GRF_110_1: Prescribed Capital Amount

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

Instructions for specific items

Section 1: Summary of prescribed capital amount

Category of insurer

The different categories of insurer are defined in *Prudential Standard GPS 001 Definitions* (GPS 001). The reporting insurer is required to select the category from the drop-down box which best describes their status.

LMI

If the reporting insurer is a lenders mortgage insurer (LMI) as defined in GPS 001, input 'Y', otherwise 'N'.

1. Insurance Risk Charge

The Insurance Risk Charge is the minimum amount of capital required to be held against insurance risks. The Insurance Risk Charge relates to the risk that the value of net insurance liabilities determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320) is insufficient to cover associated net claim payments and associated claim expenses as they fall due.

This is automatically calculated as Item 1.1 plus Item 1.2.

1.1. GRF 115.0: OCL Insurance Risk Charge

The risk charge for Outstanding Claims Risk relates to the risk that the value of net outstanding claims liabilities (OCL) determined in accordance with GPS 320 will be insufficient to cover associated net claim payments and any associated claim expenses as they fall due.

This amount should correspond to the total in Column 13 of Section 3 of *GRF 115.0 Outstanding Claims Liabilities – Insurance Risk Charge*.

1.2. GRF 115.1: PL Insurance Risk Charge

The risk charge for Premiums Liability Risk relates to the risk that the value of net premiums liabilities (PL) determined in accordance with GPS 320 will be insufficient to cover associated net claim payments and any associated claim expenses as they fall due.

This amount should correspond to the total in Column 14 of Section 3A of *GRF 115.1 Premiums Liabilities – Insurance Risk Charge*.

2. GRF 116.0: Insurance Concentration Risk Charge

The Insurance Concentration Risk Charge is the minimum amount of capital required to be held against insurance concentration risks. The Insurance Concentration Risk Charge relates to the risk of an adverse movement in the reporting insurer's capital base due to a single large loss or series of losses.

This amount should correspond to Item 6 in *GRF 116.0 Insurance Concentration Risk Charge*.

3. GRF 114.0: Asset Risk Charge

The Asset Risk Charge is the minimum amount of capital required to be held against asset risks. The Asset Risk Charge relates to the risk of adverse movements in the value of a reporting insurer’s on-balance sheet and off-balance sheet exposures.

This amount should correspond to Item 7 in *GRF 114.0 Asset Risk Charge*.

4. GRF 117.0: Asset Concentration Risk Charge

The Asset Concentration Risk Charge is the minimum amount of capital required to be held against asset concentration risks. The Asset Concentration Risk Charge relates to the risk resulting from investment concentrations in individual assets or large exposures to individual counterparties or groups of related counterparties.

This amount should correspond to Item 3.9 in *GRF 117.0 Asset Concentration Risk Charge*.

5. GRF 118.0: Operational Risk Charge

The Operational Risk Charge is the minimum amount of capital required to be held against operational risks. The Operational Risk Charge relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

This amount should correspond to Item 4 in *GRF 118.0 Operational Risk Charge*.

6. Less: Aggregation benefit

The aggregation benefit makes an explicit allowance for diversification between asset risk and the sum of insurance risk and insurance concentration risk in the calculation of the prescribed capital amount. It must be determined in accordance with *Prudential Standard GPS 110 Capital Adequacy* (GPS 110).

7. Adjustments to prescribed capital amount as approved by APRA

If APRA is of the view that the Standard Method for calculating 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 prescribed capital amount, APRA may adjust the prescribed capital amount calculation for that reporting insurer.

Approved adjustments are to be reported separately in the associated table outlining the description of the adjustment, transitional status and amount of adjustment applied. Where the adjustment is a transitional adjustment, the end date for the transitional period is to be clearly included in the description of the item.

An increase in the prescribed capital amount is to be reported as a positive value.

The total adjustments to the prescribed capital amount is calculated automatically as the sum of Column 3 in the table that follows.

8. Prescribed capital amount

The prescribed capital amount is automatically calculated as the sum of Items 1 to 5 less Item 6 plus Item 7.

Where the reporting insurer is a Category D or E insurer, the prescribed capital amount is subject to a minimum of $2 million. For all other reporting insurers, the prescribed capital amount is subject to a minimum of $5 million.

Section 2: Capital Adequacy Assessment

9. Capital base or adjusted net assets in Australia

The capital base is the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in GPS 110.

For reporting insurers that are not Category C insurers, the capital base represents the sum of total Tier 1 Capital and Tier 2 Capital, net of any regulatory adjustments to capital. This amount should correspond to Item 3 in *GRF 112.0 Determination of Capital Base* (GRF 112.0).

