Glossary

Definitions

AASB 1023 General Insurance Contracts (referred to as *AASB 1023*) is the principal accounting standard for the accounting treatment of general insurance contracts. Refer also to AIFRS.

Acquisition costs (excluding LAT) are costs incurred in obtaining and recording general insurance contracts as recognised under AASB 1023. Acquisition costs usually include commission or brokerage paid to agents or brokers for obtaining business for the insurer, selling and underwriting costs such as advertising and risk assessment, and the administrative costs of recording policy information and premium collection costs. Commission expenses, although part of the costs of acquiring business, are reported and published separately as Commission expenses.

Acquisition costs (prospective) is the fully expensed component of acquisition costs as recognised under APRA's previous prospective reporting framework (ie not deferred or recognised as an asset).

Additional policies risk charge 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.

Aggregation benefit is the explicit allowance for diversification between asset risk, insurance risk and insurance concentration risk in the calculation of the prescribed capital amount.

AIFRS refers to Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board (AASB). A number of Australian-specific standards and Interpretations have also been issued, including AASB 1023.

Asset concentration risk charge represents the total investment concentration risk charge for exposures to a counterparty (or group of related counterparties) that exceeds the threshold set out in the relevant prudential standards.

Asset risk charge components represent capital charges associated with the impact on insurers' capital base deriving from a particular stress/ scenario. These are:

> ***Credit spread*** is a measure of the impact on the capital base arising from an increase in credit spreads and risk of default. This stress applies to interest bearing assets (including cash deposits and floating rate assets), as well as credit derivatives and zero-coupon instruments such as bank bills.
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> ***Default stress*** is a measure of the impact on the capital base arising from an increased risk of counterparty default. This stress applies to reinsurance assets, Over The Counter (OTC) derivatives, unpaid premiums and all other credit or counterparty exposures that have not been affected by the credit spreads stress.
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> ***Equity stress*** is a measure of the impact on the capital base arising from a decrease in equity and other asset values. This stress also includes an increase in equity volatility. The stress is applied to both listed and unlisted equity assets and any other assets not considered in other asset risk stresses.

Expected inflation downwards is a measure of the impact on the capital base arising from a decrease in expected Consumer Price Index (CPI) inflation. The downward movement is defined as 100 basis points.

Expected inflation upwards is a measure of the impact on the capital base arising from an increase in expected Consumer Price Index (CPI) inflation. The upward movement is defined as 125 basis points.

Foreign exchange downwards is a measure of the impact on the capital base arising from a decrease in foreign currency exchange rates. The decrease is defined as 25 per cent in the value of the Australian dollar against all currencies.

Foreign exchange upwards is a measure of the impact on the capital base arising from an increase in foreign currency exchange rates. The upward movement is defined as 25 per cent in the value of the Australian dollar against all foreign currencies.

Property stress is a measure of the impact on the capital base arising from changes in property and infrastructure asset values.

Real interest rate downwards is a measure of the impact on the capital base arising from a decrease in real interest rates. The downward movement is defined as 0.2 times the nominal risk free interest rate, to a maximum of 200 basis points.

Real interest rate upwards is a measure of the impact on the capital base arising from an increase in real interest rates. The upward movement is defined as 0.25 times the nominal risk free interest rate, to a maximum of 200 basis points.

Impact of diversification and tax benefits is the explicit allowance for diversification between asset classes in the calculation of the asset risk charge. This includes any tax benefits resulting from the asset risk charge stresses.

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.

Australian business is any general insurance business carried on in Australia by a level 1 insurer within a level 2 group.

Average asset items are the average of the opening and closing balances of the relevant item over the period.

Branch insurer is the Australian branch of a foreign insurer/reinsurer. It is not locally incorporated.

Borrowings and loan capital includes securities sold under agreements to repurchase, subordinated loans, intra-group loans, Treasury related borrowings from banks, promissory notes and commercial papers.

Cession ratio (prospective) is Outwards reinsurance expense (prospective) divided by Gross written premium.

Cession ratio is Outwards reinsurance expense divided by Gross earned premium.

Commercial line insurers are direct insurers that primarily sell commercial lines business.

Commercial lines are insurance products primarily sold to commercial customers. This typically includes commercial motor vehicle, fire and industrial special risks, professional indemnity, public and product liability, employers' liability and aviation classes of business.

Commission expense is the commission or brokerage paid to agents or brokers for obtaining business for the insurer.

Commission revenue is the commission revenue received in relation to the insurance business, and is reported in accordance with the pattern in which it is earned.

