



Reporting Standard GRS 116.0.G

Insurance Concentration Risk Charge (Level 2 Insurance Group)

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for providing information to APRA about the calculation of the Level 2 insurance group's insurance concentration risk charge.

It includes associated specific instructions and must be read in conjunction with *Reporting Standard GRS 001 Reporting Requirements* (GRS 001), including the general instruction guide, and *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116).

Authority

1. This Reporting Standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

Purpose

2. The information reported to APRA under this Reporting Standard is used by APRA for the purpose of prudential supervision, including assessing compliance with the capital standards.

Application and commencement

3. This Reporting Standard applies to a parent entity of a Level 2 insurance group as defined in *Prudential Standard ~~CGPS 001 Defined termsitions~~ (CGPS 001)*. This Reporting Standard applies for reporting periods ending on or after 1 ~~January~~ ~~July~~ 2027~~3~~. The parent entity of a Level 2 group is required to ensure that each requirement in this Reporting Standard is complied with.

Information required

4. The parent entity of a Level 2 insurance group must provide APRA with the information required by this Reporting Standard in respect of the Level 2 insurance group for each reporting period.

Method of submission

5. The information required by this Reporting Standard must be given to APRA:
 - (a) in electronic format using an electronic method available on APRA's website; or
 - (b) by a method notified by APRA prior to submission.

Reporting periods and due dates

6. Subject to paragraph 7, the parent entity of a Level 2 insurance group must provide the information required by this Reporting Standard:
 - (a) in respect of the first half year based on the financial year of the Level 2 insurance group on an unaudited basis (half yearly information); and
 - (b) in respect of each financial year of the Level 2 insurance group on an audited basis (annual information).

Note: The annual information required by paragraphs 4, 5 and 6(b), together with certain annual information required by other reporting standards, will form part of the Level 2 insurance group's annual accounts within the meaning of ~~CGPS~~ GPS 001. *Prudential Standard GPS 310 Audit and Related Matters* (GPS 310) contains the relevant provisions governing audits.

7. If, having regard to the particular circumstances of a Level 2 insurance group, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by subparagraph 6(a) or 6(b), APRA may, by notice in writing to the parent entity, change the reporting periods, or specify reporting periods, for the particular Level 2 insurance group.
8. The information required by this Reporting Standard in respect of a Level 2 insurance group must be provided to APRA:
 - (a) in the case of half yearly information, within three months after the end of the reporting period to which the information relates;
 - (b) in the case of annual information, within three months after the end of the reporting period to which the information relates; or
 - (c) in the case of information provided in accordance with paragraph 7, within the time specified by notice in writing.

Note: GPS 310 requires a Level 2 insurance group to ensure that its Group Auditor conducts a limited assurance review of the group's annual accounts. Accordingly, the Group Auditor's report(s) as required by GPS 310 (relating to the information required by paragraph 4) must be provided to APRA by the time specified in GRS 001 (unless an extension of time is granted under GRS 001).

9. APRA may, in writing, grant the parent entity of a Level 2 insurance group an extension of a due date in paragraph 8, in which case the new due date will be the date on the notice of extension.

Note: For the avoidance of doubt, if the due date for a particular reporting period falls on a day other than a usual business day, the parent entity of a Level 2 insurance group is nonetheless required to submit the information required no later than the due date.

10. On the written application of the parent entity of a Level 2 insurance group, APRA may by notice in writing to the parent entity exclude the requirement under subparagraph 6(a) to provide half yearly information.

Quality control

11. The information provided by the parent entity of a Level 2 insurance group under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Group Auditor of the Level 2 insurance group. This will require the Group Auditor to review and test the Level 2 insurance group's systems, processes and controls designed to enable the group to report reliable financial information to APRA. This review and testing must be done on:
 - (a) an annual basis or more frequently if necessary to enable the Group Auditor to form an opinion on the reliability and accuracy of data; and
 - (b) at least a limited assurance engagement consistent with professional standards and guidance notes issued by the Auditing and Assurance Standards Board as may be amended from time to time, to the extent that they are not inconsistent with the requirements of GPS 310.
12. All information provided by the parent entity of a Level 2 insurance group under this Reporting Standard must be subject to systems, processes and controls developed by the Level 2 insurance group for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the parent entity of the Level 2 insurance group to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

13. When an officer, or agent, of a parent entity of a Level 2 insurance group provides the information required by this Reporting Standard using an electronic format the officer, or agent, must digitally sign the relevant information using a digital certificate acceptable to APRA.
14. If the information required by this Reporting Standard is provided by an agent who submits the information on the parent entity of a Level 2 insurance group's behalf, the parent entity of a Level 2 insurance group must:
 - (a) obtain from the agent a copy of the completed information provided to APRA; and
 - (b) retain the completed copy.

15. An officer, or agent, of a parent entity of a Level 2 insurance group who submits the information under this Reporting Standard for, or on behalf of, the parent entity of a Level 2 insurance group must be authorised by either:
 - (a) the Principal Executive Officer of the parent entity of the Level 2 insurance group; or
 - (b) the Chief Financial Officer of the parent entity of the Level 2 insurance group.

Variations

16. APRA may, by written notice to the parent entity of a Level 2 insurance group, vary the reporting requirements of this Reporting Standard in relation to that Level 2 insurance group.

Transition

17. A parent entity of a Level 2 insurance group must report under the old reporting standard in respect of a transitional reporting period. For these purposes:

old reporting standard means the reporting standard revoked in the determination making this Reporting Standard; and

transitional reporting period means a reporting period under the old reporting standard:

- (a) which ended before 1 ~~January~~~~July 2023~~~~2027~~; and
- (b) in relation to which the parent entity of a Level 2 insurance group was required, under the old reporting standard, to report by a date on or after the date of revocation of the old reporting standard.

