threshold amount calculated in the LAT.

(10) Adjusted net premiums liabilities

This is automatically calculated as Column 8 plus Column 9.

(11) PL capital factor %

As part of the supplementary information provided to APRA, Level 2 insurance groups are required to have mapped their Australian and International business to the Australian classes of business as defined in GPS 001 in order to assign an insurance risk capital charge. For Australian and 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) PL Insurance Risk Charge

This is automatically calculated as Column 10 multiplied by Column 11.

Sections 11, 12, 13 and 14

With respect to direct business and reinsurance business where policies incept in the following reporting period and where these policies would have a material impact on capital adequacy, net written premium for exposure that has not been included in the calculation of the PL is to be subject to the PL risk charge. The materiality of the business that incepts in the next reporting period should be determined in accordance with the Australian Accounting and Auditing Standards subject to APRA's discretion.

The risk charge must reflect the full premium revenue for inwards proportional reinsurance for the full term of the current reinsurance contract. To the extent that the risk charge is based on reported premium for inwards proportional reinsurance that does not reflect the full term of the current insurance contract, an adjustment must be made to the risk charge. The adjustment is determined by applying the PL risk charge factor to any inwards proportional reinsurance premium revenue not recognised.

Level 2 insurance groups are required to map their Australian and international business to the Australian classes of business. This requirement is based on the principle that an insurer should be able to meet its insurance obligations at all times, not just at the reporting dates. With regards to written contracts for which insurers are not on risk in the current reporting period, APRA has not defined how far into the subsequent reporting period the capital requirement applies. APRA expects that at the reporting date, insurers will hold sufficient capital for all general insurance contracts for which the general insurer is committed, regardless of when the contract incepts.

For the avoidance of doubt, the reinsurance revenue for inwards reinsurance business should be recognised for the full term of current reinsurance contracts, usually 12 months from the inception of the contract, and not any shorter period. For reinsurance contracts that are continuous but cancellable at regular intervals or on specified dates, the term of the contract can be measured to the earliest cancellation date that is not less than 12 months from the previous cancellable date.

(2) Net written premium

Report in this column the net written premium by class of business for the following:

- Material business that incepts in the next reporting period. Materiality should be as applied in Australian Accounting and Auditing Standards subject to APRA's discretion.
- Any revenue from inwards proportional reinsurance contracts where the treaty extends beyond the end of the current reporting period but revenue has not yet been recognised in *GRF 310.0_G Income Statement*.

Note that Level 2 insurance groups are not required to report premium revenue that has been included in the calculation of the PL.

(3) PL Capital factor %

As part of the supplementary information provided to APRA, Level 2 insurance groups are required to have mapped their Australian and International business to the Australian classes of business as defined in GPS 001 in order to assign an insurance risk capital charge. For Australian and 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.

(4) Additional policies risk charge

This is automatically calculated as Column 2 multiplied by Column 3.

Section 15

(2) Gross premiums liabilities

This corresponds to Column 4 in Section 5.

(3) Net premiums liabilities

This corresponds to Column 9 in Section 5.

(4) Adjusted net premiums liabilities

This corresponds to Column 10 in Section 10.

(5) Group PL Insurance Risk Charge

This is automatically calculated as the sum of Column 11 in Section 5 and Column 12 in Section 10.

(6) Additional policies risk charge

This is automatically calculated as the sum of the Total amounts for Column 4 in Sections 11 to 14.

(7) Total premiums liabilities risk charge

This is automatically calculated as the sum of Columns 5 and 6 in Section 15.

Group adjustments

Adjustments not recognised in Sections 1 to 10 are to be reported under group adjustments. Group adjustments (that result in a reduction in PL) are to be reported as negative values.

Adjustments to PL Insurance Risk Charge as approved by APRA

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

Group adjustments to PL surplus / (deficit)

Adjustments to excess technical provisions on PL not already recognised in Sections 1 to 10 are to be reported under this item.

Any adjustment that results in a reduction to excess technical provisions is to be reported as a negative value. APRA may request details of any group adjustment that is made to excess technical provisions.

Total deferred reinsurance expense for future business not yet written

Total deferred reinsurance expense for future business not yet written represents the component of reinsurance paid or payable which is available for future business written up to the end of the reinsurance contract. Any amount cannot be included in this item where the underlying reinsurance arrangements do not comply with the

reinsurance documentation or the governing law requirements set out in *Prudential Standard GPS 230 Reinsurance Management*. This amount must not be negative.

Total PL surplus / (deficit)

This item is automatically calculated as:

- Column 12 Total premiums liabilities – GPS 320 basis: PL surplus / (deficit) in Section 5;
- Less: Column 9 Total premiums liabilities – AASB basis: Technical provision deficiency in Section 10;
- Plus: Group adjustments to PL surplus / (deficit) in Section 15;
- Plus: Total deferred reinsurance expense for future business not yet written in Section 15.

This value will be included in Item 1.1.6.2 in *GRF 112.0_G Determination of Capital Base*.