

GRF_115_1: Premiums Liabilities - Insurance Risk Charge

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

Explanatory notes

Direct business

Sections 1A, 1B and 1C are to be completed for the insurance business written directly by the reporting insurer and are to be reported in accordance with the direct classes of business in Attachment B of *Prudential Standard GPS 001 Definitions* (GPS 001).

Reinsurance business

Sections 2A, 2B and 2C are to be completed for the reinsurance business written by the reporting insurer and are to be reported in accordance with the reinsurance classes of business in Attachment B of GPS 001 and Attachment A of *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge* (GPS 115). The classes of business are to be aggregated by the Category and Reinsurance Type in Table 2 of Attachment A of GPS 115 for reporting on this form.

Class of business

Report the items in the sections of this form by the direct or reinsurance classes of business in accordance with Attachment B of GPS 001.

For the purpose of calculating the Insurance Risk Charge on GRF 115.0 and GRF 115.1 in respect of the 'Other' class of business as per GPS 001 for direct business, the Appointed Actuary is required to determine the most appropriate category (i.e. category A, B or C) in Table 1 of Attachment A of GPS 115 that this business falls within. The choice must be based on the underlying risk characteristics of the business being written. This amounts reported in the Other direct - category A, Other direct - category B or Other direct - category C line items are to follow this basis.

For reinsurance business, the classes of business in Table 2 of Attachment A of GPS 115 are to be aggregated by the Category and Reinsurance Type for reporting on this form.

Specific reporting instructions Were actuarial services used to complete this return? (Yes / No)

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

Sections 1A, 2A and 3A

(2) Gross PL - Central estimate

This is the value, as at the relevant date, of the central estimate component of premiums liabilities (PL), gross of any recoveries, determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

The central estimate will be measured as the present value of the future expected payments, i.e. discounted for future investment income, determined in accordance with GPS 320. The central estimate is intended to reflect the mean value in the range of possible values for the outcome (that is, the mean of the distribution of probabilistic outcomes), and so does not include any risk margin.

(3) Gross PL - risk margin

This is the value, as at the relevant date, of the diversified risk margin component of PL, gross of any recoveries, determined in accordance with GPS 320. The diversified risk margin refers to the risk margin that has been applied to the class of business after allowance for diversification across the whole insurance portfolio.

(4) Gross PL - Total

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

PL relate to all future claim payments arising from future events post the valuation date that will be insured under the reporting insurer's existing policies that have not yet expired. The value of the PL must include an amount in respect of the expenses that the reporting entity expects to incur in administering and settling the relevant claims and allow for expected premium refunds. The value of PL must not include any Government charges directly imposed on the reporting insurer, such as levies, duties and taxes, and must be gross of input tax credit recoveries. Also a deferred acquisition cost asset must not be reported.

It is automatically calculated as Column 2 plus Column 3.

(5) Non-reinsurance recoveries

This is the value of recoveries under arrangements, other than reinsurance arrangements, receivable by the reporting insurer associated with the PL, gross of any provisions for depreciation or impairment. It is determined in accordance with GPS 320. Recoveries to be included at this item include salvage, subrogation, and input tax credit recoveries, amongst others.

(6) Expected reinsurance recoveries

This is the value of expected reinsurance recoveries receivable by the reporting insurer associated with the PL, gross of any provisions for depreciation or impairment. It is determined in accordance with GPS 320.

(7) Net PL - Central estimate

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

(8) Net PL - Stand-alone risk margin

This is the value, as at the relevant date, of the stand-alone risk margin component of PL, net of any expected reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320. The stand-alone risk margin refers to the risk margin that would be applied to a class of business where no allowance for diversification with other classes of business has been allowed.

(9) Net PL - Diversified risk margin

This is the value, as at the relevant date, of the diversified risk margin component of PL, net of any expected reinsurance and non-reinsurance recoveries, determined in accordance with GPS 320. The diversified risk margin refers to the risk margin that has been applied to the class of business after allowance for diversification across the whole insurance portfolio.

(10) Net PL - Total

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

It is automatically calculated as Column 7 plus Column 9.