Note: For the avoidance of doubt, if a parent entity of a Level 2 insurance group was required to report under an old reporting standard, and the reporting documents were due before the date of revocation of the old reporting standard, the parent entity of a Level 2 insurance group is still required to provide any overdue reporting documents in accordance with the old reporting standard.

Interpretation

18. In this Reporting Standard:
 - (a) unless the contrary intention appears, words and expressions have the meanings given to them in CGPS 001; and
 - (b) the following definitions are applicable:

APRA-authorised reinsurer means an insurer carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Insurance Act is an APRA-authorised reinsurer if it carries on reinsurance business. The Australian Reinsurance Pool Corporation is also an APRA-authorised reinsurer for the purposes of this definition;

capital standards means the prudential standards which relate to capital adequacy as defined in CGPS 001;

Chief Financial Officer means the chief financial officer of the parent entity of the Level 2 insurance group, by whatever name called;

financial year means the financial year (within the meaning in the *Corporations Act 2001*) of the parent entity of the Level 2 insurance group;

foreign insurer means a foreign general insurer within the meaning of the Insurance Act;

Note: A reference to a ‘branch’ or ‘branch operation’ is a reference to the Australian operations of a foreign insurer.

general instruction guide refers to the general instruction guide set out in Attachment A of GRS 001;

Group Auditor has the meaning given in GPS 310;

Insurance Act means the *Insurance Act 1973*;

insurer means a general insurer within the meaning of section 11 of the Insurance Act;

Note: In this Reporting Standard, a reference to an ‘authorised insurer’, ‘authorised insurance entity’ or ‘licensed insurer’ is a reference to an insurer, and a reference to an ‘authorised reinsurance entity’ is a reference to an insurer whose business consists only of undertaking liability by way of reinsurance.

non-APRA authorised reinsurer means any reinsurer that is not an APRA-authorised reinsurer;

Principal Executive Officer means the current principal executive officer of the entity, by whatever name called, and whether or not he or she is a member of the governing board of the entity; and

reporting period means a period mentioned in subparagraph 6(a) or 6(b) or, if applicable, paragraph 7.

19. Unless the contrary intention appears, a reference to an Act, Prudential Standard, Reporting Standard, Australian Accounting or Auditing Standard is a reference to the instrument as in force from time to time.

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Insurance Concentration Risk Charge (Level 2 Insurance Group)

General instructions

Reporting tables

Tables in this reporting standard list each of the data fields required to be reported. The data fields are listed sequentially in the column order that they will appear in the reported data set. Constraints on the data that can be reported for each field have also been provided.

Definitions

Terms in ***bold italics*** are defined in this Definitions section of these instructions.

A

<i>Adjusted PML</i>	This is the <i>PML</i> after allowing for the <i>adjustment to the PML</i> . This is automatically calculated as: <ul style="list-style-type: none"> • <i>PML</i> less: <ul style="list-style-type: none"> • <i>adjustment to the PML</i>
<i>Adjustment to the PML</i>	For a Level 2 insurance group with an LMI that is no longer writing new business (i.e. in run-off), the sum insured is expected to decrease over the three-year scenario and it may be appropriate for an LMI in run-off to adjust its <i>PML</i> downwards. The methodology for adjusting an LMI's <i>PML</i> in a run-off situation must be approved by APRA and documented in the LMI's reinsurance management strategy.
<i>Adjustments to LMI Concentration Risk Charge as approved by APRA</i>	If APRA is of the view that the Standard Method for calculating the <i>LMI Concentration Risk Charge</i> 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 <i>LMI Concentration Risk Charge</i> , APRA may adjust the <i>LMI Concentration Risk Charge</i> calculation for that Level 2 insurance group.
<i>Allowable reinsurance</i>	This is the lesser of <i>available reinsurance</i> and 60 per cent of the <i>adjusted PML</i> .
<i>Available reinsurance</i>	The methodology for calculating <i>available reinsurance</i> is detailed in Attachment A of GPS 116.

B

<p><i>Basis for determination of H3 requirement</i></p>	<p>The Level 2 insurance group must select ‘gross’ if it has determined that the <i>H3 requirement</i> would be greater if it is based on the gross loss arising from the occurrence of a single event, when compared to the net loss arising from the occurrence of a single event, <u>unless it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>H3 requirement</i>.</u></p> <p>The Level 2 insurance group must select ‘net’ if:</p> <p>a) it has determined that the <i>H3 requirement</i> would be greater if it is based on the net loss arising from the occurrence of a single event, when compared to the gross loss arising from the occurrence of a single event, <u>or</u></p> <p>a)b) <u>it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>H3 requirement</i>.</u></p>
<p><i>Basis for determination of H4 requirement</i></p>	<p>The Level 2 insurance group must select ‘gross’ if it has determined that the <i>H4 requirement</i> would be greater if it is based on the gross loss arising from the occurrence of a single event, when compared to the net loss arising from the occurrence of a single event, <u>unless it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>H4 requirement</i>.</u></p> <p>The Level 2 insurance group must select ‘net’ if:</p> <p>a) it has determined that the <i>H4 requirement</i> would be greater if it is based on the net loss arising from the occurrence of a single event, when compared to the gross loss arising from the occurrence of a single event, <u>or</u></p> <p>a)b) <u>it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>H4 requirement</i>.</u></p>
<p><i>Basis for determination of NP VR</i></p>	<p>The Level 2 insurance group must enter ‘gross’ if it has determined that the <i>NP VR</i> would be greater, if it is based on the gross loss arising from the occurrence of a single event, than the net loss arising from the occurrence of a single event, <u>unless it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>NP VR</i>.</u></p> <p>The Level 2 insurance group must enter ‘net’ if:</p> <p>a) it has determined that the <i>NP VR</i> would be greater, if it is based on the net loss arising from the occurrence of a single event, than the gross loss arising from the occurrence of a single event, <u>or</u></p> <p>a)b) <u>it has reinsurance arrangements with <i>basis risk</i> that respond to the <i>NP VR</i>.</u></p>
<p><u><i>Basis risk</i></u></p>	<p><u><i>Basis risk</i> refers to the risk that there is an imperfect correlation between the underlying losses of the Level 2 insurance group and the recoveries under the reinsurance contract. For clarity, this is not intended to capture features where, after being defined in the contract, the absolute size of</u></p>