For Category C insurers, this represents the adjusted net assets in Australia, i.e. the amount of net assets that are deemed as being inside Australia in accordance with *Prudential Standard GPS 120 Assets in Australia* (GPS 120). This should correspond to Item 14.11.

9.1. Of which: Common Equity Tier 1 Capital

This is the highest quality component of capital held by the reporting insurer as determined under the eligibility characteristics set out in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112), net of all regulatory adjustments.

This should correspond to Item 1.1 of GRF 112.0.

9.2. Of which: Tier 1 Capital

Tier 1 Capital comprises Common Equity Tier 1 Capital and Additional Tier 1 Capital.

This should correspond to Item 1.3 of GRF 112.0.

10. Capital in excess of prescribed capital amount

This is the surplus or deficit of a reporting insurer's capital base, or adjusted net assets in Australia for Category C insurers, over its prescribed capital amount.

It is automatically calculated as Item 9 less Item 8.

11. Common Equity Tier 1 Capital ratio

This is the ratio of the reporting insurer's Common Equity Tier 1 Capital to its prescribed capital amount.

It is automatically calculated as Item 1.1 in GRF 112.0 divided by Item 8 in this form.

12. Tier 1 Capital ratio

This is the ratio of the reporting insurer's Tier 1 Capital to its prescribed capital amount.

It is automatically calculated as Item 1.3 in GRF 112.0 divided by Item 8 in this form.

13. Prescribed capital amount coverage (%)

This represents the coverage provided by the reporting insurer's capital base, or adjusted net assets in Australia for Category C insurers, over the prescribed capital amount.

It is automatically calculated as Item 9 divided by Item 8.

Section 3: Adjusted net assets in Australia

14. Adjusted net assets in Australia determined from the following:

14.1. GRF 300.0: Assets in Australia

This represents the reporting insurer's assets which are to be treated as assets in Australia under the *Insurance Act 1973* (the Act).

This amount should correspond to the 'Amount - Inside Australia' Column for Item 13 in *GRF 300.0 Statement of Financial Position* (GRF 300.0).

14.2. GRF 300.0: Liabilities in Australia

This represents the reporting insurer's liabilities which are to be treated as liabilities in Australia under the Act.

This amount should correspond to the 'Amount - Inside Australia' Column for Item 24 in GRF 300.0.

14.3. OCL surplus / (deficit) inside Australia

This is the amount, that is deemed to be inside Australia, by which the OCL, net of any recoveries, determined in accordance with Australian Accounting Standards exceeds (or is in deficit of) the equivalent figure determined in accordance with GPS 320.

This amount should correspond to the 'Amount - Inside Australia' Column for Item 30.1 in GRF 300.0.

14.4. Total premiums liabilities surplus / (deficit) inside Australia

This is the amount, that is deemed to be inside Australia, by which the net premium liabilities (PL) calculated from figures determined in accordance with *Australian Accounting Standard AASB 1023 General Insurance Contracts* exceeds (or is in deficit of) the equivalent figure determined in accordance with GPS 320. This item is calculated after adjusting for the deferred reinsurance expense for future policies.

This amount should correspond to the 'Amount - Inside Australia' Column for Item 30.2.3 in GRF 300.0.

14.5. Tax effect of net OCL and PL surplus / (deficit) inside Australia

This is the amount of the tax effect relating to the OCL surplus/deficit and PL surplus/deficit that are deemed to be inside Australia (i.e. the corporate tax rate multiplied by the net amount).

This amount should correspond to the 'Amount - Inside Australia' Column for Item 30.3 in GRF 300.0.

14.6. Net surplus / (deficit) relating to insurance liabilities inside Australia

This is the amount of the OCL surplus/deficit and PL surplus/deficit, deemed to be inside Australia, adjusted for the tax effect.

This is automatically calculated as Item 14.3 plus Item 14.4 less Item 14.5.

14.7. Liabilities in Australia net of surplus / (deficit) relating to insurance liabilities

This is automatically calculated as Item 14.2 less Item 14.6

14.8. Net assets in Australia (before deductions)

This is the amount of net assets, deemed as being inside Australia, after adding or deducting the net surplus/deficit related to insurance liabilities, but before any deductions excluded for capital adequacy purposes and determined in accordance with GPS 120.

This is automatically calculated as Item 14.1 less Item 14.7.

14.9. Total deductions for assets specifically excluded from being considered inside Australia

This is the total of deductions for assets specifically excluded from being considered inside Australia in accordance with GPS 120.

