

## Reporting Form GRF 210.0B\_G

# Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group) – Australia by region

## Instruction Guide

### Introduction

This instruction guide is designed to assist in the completion of *GRF 210.0B\_G Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group) – Australia by region (GRF 210.0B\_G)*.

The form can be used to calculate the insurance risk capital charge associated with the Level 2 insurance group's Outstanding Claims Liability in accordance with *Prudential Standard GPS 111 Capital Adequacy: Level 2 Insurance Groups (GPS 111)*.

### Audit requirements

The annual return of ~~*GRF 210.0B\_G-GRF 210.0\_G Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group)*~~ required under paragraphs 3 and 5(c) of *Reporting Standard GRS 210.0\_G Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group) (GRS 210.0\_G)* must be subject to a limited assurance<sup>1</sup> review by the Group Auditor (see *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups (GPS 311)*).

The Group Auditor must prepare a review report on the basis of a limited assurance engagement in accordance with the requirements of GPS 311. Assurance in the review report will be provided in the form of negative assurance. To express negative assurance in the review report, the auditor will use limited procedures to obtain sufficient appropriate evidence. Enquiries of the Level 2 insurance group's staff and analytical procedures will be the primary tools used to obtain evidence. These procedures will not provide all the evidence that would be required in an audit.

The scope and nature of audit testing required is outlined in the Standard on Assurance Engagement ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Auditing and Assurance Standards Board.

<sup>1</sup> Limited assurance is as defined in *Prudential Standard GPS 001 Definitions (GPS 001)*.

## Reporting entities

~~GRF 210.0B GGRF 210.0\_G Outstanding Claims Liability—Insurance Risk Charge (Level 2 Insurance Group)~~ is to be completed by the parent entity of a Level 2 insurance group as defined under *Prudential Standard GPS 001 Definitions (GPS 001)* where the Level 2 insurance group has a reporting adjustment in relation to Australian class of business data, in accordance with GRS 210.0 G. If the Level 2 insurance group does not have a reporting adjustment in relation to Australian class of business data, it must complete GRF 210.0A G Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group) – Australia by class of business (GRF 210.0A G).

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

## Definitions

For Australian business<sup>2</sup>, report insurance business as per APRA-authorized insurer reporting. For international business<sup>3</sup>, only report insurance business deemed to be general insurance business.<sup>4</sup> For prudential reporting purposes ‘Level 1 Insurer’ is as defined in GPS 001.

Other definitions for data reporting items required by this form have been provided where possible in the instructions under the section headed ‘Specific instructions’.

## Limited Risk Transfer Arrangements

For Australian business a Limited Risk Transfer Arrangement that is approved by APRA as a reinsurance arrangement must be treated accordingly by the Level 2 insurance group for prudential purposes. A Limited Risk Transfer Arrangement that is approved by APRA as a financing arrangement must be accounted for by the Level 2 insurance group so that the arrangement will not misrepresent, or is not designed to disguise, a material risk to the Level 2 insurance group’s current or continuing profitability, solvency or capital adequacy from 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 Level 2 insurance group must not treat the arrangement as reinsurance for the purpose of determining the minimum capital requirement under GPS 111 or as reinsurance for any other purpose.

For international business, while APRA will not be approving the arrangements, APRA expects the Level 2 insurance group to account for a Limited Risk

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<sup>2</sup> See GPS 001.

<sup>3</sup> See GPS 001.

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

Arrangement in a manner consistent with APRA's expectations under *Prudential Standard GPS 221 Risk Management: Level 2 Insurance Groups (GPS 221)*.

### **Unit of measurement**

This form is to be presented in Australian dollars (**AUD**), rounded to thousands of dollars, with no decimal place.

Amounts denominated in foreign currency are to be converted to AUD in accordance with Australian accounting standards.

Transactions arising under foreign currency derivative contracts at the reporting date must be prepared in accordance with Australian accounting standards.

### **Materiality**

[GRF 210.0B](#) ~~[GRF 210.0\\_G Outstanding Claims Liability—Insurance Risk Charge \(Level 2 Insurance Group\)](#)~~ is to be prepared based on the concept of materiality as applied in Australian accounting standards subject to APRA's discretion. APRA's discretion is likely to apply in instances where the application of materiality criteria is not suitable for prudential reporting purposes.