	<u>the loss is the only variable which will impact reinsurance recoverables, examples of which would include deductibles, limits or quota share cession ratios. This is also not intended to capture reinsurance programs with varying levels of reinsurance coverage across a portfolio.</u>
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C

<i>Commencement date of catastrophe reinsurance program</i>	The Level 2 insurance group is required to report the <i>commencement date of the catastrophe reinsurance program</i> . Where the Level 2 insurance group has multiple inception dates for its catastrophe reinsurance program it must consult with APRA to determine the relevant commencement date.
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E

<i>End date of catastrophe reinsurance program</i>	The Level 2 insurance group is required to report the <i>end date of catastrophe reinsurance program</i> . Where the Level 2 insurance group has multiple inception dates for its catastrophe reinsurance program it must consult with APRA to determine the relevant end date.
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G

<u>Group A reinsurance</u>	<u>Group A reinsurance</u> comprises reinsurance that has no <i>basis risk</i> (for example all-peril, all-region reinsurance covers) and no optionality or contingent features nor any of the features of <i>Group C reinsurance</i> . This may include, but is not limited to, catastrophe excess of loss and quota share arrangements.
<u>Group B reinsurance</u>	<u>Group B reinsurance</u> comprises any reinsurance which does not meet the definition of either <i>Group A reinsurance</i> or <i>Group C reinsurance</i> . This category includes reinsurance with basis risk that is limited to peril coverage or geographic coverage. This category includes reinsurance which would otherwise have met the definition of <i>Group C reinsurance</i> , but have been assessed by the Group Actuary as not material. For a Level 2 insurance group, this category also includes reinsurance which creates basis risk due to varying levels of reinsurance coverage across legal entities within a group. For clarity, where an assessment made by the Appointed Actuary or Group Actuary results in an adjustment to the capital risk charge, the adjustment must be made after the application of reinsurance.
<u>Group C reinsurance</u>	<u>Group C reinsurance</u> comprises reinsurance that has one or more of the following features: <ul style="list-style-type: none"> • reinsurance where an adjustment under this standard GPS 116 would impact the assessment of capital under <i>Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge</i> (GPS 115);

	<ul style="list-style-type: none"> • <u>reinsurance that introduces <i>basis risk</i> between the underlying losses and recoveries for any reason other than peril or geographic coverage. For a Level 2 insurance group, this includes basis risk arising from varying levels of reinsurance coverage across legal entities within the group; or</u> • <u>reinsurance where the Group Actuary advises the Level 2 insurance group to refer the reinsurance to APRA</u> <p><u>except in cases where the Group Actuary advises the Level 2 insurance group the reinsurance is not material.</u></p> <p><u>For clarity, adjustments to the capital risk charge based on advice from the Appointed Actuary or Group Actuary, or as approved by APRA, refer to adjustments made after the application of reinsurance.</u></p>
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H

<p><u><i>H3 adjustments based on the Group Actuary's advice</i></u></p>	<p><u><i>H3 adjustments based on the Group Actuary's advice</i> is the amount of potential reinsurance recoverables from Group B reinsurance cover. The Level 2 insurance group must not allow for any reinstatements of reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be included in the H3 reinstatement cost. The Group Actuary must advise the Level 2 insurance group how to determine this adjustment.</u></p> <p><u>The total <i>H3 adjustments based on the Group Actuary's advice</i> is calculated as the sum of:</u></p> <ul style="list-style-type: none"> • <u>first event;</u> • <u>second event; and</u> • <u>third event.</u> <p><u>For clarity, where a Level 2 insurance group's Group Actuary advises it to use the net whole-of-portfolio approach to calculate the H3 requirement, the adjustment amount should not be reported in this section as it would already be captured in the <i>net H3 loss</i>.</u></p>
<p><u><i>H3 adjustments as approved by APRA</i></u></p>	<p><u><i>H3 adjustments as approved by APRA</i> comprises potential reinsurance recoverables from Group C reinsurance cover and other adjustments as approved by APRA. The Level 2 insurance group must not allow for any reinstatements of reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be included in the H3 reinstatement cost. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.</u></p> <p><u>The total <i>H3 adjustments as approved by APRA</i> is calculated as the sum of:</u></p> <ul style="list-style-type: none"> • <u>first event;</u> • <u>second event; and</u> • <u>third event.</u>