This is automatically calculated as the sum of Items 14.9.1 to 14.9.13.

14.9.1. Cash flow hedge reserves relating to hedging of items not recorded at fair value

This is the value of cash flow hedge reserves that relate to the hedging items that are not recorded at fair value on the balance sheet (including projected cash flows).

14.9.2. Excess of deferred tax assets over deferred tax liabilities

This is the amount of deferred tax assets in excess of deferred tax liabilities within the reporting insurer.

Where the deferred tax liabilities exceed the deferred tax assets, this value should be reported as zero. Note that the netting of deferred tax assets and deferred tax liabilities must only be applied where the reporting insurer has a legally enforceable right to set-off deferred tax assets against deferred tax liabilities.

14.9.3. Net unrealised fair value gains / (losses) from changes in own credit worthiness

This is the unrealised gains (or losses) from changes in the fair values of the liabilities that arise due to changes in creditworthiness of the reporting insurer.

This amount is to be reported as a positive value where there are unrealised gains or a negative value for unrealised losses.

14.9.4. Goodwill

This is the value of goodwill, net of profit and loss adjustments arising from any impairment.

This also includes that component of investments in certain categories of subsidiaries, associates and joint ventures (as per *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112)) that represents goodwill.

14.9.5. Other intangible assets

This is the value of intangible assets, other than goodwill, net of profit and loss adjustments arising from any impairment and amortisation.

This also includes that component of investments in certain categories of subsidiaries, associates and joint ventures (as per GPS 112) that represents other intangible assets.

14.9.6. Surplus in defined benefit superannuation fund

This is the amount of surplus (if any) in defined benefit superannuation funds where the reporting insurer is an employer-sponsor, net of any associated deferred tax liabilities that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

Where the extinguished deferred tax liability of the defined benefit superannuation fund exceeds the reported surplus, this value should be reported as zero.

14.9.7. Deficit in defined benefit superannuation fund

This is the amount of deficit (if any) in a defined benefit superannuation fund where the reporting insurer is an employer-sponsor.

This item only needs to be reported where the deficit is not already reflected in adjusted net assets in Australia.

The deficit (if any) should be reported as a positive number.

14.9.8. Reinsurance assets related to reinsurance contracts that do not meet the reinsurance documentation test

This is the value of the reinsurance assets in relation to each reinsurance arrangement that does not meet the reinsurance document test as per *Prudential Standard GPS 230 Reinsurance Management* (GPS 230).

14.9.9. Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements

This is the value of all reinsurance assets reported in relation to each reinsurance contract entered into by the reporting insurer incepting on or after 31 December 2008 that does not meet the governing law requirements in GPS 230.

14.9.10. Regulatory capital requirement component of investments in subsidiaries, JVs and associates

This is the deduction for investments in subsidiaries, joint ventures and associates that are subject to regulatory capital requirements as detailed in Attachment B of GPS 112.

The amount of the deduction is the lesser of the reporting insurer's share of the regulatory capital requirements and the value of the investment that is recorded on the reporting insurer's balance sheet after adjustment for any goodwill and intangible component as reported in Items 14.9.4 and 14.9.5.

If the investment subject to this deduction is a non-operating holding company, a look-through approach must be applied.

14.9.11. Assets under a fixed or floating charge

This is the value of assets of the reporting insurer that are under a fixed or floating charge, mortgage or other security. This deduction may be reduced by the amount of any liability for the charge that is recognised on the reporting insurer's balance sheet.

Where the security exclusively supports a reporting insurer's insurance liabilities, the deduction only applies to the amount by which the fair value of the charged assets exceeds the reporting insurer's supported insurance liabilities.

14.9.12. Fair value adjustments

This is the amount to be deducted as required by APRA in writing where APRA considers that fair values reported on the balance sheet are not prudent or reliable.

14.9.13. Other adjustments

This is the value of deductions from assets in Australia that the reporting insurer must make as required under any prudential standards other than GPS 112.

14.10. Adjustments and exclusions to adjusted net assets in Australia

This is the amount of regulatory adjustments applied to the adjusted net assets in Australia that are specific to the application of the requirements in GPS 120.

Adjustments that would result in an increase to adjusted net assets in Australia should be reported as a positive value.

14.11. Adjusted net assets in Australia

This is the amount of net assets, deemed as being inside Australia, after the deductions for capital adequacy purposes determined in accordance with GPS 120.

This is automatically calculated as Item 14.8 less Item 14.9 plus Item 14.10.