### **Reporting period**

Level 2 insurance groups are required to report the information in the reporting form. This information is to be reported on three occasions in a Level 2 insurance group's financial year. A Level 2 insurance group is required to submit:

- semi-annual return which is to be completed in respect of each half year from the start of the financial year of the Level 2 insurance group; and
- an audited annual return which will be based on a limited assurance review by the Group Auditor (see Audit requirements).

The financial information requested in this form is to be reported as at the last day of the reporting period on a financial year to date basis of the Level 2 insurance group.

### **Reporting lag**

Submission times for Level 2 reporting forms are as follows (in accordance with [GRS 210.0 G](#) ~~[GRS 210.0\\_G Outstanding Claims Liability—Insurance Risk Charge](#)~~):

- The semi-annual return is to be lodged within three months after the end of the reporting period.
- The audited annual return is to be lodged within four months after the end of the reporting period.

## Adjustments

The parent entity of a Level 2 insurance group may apply in writing to APRA to vary the reporting requirements of GRF 210.0B G ~~GRF 210.0\_G Outstanding Claims Liability—Insurance Risk Charge (Level 2 Insurance Group)~~ in relation to that Level 2 insurance group. APRA may, at its discretion, approve such an application in writing.

## International business

Level 2 insurance groups are required to report financial data on both Australian and international exposures. For the purposes of segment reporting, Level 2 insurance groups are not to follow the requirements under the Australian accounting standards when completing this form.

For prudential reporting purposes ‘Australian Business’ is as defined in GPS 001 and means insurance business carried on by any Level 1 insurer within a Level 2 insurance group. Therefore, all insurance business written by Level 1 insurers is deemed to be Australian business. ‘International Business’<sup>5</sup> is insurance business carried on by an entity within the group that is not authorised under the *Insurance Act 1973*. This treatment is different to the requirements of Australian Accounting Standard AASB 1023 ‘General Insurance Contracts’ (AASB 1023) and other Australian accounting standards.

International business is to be reported according to the following regions:

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

~~International business should not be reported under the ‘Australia’ region.~~

Level 2 insurance groups are required to report according to the regions which most appropriately reflect the business and/or operational segments of the group.

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

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<sup>5</sup> See GPS 001

## Reporting supplement

~~Unless approved otherwise by APRA, T~~his form ~~will~~ requires the outstanding claims liability of Australian business of the Level 2 insurance group to be reported as a single region ~~by class of business written~~ 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 the form, Level 2 insurance groups are expected to map their business to the ~~Australian~~ classes of business defined in GPS 001 in order to assign an insurance risk capital charge. The details of the mapping and the calculation of the insurance risk charge for Australian and international business are to be provided as supplementary information. Level 2 insurance groups will be able to choose the format for this supplementary information. The reporting supplement is to accompany the submission of this form, unless instructed otherwise by APRA. The reporting supplement is to be submitted to the Level 2 insurance group's APRA Responsible Supervisor.

## Basis of preparation

Outstanding claims liabilities are to be valued in accordance with the requirements of GPS 311.

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 as direct business. The reinsuring region 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.

## Specific instructions

### Actuarial services

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

### Classes of insurance business

Level 2 insurance groups are required to report financial data on both Australian business<sup>6</sup> and international business<sup>7</sup>.

Diversification will be the primary adjustment made on a group basis that affects the insurance risk capital charge and should be recognised in the risk margin for each class of business. The totals at the end of the form, i.e. table 5, may take into account other group adjustments.

### Australian business

Australian business is to be reported as a single region ~~by class~~ in;

- Table 1: Direct business; and
- Table 3: Reinsurance business.

A Level 2 insurance group may apply to APRA for a determination to report Australian business as a single region. If the determination is not in place, the Level 2 insurance group must not complete this form, and instead must complete GRF 210.0A G.