<p><i>H3 aggregate offset</i></p>	<p><i>H3 aggregate offset</i> is the amount of potential reinsurance recoverables from aggregate reinsurance cover. The Level 2 insurance group must not allow for any reinstatements of aggregate reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be netted from the offset. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.</p> <p>This methodology may allow for any portion of paid and outstanding claims and premiums liabilities (PL) that contribute to the Level 2 insurance group's retained losses for the purposes of the retention on any aggregate reinsurance cover, provided it does not result in a double-count between this offset and the <i>PL offset</i>.</p> <p>The total <i>H3 aggregate offset</i> is calculated as the sum of:</p> <p>first event;</p> <p>second event; and</p> <p>third event.</p>
<p><i>H3 loss per event</i></p>	<p>The <i>H3 loss per event</i> is calculated for each H3 event as the sum of:</p> <ul style="list-style-type: none"> • <i>single event loss from H3 event</i>; and • <i>H3 reinstatement cost</i>; <p>less:</p> <ul style="list-style-type: none"> • <i>H3 reinsurance recoverables</i>; • <i>H3 aggregate offset</i>; and • <u><i>H3 adjustments based on the Group Actuary's advice</i></u>; • <u><i>H3 adjustments as approved by APRA</i></u>; and • <i>H3 reinstatement premiums</i>.
<p><i>H3 reinstatement cost</i></p>	<p>The Level 2 insurance group is not required to determine a <i>H3 reinstatement cost</i> after the third event.</p> <p><i>H3 reinstatement cost</i> is the cost (if any) of reinstating catastrophe reinsurance cover, <u>including Group A reinsurance, Group B reinsurance, and Group C reinsurance</u>, after the occurrence of the first two H3 losses.</p> <p>The cost (if any) must reflect the cost of reinstating reinsurance cover up to the size of the third event. In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on the reinsurance market conditions that would prevail after the occurrence of the events. The amount must not be less than the full original cost of the cover, with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail in the market after the occurrence of the events.</p>

	<p>The total <i>H3 reinstatement cost</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; and • second event.
<i>H3 reinstatement premiums</i>	<p><i>H3 reinstatement premiums</i> are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the events that give rise to three H3 losses. <i>H3 reinstatement premiums</i> must only be included in <i>NP HR</i> if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.</p> <p>The total <i>H3 reinstatement premiums</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; and • third event.
<i>H3 reinsurance recoverables</i>	<p><i>H3 reinsurance recoverables</i> are the level of potential reinsurance recoverables <u>from <i>Group A reinsurance</i></u> should there be the occurrence of three H3 losses over the catastrophe reinsurance program treaty year. <i>H3 reinsurance recoverables</i> must not include any amounts due from aggregate-<u><i>Group B reinsurance</i> or <i>Group C reinsurance</i></u>-cover.</p> <p>The total <i>H3 reinsurance recoverables</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; and • third event.
<i>H3 requirement</i>	<p>The <i>H3 requirement</i> is calculated as the total over the three events for <i>H3 loss per event</i>.</p>
<u><i>H4 adjustments based on the Group Actuary's advice</i></u>	<p><u><i>H4 adjustments based on the Group Actuary's advice</i> is the amount of potential reinsurance recoverables from <i>Group B reinsurance</i>. The Level 2 insurance group must not allow for any reinstatements of reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be included in the <i>H4 reinstatement cost</i>. The Group Actuary must advise the Level 2 insurance group how to determine this adjustment.</u></p> <p><u>The total <i>H4 adjustments based on the Group Actuary's advice</i> is calculated as the sum of:</u></p> <ul style="list-style-type: none"> • <u>first event;</u> • <u>second event</u> • <u>third event; and</u> • <u>fourth event.</u> <p><u>For clarity, where a Level 2 insurance group's Group Actuary advises it to use the net whole-of-portfolio approach to calculate the <i>H4 requirement</i>, the adjustment amount should not be reported in this section as it would already be captured in the <i>net H4 loss</i>.</u></p>

<p><u><i>H4 adjustments as approved by APRA</i></u></p>	<p><u><i>H4 adjustments as approved by APRA</i></u> comprises potential reinsurance recoverables from <i>Group C reinsurance</i> and other adjustments as approved by APRA. The Level 2 insurance group must not allow for any reinstatements of reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be included in the <i>H4 reinstatement cost</i>. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.</p> <p><u>The total <i>H4 adjustments as approved by APRA</i> is calculated as the sum of:</u></p> <ul style="list-style-type: none"> • <u>first event;</u> • <u>second event;</u> • <u>third event; and</u> • <u>fourth event.</u>
<p><i>H4 aggregate offset</i></p>	<p><i>H4 aggregate offset</i> is the amount of potential reinsurance recoverables from aggregate reinsurance cover. The Level 2 insurance group must not allow for any reinstatements of aggregate reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be netted from the offset. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.</p> <p>This methodology may allow for any portion of paid and outstanding claims and PL that contribute to the Level 2 insurance group’s retained losses for the purposes of the retention on any aggregate reinsurance cover, provided it does not result in a double count between this offset and the <i>PL offset</i>.</p> <p>The total <i>H4 aggregate offset</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; • third event; and fourth event.
<p><i>H4 loss per event</i></p>	<p>The <i>H4 loss per event</i> is calculated for each H4 event as the sum of:</p> <ul style="list-style-type: none"> • <i>single event loss from H4 event;</i> • <i>H4 reinstatement cost;</i> <p>less:</p> <ul style="list-style-type: none"> • <u><i>H4 reinsurance recoverables;</i></u> • <u><i>H4 adjustments based on the Group Actuary’s advice;</i></u> • <u><i>H4- adjustments as approved by APRA;</i></u> and • <i>H4 aggregate offset;</i> and • <i>H4 reinstatement premiums.</i>

