

# Reporting Form DRF 210.0

## Outstanding Claims Liabilities

### Instruction Guide

#### Introduction

This form requires Discretionary Mutual Funds (**DMFs**) to report information about its outstanding claims liabilities (**OCL**) which relates only to discretionary business. These are to be calculated in accordance with these instructions.

#### Level of reporting

For the purposes of the instructions below the term DMF includes reporting at the legal entity or trust or subfund level. The same level of reporting must be used throughout this form.

DMFs will generally need to submit data at the legal entity or trust level. Some DMFs, however, operate with multiple subfunds and in those cases where the DMF has separate sub fund bank accounts and sub fund financial statements, this reporting form will need to be submitted for each sub fund. For example, if an entity has 2 subfunds: subfund A and subfund B. Subfund A and also subfund B will need to complete this reporting form.

#### Reporting obligations

The DMF is required to report information relating to a financial year in the forms. For financial years ending on or between 1 January 2008 and 30 June 2008 DMFs must lodge this form at the latest by 30 October 2008. For financial years ending after 30 June 2008 DMFs must lodge their reporting forms at the latest by 4 months after the DMF financial year end.

#### Audit requirements

The reporting form does not need to be audited. However the data should be based on the DMF's financial statements and must be subject to the same processes and controls that cover the review and authorisation of that accounting data. It is the responsibility of the board or trustee or senior management of the DMF to ensure that the information lodged with APRA is accurate and complete.

#### Method of submission

Forms will be submitted electronically to APRA using 'Direct to APRA' (**D2A**) software unless alternative arrangements are made with APRA.

## **Actuarial requirements**

DMFs may have an actuary to calculate the OCL in accordance with these instructions. This is not mandatory.

## **Definitions**

Definitions for data reporting items required by this form have been provided where possible in the instructions under the section headed 'Specific instructions'. Appendix 1 contains definitions of classes of business.

## **Basis of preparation**

### **Accounting basis of preparation**

Important: Report all items using the same recognition and measurement basis that is used in your financial statements. The instructions below are specific to entities that are reporting and complying with all applicable Australian Accounting Standards. In those instances where an entity does not comply with a AASB standard specifically identified below, report on the basis used in your financial statements.

### **Unit of measurement**

This form is to be presented in Australian dollars (**AUD**), rounded to thousands of dollars, with no decimal places. Amounts denominated in a currency other than Australian currency are to be converted to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates*.

## **Specific instructions**

### **1. Class of business**

Report the classes of business under the following headings:

Houseowners/householders, Commercial motor vehicle, Domestic motor vehicle, Travel, Fire and ISR, Marine, Aviation, Mortgage, Consumer credit, Other accident, Other, Public and product liability, Professional indemnity, Life and continuous disability.

Please refer to Appendix 1 for more information on the classes of business.

### **2. Gross OCL – Central estimate**

Report the closing balance of your gross OCL as reported in your financial statements. Some DMFs may calculate the OCL on the basis below but this is not mandatory.

### Non mandatory basis of calculation for general insurance-like products

The liability for outstanding claims may be measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments may include those in relation to claims reported but not yet paid, claims incurred but not yet reported (**IBNR**), claims incurred but not enough reported (**IBNER**), and anticipated claims handling costs.

Claims handling costs may include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can be indirectly associated with individual claims, such as claims administration costs.

The expected future payments may be discounted to present value using a risk free rate.

### **3. Gross OCL - Risk margin**

If a risk margin is calculated report the closing balance else report nil. Some DMFs may calculate the risk margin on the basis below but this is not mandatory.

### Non mandatory basis of calculation for general insurance-like products

A risk margin may be applied to the outstanding claims liability, net of insurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. This risk margin increases the probability of the net liability being adequately provided for to a 75% confidence level.

### **4. Gross OCL – Total**

This amount is automatically calculated by the form and represents the total of the ‘Gross OCL – Central estimate’ and the ‘Gross OCL – Risk margin amounts’.

### **5. Insurance recoveries**

Insurance refers to arrangements where some part of individual or aggregate insurance risks is insured with an insurer or insurers. Insurance recoveries are amounts expected to be recovered under arrangements in relation to the OCL. Insurance recoveries reported here ignore any provision for doubtful debts. Thus report gross of provision for doubtful debts.