~~A Level 2 insurance group must not report Australian business in table 2 or table 4 unless a determination has been made by APRA to report Australian business as a single region.~~

~~Where APRA has made a determination to report Australian business as a single region, a Level 2 insurance group must (for the business to which the determination relates):~~

- ~~— report Australian direct business in table 2;~~
- ~~— report Australian reinsurance business in table 4; and~~
- ~~— not report Australian business in table 1 or table 3.~~

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<sup>6</sup> See GPS 001

<sup>7</sup> See GPS 001

## International business

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 in order to assign an insurance risk capital charge. Unless otherwise instructed by APRA, Level 2 insurance groups are to supply details of this mapping and the calculation of the insurance risk charge for international business as supplementary information to this form. This information is to be supplied to the Level 2 insurance group's APRA Responsible Supervisor. Unless instructed otherwise, the reporting supplement is to accompany the submission of this form.

International business<sup>8</sup> is to be reported according to the regions specified in this form. Level 2 insurance groups are required to report according to the regions which most appropriately reflects the business and/or operational segments of the group. ~~International business should not be reported under the 'Australia' region.<sup>9</sup>~~

However, all insurance business written by Level 1 insurers is deemed to be Australian business. This treatment is unique to prudential reporting and differs from the requirements of AASB 1023. ~~AASB 1023 'General Insurance Contracts'~~. Once regions are defined, they should generally be maintained thereafter for consistency. However, this does not prevent the Level 2 insurance group from altering its reporting regions where necessary, provided APRA is notified of any changes.

The form allows reporting for the following geographical regions:

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

Note: Diversification adjustments on international business should be recognised in the risk margin for each geographical region.

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<sup>8</sup> See GPS 001

~~<sup>9</sup> That is, international business should not be reported in the first row (titled 'Australia') of tables 2 and 4.~~

**Table 1: Direct business (Australian ~~business by class~~)**

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

~~The classes of Australian business for Level 2 insurance groups are as follows:~~

**~~Houseowners/Householders (H & H)~~**

~~This class covers the common H & H policies inclusive of:~~

- ~~—— Contents;~~
- ~~—— Personal property;~~
- ~~—— Arson; and~~
- ~~—— Burglary.~~

~~Public liability normally attaching to these products are to be separated and included in Public and Product Liability class of business—item (XIII).~~

**~~Commercial Motor Vehicle~~**

~~Motor vehicle insurance (including third party property damage) other than insurance covering vehicles defined below under Domestic Motor Vehicle. It includes long and medium haul trucks, cranes and special vehicles and policies covering fleets.~~

**~~Domestic Motor Vehicle~~**

~~Motor vehicle insurance (including third party property damage) covering private use motor vehicles including utilities and lorries, motor cycles, private caravans, box and boat trailers and other vehicles not normally covered by business or commercial policies.~~

**~~Travel~~**

~~Insurance against losses associated with travel including loss of baggage and personal effects, losses on flight cancellations and overseas medical costs.~~

**~~Fire and Industrial Special Risks (ISR)~~**

**~~Fire~~**

~~Includes all policies normally classified as 'Fire' and includes:~~

- ~~—— sprinkler leakage;~~
- ~~—— subsidence;~~
- ~~—— windstorm;~~
- ~~—— hailstone;~~

~~— crop;~~

~~— arson; and~~

~~— loss of profits and any extraneous risk normally covered under fire policies, e.g. flood.~~

### **ISR**

~~Standard policy wordings exist for this type of policy. All policies which contain such standard wordings or where the wording is substantially similar are to be classified as ISR.~~

### **Marine**

~~Includes Marine Hull (including pleasure craft), Marine Cargo (including sea and inland transit insurance).~~

### **Aviation**

~~Aviation (including aircraft hull and aircraft liability).~~

### **Mortgage**

~~Insurance against losses arising from the failure of debtors to meet financial obligations to creditors or under which payment of debts is guaranteed. It includes lease guarantee.~~

### **Consumer Credit (CCI)**

~~Insurance to protect a consumer's ability to meet the loan repayments on personal loans and credit card finance in the event of death or loss of income due to injury, illness or unemployment.~~