<p><i>H4 reinstatement cost</i></p>	<p><i>H4 reinstatement cost</i> is the cost (if any) of reinstating catastrophe reinsurance cover, <u>including Group A reinsurance, Group B reinsurance, and Group C reinsurance,</u> after the occurrence of the first three H4 losses. The cost (if any) must reflect the cost of reinstating reinsurance cover up to the size of the fourth event. In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on the reinsurance market conditions that would prevail after the occurrence of the events. The amount must not be less than the full original cost of the cover, with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail in the market after the occurrence of the events.</p> <p>The total <i>H4 reinstatement cost</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; and • third event.
<p><i>H4 reinstatement premiums</i></p>	<p><i>H4 reinstatement premiums</i> are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the events that give rise to three H4 losses. <i>H4 reinstatement premiums</i> must only be included in <i>NP HR</i> if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.</p> <p>The total <i>H4 reinstatement premiums</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; • third event; and • fourth event.
<p><i>H4 reinsurance recoverables</i></p>	<p><i>H4 reinsurance recoverables</i> are the level of potential reinsurance recoverables <u>from Group A reinsurance</u> should there be the occurrence of four H4 losses over the catastrophe reinsurance program treaty year. <i>H4 reinsurance recoverables</i> must not include any amounts due from aggregate <u>Group B reinsurance or Group C reinsurance</u> cover.</p> <p>The total <i>H4 reinsurance recoverables</i> is calculated as the sum of:</p> <ul style="list-style-type: none"> • first event; • second event; • third event; and • fourth event.
<p><i>H4 requirement</i></p>	<p>The <i>H4 requirement</i> is calculated as the total over the four events for <i>H4 loss per event</i>.</p>

L

<p><i>LMI Concentration Risk Charge</i></p>	<p>The <i>LMI Concentration Risk Charge</i> represents the net loss from the application of a prescribed three-year economic downturn scenario to any lenders mortgage insurance business. The determination of the <i>LMI Concentration Risk Charge</i> is based on the formulae and requirements set out in GPS 116.</p> <p>This is a derived item and is calculated as the greater of:</p> <ul style="list-style-type: none"> • total of <i>adjusted PML</i> multiplied by 10%; or • the sum of <i>PML net of reinsurance</i> and <i>adjustments to LMI Concentration Risk Charge as approved by APRA</i> less <i>net premium liability deduction</i>.
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N

<p><i>Natural perils horizontal requirement (NP HR)</i></p>	<p>The <i>natural perils horizontal requirement (NP HR)</i> is calculated as the greater of:</p> <ul style="list-style-type: none"> • <i>H3 requirement</i>; or • <i>H4 requirement</i> <p>less:</p> <ul style="list-style-type: none"> • <i>PL offset</i>.
<p><i>Natural perils vertical requirement (NP VR)</i></p>	<p>The <i>natural perils vertical requirement (NP VR)</i> is calculated as the greater of:</p> <ul style="list-style-type: none"> • <i>NP PML</i> less <i>NP reinsurance recoverables</i>; or • <i>Net whole-of-portfolio loss</i>; <p>less:</p> <ul style="list-style-type: none"> • <i>NP reinstatement premiums</i> <p>plus:</p> <ul style="list-style-type: none"> • <i>NP reinstatement cost</i> <p>less:</p> <p><i>other adjustments:</i></p> <ul style="list-style-type: none"> • <u><i>NP VR adjustments based on the Group Actuary's advice</i></u> <p>less:</p> <ul style="list-style-type: none"> • <u><i>NP VR adjustments as approved by APRA.</i></u> <p><u>If a Level 2 insurance group has reinsurance arrangements with <i>basis risk</i> that respond the <i>NP VR</i> it must calculate the <i>NP VR</i> using the <i>net whole-of-portfolio loss</i>.</u></p>

<i>Net premium liability deduction</i>	In determining the <i>LMI Concentration Risk Charge</i> , this is the value of the deduction from the <i>PML</i> , allowed under GPS 116, for net PL of the LMI that relate to an economic downturn.
<i>Net whole-of-portfolio loss</i>	<i>Net whole-of-portfolio loss</i> is the net loss arising from the occurrence of a single event where that net loss is not less than the whole-of-portfolio annual net loss with a 0.5 per cent probability of occurrence.
<i>NP PML</i>	<i>NP PML</i> is the gross loss arising from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual loss with a 0.5 per cent probability of occurrence.
<i>NP reinstatement cost</i>	<i>NP reinstatement cost</i> is the cost (if any) of reinstating all catastrophe reinsurance cover relating to the reinsurance recoverables determined, <u>including <i>Group A reinsurance, Group B reinsurance, and Group C reinsurance</i>.</u> In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on current reinsurance market conditions. The amount must not be less than the full original cost of the cover with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail. <u>This cost is not required for reinsurance arrangements that typically do not have a reinstatement.</u>
<i>NP reinstatement premiums</i>	<i>NP reinstatement premiums</i> are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the event that gives rise to its <i>NP PML</i> , or the <i>net whole-of-portfolio loss</i> . <i>NP reinstatement premiums</i> must only be included in <i>NP VR</i> if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.
<i>NP reinsurance recoverables</i>	<i>NP reinsurance recoverables</i> is the level of potential reinsurance recoverables <u>from <i>Group A reinsurance</i></u> should there be the occurrence of the event that gives rise to <i>NP PML</i> . This amount must not include any amounts due from <u><i>Group B reinsurance</i> or <i>Group C reinsurance</i></u> aggregate reinsurance cover.
<u><i>NP VR adjustments based on the Group Actuary's advice</i></u>	<u><i>NP VR adjustments based on the Group Actuary's advice</i></u> comprises potential reinsurance recoverables from <i>Group B reinsurance</i> . <u>If reinstatements are included, the cost of reinstatement must be included in the <i>NP reinstatement cost</i>. <i>Group B reinsurance</i> cover is eligible to be considered for inclusion in the <i>NP VR</i> as advised by the Group Actuary of the Level 2 insurance group.</u> <u>For clarity, where a Level 2 insurance group's Group Actuary advises it to use the net whole-of-portfolio approach to calculate the <i>NP VR</i>, the</u>