(11) PL capital factor %

This is the premiums liability risk capital factor applicable to each class of business as per Attachment A of GPS 115.

(12) PL Insurance Risk Charge

This is the component of the Insurance Risk Charge which relates to the risk that the value of the net PL is greater than the value determined in accordance with GPS 320.

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

Sections 1B, 2B and 3B

(2) Unearned premium liability (UPL)

This is the unearned premium liability determined in accordance with the recognition requirements of *Australian Accounting Standard AASB 1023 General Insurance Contracts* (AASB 1023). AASB 1023 requires that premium revenue is recognised in accordance with the expected pattern of risk and any unearned portion must be deferred and recognised on the balance sheet.

The total amount across the direct and reinsurance classes of business should correspond to Item 17 - 'Total Amount' Column in GRF 300.0.

(3) Deferred acquisition costs before LAT write-down

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

The total amount across the direct and reinsurance classes of business should correspond to Item 9.1 - 'Total Amount' Column in GRF 300.0.

(4) Deferred acquisition costs LAT write-down

This is the amount of LAT write-downs, determined in accordance with AASB 1023.

The total amount across the direct and reinsurance classes of business should correspond to Item 9.2 - 'Total Amount' Column in GRF 300.0.

(5) Unexpired risk liability

This is the unexpired risk amount (if any) that arises from any deficiencies in the insurer's LAT, determined in accordance with AASB 1023 and adopted in the insurer's statutory accounts.

If the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deficient. The entire deficiency shall be recognised in the statement of comprehensive income. In recognising the deficiency in the statement of comprehensive income the insurer shall first write-down any related intangible assets and then the related deferred acquisition costs. If an additional liability is required this shall be recognised in the statement of financial position as an unexpired risk liability.

The total amount across the direct and reinsurance classes of business should correspond to Item 18 - 'Total Amount' Column in GRF 300.0.

(6) Deferred reinsurance expense (DRE)

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

The total amount across the direct and reinsurance classes of business should correspond to Item 8 - 'Total Amount' Column in GRF 300.0.

(7) Other items

This is a balancing item calculated as $(DR - UPL) - (DE - DAC - DRE)$ where:

DR = Deferred Revenue which are all unearned revenues that represent income used to meet the costs of future claims that will arise under current general insurance contracts that have been deferred in accordance with AASB 1023. This includes deferred reinsurance exchange commission and unearned commission revenue.

DE = Deferred Expenses which are all capitalised costs relating to the unearned portion of premium revenue (net of any write-downs resulting from the liability adequacy test), or relating to the deferred portion of existing outwards reinsurance arrangements (for deferred outwards reinsurance expenses), that have been deferred and recognised in accordance with the relevant accounting standards. This includes DAC, DRE and deferred levies and charges as determined in accordance with the relevant accounting standards.

It is automatically calculated as Column 8 less Column 2 plus Column 3 less Column 5 plus Column 6.

(8) AASB 1023 net premiums liabilities

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

Sections 1C and 2C

(2) Net written premium

This is the value of future net written premium income for contracts for which the insurer is already committed that will expose the insurer to material risks in the subsequent relevant period, but are not otherwise recognised within the capital requirements. This premium income is net of: levies that are included in the gross premium and would be payable on the business (in particular fire service levy); reinsurance costs that would arise in respect of the premium income and would be payable under treaty arrangements to protect the business; and commission that would be payable to secure the business once it is written (such as brokerage or reinsurance exchange commission).

Typically this will be for policies for which a written premium is not yet recognised under accounting standards, and have not been included in the PL, but for which the insurer has already committed to cover.

The materiality of the business that incepts in the next reporting period should be determined in accordance with the Australian Accounting and Auditing Standards subject to APRA's discretion.

(3) PL capital factor %

This is the premiums liability risk capital factor applicable to each class of business as per Attachment A of GPS 115.

(4) Additional policies risk charge

This is the component of the Insurance Risk Charge which relates to the risk that material net written premium, as defined in GPS 115, will be insufficient to fund the liabilities arising from that business.