### **Other Accident**

~~Includes the following types of insurance:~~

~~— Miscellaneous accident (involving cash in transit, theft, loss of money);~~

~~— All risks (baggage, sporting equipment, guns);~~

~~— Engineering when not part of ISR or Fire policy;~~

~~— Plate glass when not part of packaged policy (e.g. homeowners /householders);~~

~~— Live Stock;~~

~~— Pluvius; and~~

~~— Sickness and Accident (which provides stated benefits where the insured is killed or suffers loss of specific parts of the body or is prevented from carrying out the insured's normal occupation. In addition, regular benefits may be paid~~

~~over a short period of time (typically less than 3 years), noting that continuous disability policies are considered to be Life Insurance Policies and should not be provided by general insurance companies).~~

### **Other**

~~All other insurance business not specifically mentioned elsewhere. It includes, for example:~~

- ~~—— Trade Credit;~~
- ~~—— Surety business (where APRA has approved for it to be treated as insurance business);~~
- ~~—— Extended Warranty (includes insurance by a third party for a period in excess of the manufacturer's or seller's normal warranty;~~
- ~~—— Kidnap and Ransom; and~~
- ~~—— Contingency.~~

~~Note: Guarantees are not to be treated as insurance business but as direct credit substitutes.<sup>10</sup> These are to be reported in GRF 131.0\_G Off Balance Sheet Exposure Risk Charge (Level 2 Insurance Group).~~

### **Compulsory Third Party Motor Vehicle (CTP)**

~~This class consists only of CTP business.~~

### **Public and Product Liability**

- ~~—— Public Liability covers legal liability to the public in respect of bodily injury or property damage arising out of the operation of the insured's business. Product Liability includes policies that provide for compensation for loss and or injury caused by, or as a result of, the use of goods and also environmental clean up caused by pollution spills where not covered by Fire and ISR policies.~~
- ~~—— Also will include builders warranty insurance.~~

~~Includes public liability attaching to homeowners/householders policies.~~

### **Professional Indemnity (PI)**

~~Includes Directors' and Officers' liability insurance plus legal expense insurance. Cover for legal expenses is generally included in this type of policy.~~

### **Employers' Liability (EL)**

~~Includes:~~

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<sup>10</sup> ~~See Prudential Standard GPS 114 Capital Adequacy: Investment Risk Capital Charge (GPS 114).~~

- ~~— Workers' compensation;~~
- ~~— Seamen's compensation; and~~
- ~~— Domestic workers compensation.~~

**Total (Direct Business (Australian ~~business by class~~))**

This is automatically calculated by the form and represents the ~~sum~~ total of the Australian region~~classes of business~~.

**Table 2: Direct business (International)**

The sum of the classes of business for each international region is to be entered into the form.

~~Note: A Level 2 insurance group must not report Australian business in table 2 unless a determination has been made by APRA to report Australian business as a single region.~~

**Total (Direct Business (International))**

This is automatically calculated by the form and represents the sum of international business. ~~This value excludes amounts reported under 'Australia' in table 2.~~

**Table 3: Reinsurance business (Australian Business by class)**

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

~~'Australian Business' means insurance business carried on by any Level 1 insurer within a Level 2 insurance group. The classes of Australian business for Level 2 insurance groups that provide reinsurance are as follows:~~

~~**Treaty Proportional:** This refers to all forms of quota share and surplus reinsurance written on a treaty reinsurance arrangement where the reinsurer is bound to accept all business ceded by the reinsured subject to the terms and conditions of the pre-agreed treaty wording, and shares in the same proportion of premium and losses of the reinsured.~~

~~**Treaty Excess of Loss:** This refers to all reinsurance arrangements where the reinsurer is bound to accept all business ceded by the reinsured and the reinsurer pays losses only above an agreed predetermined limit (retention) up to an agreed maximum amount.~~

~~**Facultative Proportional:** This refers to non-treaty arrangements where each reinsurance contract is on an individual offer and acceptance basis and the reinsurer shares in the same proportion of premium and losses of the reinsured.~~

~~**Facultative Excess of Loss:** This refers to non-treaty arrangements where each reinsurance contract is on an individual offer and acceptance basis. The reinsurer~~