	<u>adjustment amount should not be reported in this section as it would already be captured in the <i>net whole-of-portfolio loss</i>.</u>
<u><i>NP VR adjustments as approved by APRA</i></u>	<u><i>NP VR adjustments as approved by APRA</i> comprises potential reinsurance recoverables from <i>Group C reinsurance</i> and other adjustments as approved by APRA. If reinstatements are included, the <u>cost of reinstatement must be included in the <i>NP reinstatement cost</i>. The methodology to recognise adjustments from <i>Group C reinsurance</i> must be agreed with APRA.</u></u>

O

<i>OA PML</i>	<i>OA PML</i> is the gross loss arising from the occurrence of a single event, such that the size of the loss has 0.5 per cent probability of occurrence. A Level 2 insurance group with exposures to accumulations of losses arising from a common dependent source or non-natural perils must determine <i>OA PML</i> .
<i>OA reinstatement cost</i>	<i>OA reinstatement cost</i> is the cost (if any) of reinstating all catastrophe reinsurance cover relating to <i>OA reinsurance recoverables</i> . In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on the current reinsurance market conditions. The amount must not be less than the full original cost of the cover with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail.
<i>OA reinsurance recoverables</i>	<i>OA reinsurance recoverables</i> is the level of potential reinsurance recoverables should there be occurrence of <i>OA PML</i> . This amount may include any amounts from aggregate reinsurance cover if the cover has reached its attachment point, or will as a result of <i>OA PML</i>. The reinsurance recoverables can then be applied until the cover has been exhausted by claims by the Level 2 insurance group or the date that the aggregate reinsurance treaty expires, whichever occurs first.
<i>Other accumulations vertical requirement (OA VR)</i>	The <i>other accumulations vertical requirement (OA VR)</i> is calculated as the sum of: <ul style="list-style-type: none"> • <i>OA PML</i>; and • <i>OA reinstatement cost</i> less: <ul style="list-style-type: none"> • <i>PL adjustment to OA PML</i>; and • <i>OA reinsurance recoverables</i>.
<i>Other adjustments</i>	<i>Other adjustments</i> include potential reinsurance recoverables from aggregate reinsurance cover. Aggregate reinsurance cover is eligible to be considered for inclusion in the <i>NP VR</i> once the aggregate reinsurance

	<p>cover has reached its attachment point, or will as a result of the occurrence of NP PML, or net whole-of-portfolio loss, as appropriate. The reinsurance recoverables from aggregate reinsurance cover must then be applied up until the cover has been exhausted by claims by the Level 2 insurance group or the date that the aggregate reinsurance treaty expires, whichever occurs first.</p>
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P

<i>PL adjustment to OA PML</i>	The Level 2 insurance group may reduce the OA PML for any losses included in the other accumulation scenario that is already specifically allowed for in the premiums liabilities of the Level 2 insurance group.
<i>PL offset</i>	<i>PL offset</i> is the portion of the premiums liability provision which relates to catastrophic losses (those that give rise to a relatively significant number of claims and occur no more frequently than every three months), as determined by the Group Actuary.
<i>PML</i>	<i>PML</i> represents the total <i>PML</i> across all loan types, coverage types and origination channels. The Level 2 insurance group must enter an amount for total <i>PML</i> . Total <i>PML</i> is then automatically allocated in the proportions of 25% to year one, 50% to year two and 25% to year three of the Prescribed Stress Scenario as required by GPS 116.
<i>PML net of reinsurance</i>	<p>This is the <i>PML</i> after allowing for <i>allowable reinsurance</i>. It is calculated as:</p> <ul style="list-style-type: none"> • <i>adjusted PML</i> <p>less:</p> <ul style="list-style-type: none"> • <i>allowable reinsurance</i>

S

<i>Single event loss from H3 event</i>	The <i>single event loss from the H3 event</i> is the gross or net loss from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual (gross/net) loss with a 10 per cent probability of occurrence.
<i>Single event loss from H4 event</i>	The <i>single event loss from the H4 event</i> is the gross or net loss from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual (<u>gross/net</u>) loss with a 16.7 per cent probability of occurrence.

Specific instructions

Table 1: Insurance Concentration Risk Charge

Insurance concentration risk charge (ICRC)

The Level 2 insurance group is not required to report each component of the ICRC where the amount determined for one or more of the components is always expected to be materially lower than the amount determined for one or more of the other components. If a field does not apply, it should be left blank.

Region/Approach

The Level 2 insurance group must enter the region used to determine the applicable component that produces the highest ICRC in item 7 below.

Units of measurement

Report values in whole Australian dollars (no decimal places).

1. Natural perils vertical requirement (NP VR)

<p>Item 1</p>	<p><i>Natural perils vertical requirement (NP VR)</i> is a derived item and is calculated as the greater of:</p> <ul style="list-style-type: none"> • item 1.2 less item 1.3; or • item 1.4; <p>less:</p> <ul style="list-style-type: none"> • item 1.5 <p>plus:</p> <ul style="list-style-type: none"> • item 1.6 <p>less:</p> <ul style="list-style-type: none"> • <u>item 1.7</u> <p><u>less:</u></p> <ul style="list-style-type: none"> • <u>item 1.8</u>
<p>Item 1.1</p>	<p>Report the <i>basis for determination of NP VR</i> value. The valid values are:</p> <ul style="list-style-type: none"> • gross; or • <u>net.</u> <p><u>The Level 2 insurance group is expected to report this item where it has determined an NP VR value.</u></p>
<p>Item 1.2</p>	<p>Report the <i>NP PML</i> amount.</p>