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

Section 3A

(13) Additional policies risk charge

This is the component of the Insurance Risk Charge which relates to the risk that material net written premium, as defined in GPS 115, will be insufficient to fund the liabilities arising from that business.

It is automatically calculated as the sum of Column 4 in Sections 1C and 2C across the classes of business.

(14) Total PL Insurance Risk Charge

This is the Insurance Risk Charge in respect of premiums liability risk, which relates to the risk that the value of the net PL is greater than the value determined in accordance with GPS 320. It also relates to the risk that material net written premium, as defined in GPS 115, will be insufficient to fund the liabilities arising from that business.

It is automatically calculated as Column 12 plus Column 13.

Total direct business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 1A across the classes of business.

Total reinsurance business

Each item in this row is automatically calculated as the sum of the *Proportional* and *Non-proportional* items in Section 3A for each corresponding column.

Proportional

Each item in this row is automatically calculated as the sum of each corresponding column in Section 2A across the proportional classes of business.

Non-proportional

Each item in this row is automatically calculated as the sum of each corresponding column in Section 2A across the non-proportional classes of business.

Adjustments to PL Insurance Risk Charge as approved by APRA

If APRA is of the view that the Standard Method for calculating the PL Insurance Risk Charge component of the prescribed capital amount does not produce an

appropriate outcome in respect of a reporting insurer, or a reporting insurer has used inappropriate judgement or estimation in calculating the PL Insurance Risk Charge, APRA may adjust the PL Insurance Risk Charge calculation for that reporting insurer.

Approved adjustments are to be reported separately in the associated table highlighting the description of the adjustment given, transitional status and amount of adjustment applied. An increase in the risk charge is to be reported as a positive amount.

This is calculated automatically as the sum of Column 3 in the table that follows.

Total

Each item in this row is automatically calculated as the sum of the *Total direct business*, *Total reinsurance business* and *Adjustments and exclusions to PL Insurance Risk Charge items* in Section 3A for each corresponding column.

Section 3B

Total direct business

Each item in this row is automatically calculated as the sum of each corresponding column in Section 1B across the classes of business.

Total reinsurance business

Each item in this row is automatically calculated as the sum of the *Proportional* and *Non-proportional* items in Section 3B for each corresponding column.

Proportional

Each item in this row is automatically calculated as the sum of each corresponding column in Section 2B across the proportional classes of business.

Non-proportional

Each item in this row is automatically calculated as the sum of each corresponding column in Section 2B across the non-proportional classes of business.

Total AASB 1023

Each item in this row is automatically calculated as the sum of the *Total direct business* and *Total reinsurance business* items in Section 3B for each corresponding column.

Other items description

Provide a brief description and the corresponding amount of the items reported in the 'Other items' column in Section 3B (Column 7).

Section 3C

Total direct business - Premiums liabilities surplus / deficit

This is the amount by which the net PL for the insurer's directly written business, determined in accordance with AASB 1023, exceeds (or is in deficit of) the equivalent figure determined in accordance with GPS 320.

It is automatically calculated as Column 8 in Section 1B less Column 10 in Section 1A.

Total reinsurance business - Premiums liabilities surplus / deficit

This is the amount by which the net PL for the insurer's reinsurance business, determined in accordance with AASB 1023, exceeds (or is in deficit of) the equivalent figure determined in accordance with GPS 320.

It is automatically calculated as: Column 8 in Section 2B less Column 10 in Section 2A.

Total deferred reinsurance expense for future business not yet written

This is the component of reinsurance paid or payable which is available for future business written up to the end of the reinsurance contract and is determined in accordance with GPS 320. Amounts cannot be included in this item where the underlying reinsurance arrangements do not comply with the reinsurance documentation test or governing law requirements under GPS 230.

Total premiums liabilities surplus / deficit

This is automatically calculated as the sum of the *Total direct business - Premiums liabilities surplus / deficit*, *Total reinsurance business - Premiums liabilities surplus / deficit* and *Total deferred reinsurance expense for future business not yet written* items in Section 3C