### **6. Non-insurance recoveries**

Non-insurance recoveries are amounts that may be recovered under arrangements other than insurance arrangements, such as salvage, subrogation and sharing agreements. Non-insurance recoveries reported here ignore any provision for doubtful debts. Thus report gross of provision for doubtful debts.

## **7. Net OCL**

This amount is automatically calculated by the form and represents the 'Gross OCL – Total' less the sum of 'Insurance recoveries' and 'Non insurance recoveries'.

## **8. Gross OCL with no potential insurance recovery**

This column represents that portion of 'Gross OCL – Total' for which there is no possible insurance recovery, because insurance cover has not been taken out.

# **Appendix 1: Definitions of classes of business**

The classes of cover are as follows:

### **(I) Houseowners/Householders (H & H)**

This class includes:

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

Public liability normally attaching to these products is to be separated and included in public and product liability class of business – item (XII).

### **(II) Commercial motor vehicle**

Motor vehicle cover (including third party property damage) other than cover covering vehicles defined below under domestic motor vehicle. It includes long and medium haul trucks, cranes and special vehicles and cover for fleets.

### **(III) Domestic motor vehicle**

Motor vehicle cover (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 cover.

### **(IV) Travel**

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

## **(V) Fire and Industrial Special Risks (ISR)**

**Fire** - Includes all cover 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 cover, e.g. flood.

**ISR** - Business cover which typically covers:

- Material damage - physical damage to property and assets
- Money/Crime - handling of cash, and internal crime
- Theft/Burglary - external crime of all sorts
- Liability - both public (damage to third parties) and product (recall of items)
- Business interruption - this covers the loss of profits due to a variety of external reasons.

When an organisation has a turnover which is substantial (as an example over \$5 million) this business is covered under Industrial Special Risks (**ISR**) cover. Below that value, it is typically placed under a Business Pack cover which arguably is much simpler, but typically does not offer as wide a cover. The ISR cover is a base contract which has been designed to be tailored to meet the individual needs of a business and this is done by way of endorsement.

## **(VI) Marine**

Includes marine hull (including pleasure craft), marine cargo (including sea and inland transit cover).

## **(VII) Aviation**

Aviation (including aircraft hull and aircraft liability).

**(VIII) Mortgage**

Cover 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.

**(IX) Consumer credit**

Cover 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.

**(X) Other accident**

Includes the following types of cover:

- Miscellaneous accident (involving cash in transit, theft, loss of money);
- All risks (baggage, sporting equipment, guns);
- Engineering when not part of ISR or fire cover;
- Plate glass when not part of packaged cover (e.g. homeowners /householders)
- Guarantee;
- Live stock;
- Pluvius; and
- Sickness and accident (which provides stated benefits where the beneficiary is killed or suffers loss of specific parts of the body or is prevented from carrying out the beneficiaries normal occupation. In addition, regular benefits may be paid over a short period of time (typically less than 3 years), noting that continuous disability cover is considered to be life cover).

**(XI) Other**

All other cover not specifically mentioned elsewhere. It includes, for example:

- All guarantees (e.g. fidelity guarantee)
- Trade credit;
- Extended warranty (includes cover by a third party for a period in excess of the manufacturer's or seller's normal warranty;
- Kidnap and ransom; and
- Contingency.

**(XII) 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 member's business. Product liability includes cover that provides 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 cover.

Also will include builders warranty cover.

Includes public liability attaching to houseowners/householders cover.

**(XIII) Professional indemnity (PI)**

Includes Directors' and Officers' liability cover plus legal expense cover. Cover for legal expense is generally included in this type of cover.

**(IX) Life and continuous disability**

Includes life and continuous disability cover.

Continuous disability is cover:

- (a) that is, by its terms, to be of more than 3 years' duration; and
- (b) under which a benefit may be payable in the event of:
  - (i) the death, by accident or by some other cause stated in the cover, of the person whose life is covered; or
  - (ii) injury or disability as a result of accident or sickness; or
  - (iii) the person covered being found to have a stated condition or disease.