	The Level 2 insurance group must only report this item if the Level 2 insurance group has entered ‘gross’ in item 1.1.
Item 1.3	Report the <i>NP reinsurance recoverables</i> amount. The Level 2 insurance group must only report this item if the Level 2 insurance group has entered ‘gross’ in item 1.1.
Item 1.4	Report the <i>Net whole-of-portfolio loss</i> amount. The Level 2 insurance group must only report this item if the Level 2 insurance group has entered ‘net’ in item 1.1.
Item 1.5	Report the <i>NP reinstatement premiums</i> amount.
Item 1.6	Report the <i>NP reinstatement cost</i> amount.
<u>Item 1.7</u>	<u>Report the <i>NP VR adjustments based on the Group Actuary’s advice</i>.</u> <u>The Level 2 insurance group must only report this item if the Level 2 insurance group has entered ‘gross’ in item 1.1.</u> <u><i>NP VR adjustments based on the Group Actuary’s advice</i> should be reported-Report this as a positive number where it would if they act to reduce the <i>NP VR</i>.</u>
<u>Item 1.87</u>	<u>Report the <i>NP VR adjustments as approved by APRA</i> amount.</u> <u>Report the <i>other adjustments</i> amount.</u> <u><i>NP VR adjustments as approved by APRA</i> should be reported-Report this as a positive number where it would if they act to reduce the <i>NP VR</i>.</u>

2. Natural perils horizontal requirement (NP HR)

Item 2	<i>Natural perils horizontal requirement (NP HR)</i> is a derived item and is calculated as the greater of <ul style="list-style-type: none"> • item 2.3; or • item 2.4 less: <ul style="list-style-type: none"> • item 2.5.
Item 2.1	Report the <i>commencement date of catastrophe reinsurance program</i> amount.
Item 2.2	Report the <i>end date of catastrophe reinsurance program</i> amount.

H3 requirement

The following items relate to the *H3 requirement*.

Item 2.3	<p>H3 requirement is a derived item and is calculated as the total over the three events (across columns 1 to 3) for:</p> <ul style="list-style-type: none"> • item 2.3.78
Item 2.3.1	<p>Report the basis for determination of H3 requirement. The valid values are:</p> <ul style="list-style-type: none"> • gross; or • <u>net</u> <p><u>The Level 2 insurance group is expected to report this item where it has determined an H3 requirement.</u></p>
Item 2.3.2	Report the single event loss from H3 event amount.

The following columns are to be reported~~ed~~ for item 2.3.3 to item 2.3.~~78~~:

Column 1	Report the amount for the first event.
Column 2	Report the amount for the second event.
Column 3	Report the amount for the third event.

Item 2.3.3	<p>Report the H3 reinsurance recoverables amount for each event.</p> <p>This item must only be reported if the Level 2 insurance group has selected ‘gross’ in item 2.3.1.</p> <p>The total H3 reinsurance recoverables is calculated as the sum across columns 1 to 3.</p>
Item 2.3.4	<p>Report the H3 aggregate offset amount for each event.</p> <p>The total H3 aggregate offset is calculated as the sum across columns 1 to 3. Report the H3 adjustments based on the Group Actuary’s advice amount for each event.</p> <p>This item must only be reported if the Level 2 insurance group has selected ‘gross’ in item 2.3.1.</p> <p>H3 adjustments based on the Group Actuary’s advice should be reported Report this as a positive number where it would if they act to reduce the H3 requirement.</p> <p>The total H3 adjustments based on the Group Actuary’s advice is calculated as the sum across columns 1 to 3.</p>
<u>Item 2.3.5</u>	<p><u>Report the H3 adjustments as approved by APRA amount for each event.</u></p>

	<p><i>H3 adjustments as approved by APRA</i> should be reported Report this as a positive number where it would if they act to reduce the <i>H3 requirement</i>.</p> <p><u>The total <i>H3 adjustments as approved by APRA</i> is calculated as the sum across columns 1 to 3.</u></p>
Item 2.3.65	<p>Report the <i>H3 reinstatement premiums</i> amount for each event.</p> <p>The total <i>H3 reinstatement premiums</i> is calculated as the sum across columns 1 to 3.</p>
Item 2.3.76	<p>Report the <i>H3 reinstatement cost</i> amount after the first and second events.</p> <p>The Level 2 insurance group is not required to determine a <i>H3 reinstatement cost</i> after the third event.</p> <p>The total <i>H3 reinstatement cost</i> is calculated as the sum across columns 1 and 2.</p>
Item 2.3.87	<p><i>H3 loss per event</i> is a derived item and is calculated for each event as the sum of:</p> <ul style="list-style-type: none"> • item 2.3.2; and • item 2.3.67- <p>less:</p> <ul style="list-style-type: none"> • item 2.3.3; • item 2.3.4; and • item 2.3.5; and- • <u>item 2.3.6.</u> <p>The total <i>H3 loss per event</i> is calculated as the sum across columns 1 to 3.</p>

H4 requirement

The following items relate to the *H4 requirement*.

Item 2.4	<p><i>H4 requirement</i> is a derived item and is calculated as the total over the four events (across columns 1 to 4) for:</p> <ul style="list-style-type: none"> • item 2.4.78
Item 2.4.1	<p>Report the <i>basis for determination of H4 requirement</i>. The valid values are:</p> <ul style="list-style-type: none"> • gross; or • <u>net</u> <p><u>The Level 2 insurance group is expected to report this item where it has determined an H4 requirement.</u></p>
Item 2.4.2	<p>Report the <i>single event loss from H4 event</i> amount.</p>

The following columns are to be report for item 2.4.3 to item 2.4.~~78~~:

Column 1	Report the amount for the first event.
Column 2	Report the amount for the second event.
Column 3	Report the amount for the third event.
Column 4	Report the amount for the fourth event.