~~pays losses only above an agreed predetermined limit (retention) up to an agreed maximum amount.~~

~~**Reinsurance non-split:** This line item classification disclosed under Reinsurance class of business is to be used where it is not possible for the Level 2 insurance group to separately split out all the classes of reinsurance businesses. However as required by GPS 111, where a Level 2 insurance group underwrites an inwards reinsurance contract and is unable to split this business into the classes and types listed in that prudential standard, it must use one of the methods detailed below.~~

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 following methods:

- (a) allocate the contract to the category which represents the greatest exposure; or
- (b) allocate the contract to the category representing the greatest premium income.

#### **Total (Reinsurance business (Australian ~~business by class~~))**

This is automatically calculated by the form and represents the total sum of the Australian region ~~classes of business~~.

#### **Table 4: Reinsurance business (International)**

'International Business'<sup>11</sup> is insurance business carried on by an entity within the group that is not authorised under the *Insurance Act 1973*. The sum of the classes of business for each international region is to be entered into the form. ~~International business should not be reported under the 'Australia' region.~~

~~Note: A Level 2 insurance group must not report Australian business in table 4 unless a determination has been made by APRA to report Australian business as a single region.~~

#### **Total (Reinsurance business (International))**

This is automatically calculated by the form and represents the sum of international business. ~~This value excludes amounts reported under 'Australia' in table 4.~~

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<sup>11</sup> See GPS 001

**Table 5: Total**

**Total direct business**

~~This is automatically calculated by the form and represents the sum of 'Direct business (Australian business by class)' and 'Direct business (International)'. Total direct business will include Australian business reported as a single region in Table 2 where approved by APRA.~~

**Total reinsurance business**

~~This is automatically calculated by the form and represents the sum of 'Reinsurance business (Australian business by class)' and 'Reinsurance business (International)'. Total reinsurance business will include Australian business reported as a single region in Table 4 where approved by APRA.~~

**Total direct Australian business**

This is automatically calculated by the form and represents the total from Table 1.

**Total direct International business**

This is automatically calculated by the form and represents the total from Table 2.

**Total reinsurance Australian business**

This is automatically calculated by the form and represents the total from Table 3.

**Total reinsurance International business**

This is automatically calculated by the form and represents the total from Table 4.

**Group adjustments**

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

**Total**

This is automatically calculated by the form and represents the sum of '~~Total direct business~~', '~~Total reinsurance business~~', 'Total direct Australian business', 'Total direct International business', 'Total reinsurance Australian business', 'Total reinsurance International business' and 'Group adjustments'.

The instructions below relate to all tables and are set out by column.

### **Outstanding Claims Liability**

Outstanding claims liabilities relate to all claims incurred prior to the reporting date, whether or not they have been reported to the Level 2 insurance group. Outstanding claims liabilities are to be recognised and measured in accordance with GPS 311. The value of outstanding claims liabilities must not include any Government charges imposed such as levies, duties and taxes.

Outstanding claims liabilities are to be determined on a prospective basis; both net and gross of reinsurance recoverables and non-reinsurance recoveries.

The valuation of outstanding claims liabilities for each class of business must comprise:

- (a) a central estimate (refer below); and
- (b) a risk margin (refer below) that relates to the inherent uncertainty in the central estimate values.

The valuation of insurance liabilities (i.e. outstanding claims liabilities and premiums liabilities) reflects the individual circumstances of the Level 2 insurance group. In any event, the value of insurance liabilities must be the greater of a value that is:

- (a) determined on a basis that is intended to value the insurance liabilities of the Level 2 insurance group at a 75 percent level of sufficiency; and
- (b) the central estimate plus one half of a standard deviation above the mean for the insurance liabilities of the Level 2 insurance group.

#### **(a) The central estimate**

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). The determination of the central estimate must be based on assumptions as to future experience which reflect the experience and circumstances of the Level 2 insurance group and which are:

- made using judgement and experience;
- made having regard to reasonably available statistics and other information; and
- neither deliberately overstated nor understated.

