

## GRF\_118\_0 Operational Risk Charge

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

### Instructions for specific items

#### 1. Operational Risk Charge for inwards reinsurance business (ORCI)

This is the Operational Risk Charge relating to the reporting insurer's inwards reinsurance business.

This is automatically calculated using the formula in accordance with *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge* (GPS 118).

##### 1.1. GWP for the 12 months ending on the reporting date (ORCI)

This is the value of gross written insurance premium revenue, relating to the reporting insurer's inwards reinsurance business, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* and unclosed business. This is gross of any associated outwards reinsurance expense.

##### 1.2. GWP for the 12 months ending on the date 12 months prior to the reporting date (ORCI)

This is the value of gross written insurance premium revenue, relating to the reporting insurer's inwards reinsurance business, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* and unclosed business. This is gross of any associated outwards reinsurance expense.

##### 1.3. Central estimate of net insurance liabilities (ORCI)

This is the value, relating to the reporting insurer's inwards reinsurance business, of the central estimate component of outstanding claims liabilities (OCL) and premiums liabilities (PL), net of any recoveries that relate to the gross OCL and gross PL, determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

#### 2. Operational Risk Charge for business that is not inwards reinsurance (ORCNI)

This is the Operational Risk Charge relating to business written directly by the reporting insurer.

This is automatically calculated using the formula in accordance with GPS 118.

### **2.1. GWP for the 12 months ending on the reporting date (ORCNI)**

This is the value of gross written insurance premium revenue, relating to business written directly by the reporting insurer, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* and unclosed business. This is gross of any associated outwards reinsurance expense.

### **2.2. GWP for the 12 months ending on the date 12 months prior to the reporting date (ORCNI)**

This is the value of gross written insurance premium revenue, relating to business written directly by the reporting insurer, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* and unclosed business. This is gross of any associated outwards reinsurance expense.

### **2.3. Central estimate of net insurance liabilities (ORCNI)**

This is the value, relating to business written directly by the reporting insurer, of the central estimate component of OCL and PL, net of any recoveries that relate to the gross OCL and gross PL, determined in accordance with GPS 320. The OCL and PL relate to business written directly by the reporting insurer.

## **3. Adjustments to Operational Risk Charge as approved by APRA**

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

## **4. Total Operational Risk Charge**

This is the minimum amount of capital a reporting insurer must hold against the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is calculated in accordance with GPS 118.

It is automatically calculated as item 1 plus item 2 plus item 3.