Item 2.4.3	<p>Report the <i>H4 reinsurance recoverables</i> amount for each event.</p> <p>This item must only be reported if the Level 2 insurance group has selected ‘Gross’ in Item 2.4.1.</p> <p>The total <i>H4 reinsurance recoverables</i> is calculated as the sum across columns 1 to 4.</p>
Item 2.4.4	<p>Report the <i>H4 aggregate offset</i> amount for each event.</p> <p>The total <i>H4 aggregate offset</i> is calculated as the sum across columns 1 to 4. Report the <i>H4 adjustments based on the Group Actuary’s advice</i> amount for each event.</p> <p>This item must only be reported if the Level 2 insurance group has selected ‘gross’ in item 2.4.1.</p> <p><i>H4 adjustments based on the Group Actuary’s advice</i> should be reported Report this as a positive number where it would if they act to reduce the <i>H4 requirement</i>.</p> <p>The total <i>H4 adjustments based on the Group Actuary’s advice</i> is calculated as the sum across columns 1 to 4.</p>
<u>Item 2.4.5</u>	<p>Report the <i>H4 adjustments as approved by APRA</i> amount for each event.</p> <p><i>H4 adjustments as approved by APRA</i> should be reported Report this as a positive number where it would if they act to reduce the <i>H4 requirement</i>.</p> <p>The total <i>H4 adjustments as approved by APRA</i> is calculated as the sum across columns 1 to 4.</p>
Item 2.4.56	<p>Report the <i>H4 reinstatement premiums</i> amount for each event.</p> <p>The total <i>H4 reinstatement premiums</i> is calculated as the sum across columns 1 to 4.</p>
Item 2.4.67	<p>Report the <i>H4 reinstatement cost</i> amount after the first, second and third events.</p> <p>The Level 2 insurance group is not required to determine a <i>H4 reinstatement cost</i> after the fourth event.</p>

	The total <i>H4 reinstatement cost</i> is calculated as the sum across columns 1 to 3.
Item 2.4.78	<p><i>H4 loss per event</i> is a derived item and is calculated for columns 1 to 4 as the sum of:</p> <ul style="list-style-type: none"> • item 2.4.2; and • item 2.4.67- <p>less:</p> <ul style="list-style-type: none"> • item 2.4.3; • item 2.4.4; and • <u>item 2.4.5; and-</u> • <u>item 2.4.6.</u> <p>The total <i>H4 loss per event</i> is calculated as the sum across columns 1 to 4.</p>

Item 2.5	Report the <i>PL offset</i> amount.
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3. Other accumulations vertical requirement (OA VR)

Item 3	<p><i>Other accumulations vertical requirement (OA VR)</i> is a derived item and is calculated as the sum of:</p> <ul style="list-style-type: none"> • item 3.1; and • item 3.4 <p>less:</p> <ul style="list-style-type: none"> • item 3.2; and • item 3.3.
Item 3.1	Report the <i>OA PML</i> amount.
Item 3.2	Report the <i>PL adjustment to OA PML</i> amount.
Item 3.3	Report the <i>OA reinsurance recoverables</i> amount.
Item 3.4	Report the <i>OA reinstatement cost</i> amount.

4. LMI concentration risk charge

Item 4	<p><i>LMI concentration risk charge</i> is a derived item and is calculated as the greater of the:</p> <ul style="list-style-type: none"> • total of item 4.3 multiplied by 10%; or • the sum of item 4.6 and item 4.8 less item 4.7.
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The following columns are to be reported (where applicable) for item 4.1 to item 4.8:

Column 1	Report the amount for year 1.
Column 2	Report the amount for year 2.
Column 3	Report the amount for year 3.
Column 4	Report the total amount.

Item 4.1	<p>Report the total PML amount in column 4.</p> <p>The amounts in columns 1 to 3 respectively are calculated as:</p> <ul style="list-style-type: none"> • column 4 multiplied by 25%; • column 4 multiplied by 50%; and • column 4 multiplied by 25%.
Item 4.2	<p>Report the adjustment to the PML amount for year 2 and year 3.</p> <p>A reduction in PML is to be entered as a positive amount. Do not enter any other adjustments to PML in this field.</p>
Item 4.3	<p>Adjusted PML is a derived item and is calculated as:</p> <ul style="list-style-type: none"> • item 4.1 <p>less:</p> <ul style="list-style-type: none"> • item 4.2
Item 4.4	<p>Report the available reinsurance amount for each year.</p> <p>Report the amount of available reinsurance for each of the three years of the prescribed stress scenario.</p>
Item 4.5	<p>Allowable reinsurance is a derived item and is calculated as the lesser of the:</p> <ul style="list-style-type: none"> • total of item 4.4; or • total of item 4.3 multiplied by 60%
Item 4.6	<p>PML net of reinsurance is a derived item and is calculated as:</p> <ul style="list-style-type: none"> • item 4.3 <p>less:</p> <ul style="list-style-type: none"> • item 4.5
Item 4.7	<p>Report the net premium liability deduction amount. Report this item as a positive amount.</p>
Item 4.8	<p>Report the adjustments to LMI Concentration Risk Charge as approved by APRA amount.</p> <p>An increase in the LMI Concentration Risk Charge is to be reported as a positive amount.</p>

5. Region / Approach

Item 5	<p>Report the region / approach used to determine the applicable component that produces the highest <i>Insurance Concentration Risk Charge</i>.</p> <p>Where the Level 2 insurance group has used an approach agreed with APRA under- GPS 116, enter 'APRA-agreed approach' in this field.</p>
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