Where experience is highly volatile, model parameters estimated from the experience can also be volatile. The central estimate should therefore reflect as closely as possible the likely future experience of the Level 2 insurance group. Judgment may be required to limit the volatility of the assumed parameters to that which is justified in terms of the credibility of the experience data.

The central estimate will be measured as the present value of the future expected payments. This measurement process will involve prospective calculations and modelling techniques, and will require assumptions in respect of the expected future experience, taking into account all factors which are considered to be material to the calculation, including:

- Discount rates;
- Claims escalation;
- Claims and policy management expenses; and
- Claims run-off.

The assumptions used should be consistent for the estimation of both outstanding claims liabilities and premiums liabilities. Where they are not, the reasons must be documented.

**(b) The risk margin**

The risk margin is to be valued in accordance with the requirements of GPS 311. The risk margin is the component of the value of outstanding claims liability that relates to the inherent uncertainty that outcomes will differ from the central estimate. It is aimed at ensuring that the value of the outstanding claims liability is established at an appropriate and sufficient level. The risk margin does not relate to the risk associated with the underlying assets, including asset-liability mismatch risk.

Risk margins must be determined, for each class of business, and in total, on a basis that reflects the experience of the Level 2 insurance group. In any event, the risk margin must be valued so that the insurance liabilities of the Level 2 insurance group, after any diversification benefit, are the greater of a value that is:

- (a) determined on a basis that is intended to value the insurance liabilities of the Level 2 insurance group at a 75 per cent level of sufficiency; and
- (b) the central estimate plus one half of a standard deviation above the mean for the insurance liabilities of the Level 2 insurance group.

The risk margins must be determined having regard to the uncertainty of the gross insurance liabilities and to any uncertainty related to the estimate of reinsurance assets and non-reinsurance recoveries that are deducted from the estimate of gross insurance liabilities. Any allowance for diversification benefits must be apportioned across Australian ~~classes of business~~ region and international regions.

~~The Level 2 insurance group is free to reserve for the outstanding claims liability in the GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group) at a different level to the amount required by GPS 311. However for the purposes of this form only, the outstanding claims liability is to be measured and reported in accordance with the requirements of GPS 311 and disclosed by type of insurance business (direct business and inward reinsurance business), i.e. must be at the 75% probability of sufficiency. If the outstanding claims liability is reported at a~~

~~level greater than that required by GPS 311 in this form, the Level 2 insurance group will be subjecting itself to a greater insurance risk capital charge than required and will also be subjecting itself to a lower capital base since the value of excess technical provisions will be lower.~~

Note: any amount of the outstanding claims liability reported in the Statement of Financial Position in excess or deficit of the amount required by GPS 311, ~~can~~ will be added back to or deducted from Tier 1 capital in *GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)* (GRF 120.0 G).

For the 'Direct business' and 'Reinsurance' business, amounts are to be reported as follows:

### **Direct business**

Includes outstanding claims liability associated with the insurance business written directly by the Level 2 insurance group.

### **Reinsurance**

Include outstanding claims liability associated with reinsurance business of the Level 2 insurance group under the 'Reinsurance' section.

### **Gross OCL - Central estimate (2)**

For each line of business, report the central estimate of the gross outstanding claims liability that is calculated in accordance with GPS 311.

### **Gross OCL - Risk margin (3)**

For each line of business, report the risk margin for the gross outstanding claims liability that is calculated in accordance with GPS 311.

### **Gross OCL - Total (4)**

'Gross outstanding claims liability-Total' represents the sum of the central estimate and risk margin. This value is automatically calculated by the form.

### **Reinsurance recoveries<sup>12</sup> (5)**

For each line of business report the reinsurance recoveries associated with the outstanding claims liability calculated in accordance with GPS 311.

Level 2 insurance groups should recognise reinsurance recoveries, which are calculated in accordance with GPS 311, but which are due from reinsurance arrangements that do not fully meet the reinsurance documentation tests specified in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital (GPS 112)*.

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

<sup>12</sup> Reinsurance recoveries has the same meaning as 'Reinsurance recoverables' in GPS 001

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.

### **Non-reinsurance recoveries (6)**

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

For each line of business report the non-reinsurance recoveries associated with the outstanding claims liabilities.

### **Outstanding Claims Liability - Net of reinsurance and non-reinsurance recoveries**

- **Net OCL - Central estimate (7)**

For each line of business report the central estimate, net of reinsurance and non-reinsurance recoveries, associated with the outstanding claims liability that is calculated in accordance with GPS 311.

- **Net OCL - Risk margin (8)**

For each line of business, report the risk margin, net of reinsurance and non-reinsurance recoveries, associated with the outstanding claims liability that is calculated in accordance with GPS 311.

### **Total OCL net of RI recoveries and Non-RI recoveries (9)**

Total Outstanding Claims Liability net of Reinsurance Recoveries and Non-reinsurance Recoveries is calculated as:

- Net Outstanding Claims Liability - Central Estimate; plus
- Net Outstanding Claims Liability – Risk Margin.

Do not enter a value as this is automatically calculated by the form.

### **OCL capital factor % (10)**

~~This column states the insurance risk capital factor applicable to each line of Australian business. The capital factors are taken from Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Capital Charge (GPS 115).~~

The OCL capital factor applied to Australian and international business is based on the capital factors for Australian classes of business, as specified in Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Capital Charge (GPS 115). A different treatment applies to international business (and Australian business reported as a single region) in this column. As part of the supplementary information provided to APRA, Level 2 insurance groups are required to have mapped their Australian and international business (and Australian business reported as a single region) 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 ~~(and Australian business reported as a single region)~~, 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.

### **OCL insurance risk capital charge (11)**

This column represents the insurance risk capital charge applicable to each line of business. ~~For Australian business reported by class, the capital charge is calculated on the basis of risk capital factors specified in GPS 115.~~ For Australian and international business ~~(and Australian business reported as a single region)~~ the insurance risk capital charge is calculated based on the weighted average capital factor reported for each region under 'Outstanding Claims Liability Capital Factor %' in this form. The outstanding claims liability insurance risk charge is automatically calculated by the form.

The total of this column for direct business and reinsurance business (and Group adjustments) is included in the calculation of the minimum capital requirement for the Level 2 insurance group.

### **Technical provisions in excess or deficit of liability valuation**

Include in this item the value of Outstanding Claims Liabilities that are recognised in *GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)* (GRF 300.0\_G), that are in excess of the outstanding claims liabilities valuation required by GPS 311 (positive value); or those that are in deficit to the outstanding claims liabilities valuation required by GPS 311 (negative value). This is calculated on a net basis as per the following.

Calculate the total Outstanding Claim Liabilities net of Reinsurance and Non-Reinsurance Recoveries (including input tax credits) as reported in GRF 300.0\_G ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~ (GRF 300.0\_G) and ~~*GRF 301.0\_G Reinsurance Assets and Risk Charge (Level 2 Insurance Group)*~~ (GRF 301.0\_G) as:

- Item 12. (GRF 300.0\_G) 'Outstanding Claims Liability';
- Less sum of reinsurance recoveries and non-reinsurance recoveries ~~(including input tax credits)~~:
  - Item 3.4 (GRF 300.0\_G) 'Net amount recoverable from reinsurance contracts on outstanding claims and paid claims'; plus
  - ~~Item 1.1.5 (GRF 301.0\_G) 'Net amounts recoverable from reinsurance contracts on outstanding claims (all business)'~~; plus
  - Item 3.2.1. (GRF 300.0\_G) 'Total net amounts recoverable (other than reinsurance recoveries receivable) on outstanding claims' ~~unpaid claims~~;
- Less 'Total OCL Net of Reinsurance and Non-Reinsurance Recoveries' for all classes of business (including group adjustments) in GRF

210.0B G ~~GRF 210.0 G Outstanding Claims Liability – Insurance Risk Charge (Level 2 Insurance Group)~~.

This value will be included in Item 1.1.4 of GRF 120.0 G ~~GRF 120.0 G Determination of Capital Base (Level 2 Insurance Group) – Technical provisions in excess of liability valuation~~.