Common equity tier 1 capital is the highest quality component of capital held by the insurer as determined under the eligibility characteristics set out in Prudential Standard *GPS 112 Capital Adequacy: Measurement of Capital*, net of all regulatory adjustments.

Current and prior years components of claims or recoveries relate to those incurred over the current year and movements in provisions for past years. This component is now reported on an AASB 1023 basis. Prior to September 2010, it was reported on a GPS 310 basis.

Current period net claims expense refers to payments and provisions from the current year relating to accidents occurring in that year. They are reported on an undiscounted and central-estimate basis.

Deferred acquisition costs are the deferred portion of acquisition costs under AASB 1023, amortised in accordance with the expected pattern of the risk of the related general insurance contracts.

Deferred reinsurance expense represents the amount of reinsurance expense which is capitalised as an asset in accordance with the expected pattern of the risk of the related general insurance contracts.

Direct insurers are those insurers who predominantly undertake liability by way of direct insurance business.

Direct insurers from large groups are direct insurers in an insurance group, where the insurers in the group collectively make up at least ten per cent of industry gross earned premium.

Dividend income is the value, for the relevant period, of dividends recognised by the reporting insurer as income in accordance with Australian Accounting Standards.

Eligible capital base represents the total eligible capital base of the insurer. A general insurer must, at all times, maintain a capital base in excess of its Minimum Capital Requirement. For branch insurers, capital base is represented by Net assets in Australia.

Fire service levy is the fire service levy (and other levies imposed by state and territory governments) which is part of Gross earned premium.

Foreign exchange gains/losses relating to investments refers to any realised/unrealised foreign exchange gains/losses relating to the translation/conversion of all investments of an entity which are denominated in a currency other than the Australian dollar (AUD). This includes derivative contracts which may be held in relation to the underlying investment portfolios (e.g. as hedges of the interest rate or equity investment portfolios) or as outright position taking to alter the asset allocation strategy.

Future years refers to components of claims or recoveries that relate to provisions held for future claims. These relate to prospective accounting used in APRA's previous prudential reporting framework. Future years components no longer forms parts of the income statements of insurers.

GPS 310 refers to Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation.

GPS 320 refers to Prudential Standard GPS 320 Audit and Actuarial Reporting and Valuation.

Gross earned premium is the earned premium revenue relating to direct business and inwards reinsurance plus Fire service levy and measured on an AASB 1023 basis.

Gross incurred claims (current and prior years) comprises paid claims during the period and movements in outstanding claims liability from both direct business and inwards reinsurance.

Gross incurred claims (future years) represents claims expense associated with future events under APRA's previous prospective framework. It represents movements in Premiums liabilities.

Gross incurred claims (prospective) comprises Gross incurred claims (current and prior years) and Gross incurred claims (future years).

Gross loss ratio (prospective) is the Gross incurred claims (current and prior years) (net of non-reinsurance recoveries revenue) plus Gross incurred claims (future years) (net of non-reinsurance recoveries revenue) divided by Gross written premium.

Gross loss ratio is the Gross incurred claims (current and prior years) (net of non-reinsurance recoveries revenue) divided by Gross earned premium.

Gross written premium is recognised fully when the business is written. Prior to September 2010, this was measured under APRA's prospective reporting framework. From September 2010, this is measured in accordance with AASB 1023.

Income tax expense (benefit) from continuing operations is the income tax expense (benefit) attributable to the profit (loss) from continuing operations for the relevant period. Income tax expense is reported in accordance with Australian Accounting Standard AASB 112 Income Taxes (AASB 112).

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.

Insurance concentration risk charge components are the individual requirements reported by insurers for the calculation of the ICRC. Insurers are 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. The larger of the components is used for the calculation of the ICRC. These components are:

> ***Natural perils vertical requirement*** is the ICRC component related to an adverse movement in an insurer's capital base due to a single large loss due to a natural catastrophe.

Natural perils horizontal requirement is the ICRC component related to an adverse movement in an insurer's capital base due to a series of natural catastrophe losses.

Other accumulations vertical requirement is the ICRC component related to an adverse movement in an insurer's capital base due to a series of non-catastrophe-related losses.

LMI concentration risk charge is the ICRC component related to an adverse movement in an insurer's capital base due to losses relating to mortgage business.

Insurance result is the Underwriting result plus Net investment income on assets backing insurance liabilities less investment expenses on assets backing insurance liabilities.

Intangible assets refers to assets subject to AASB 138 'Intangible Assets'. This includes goodwill associated with the acquisition of assets other than a controlled entity or subsidiary, impairment losses of goodwill and other intangible assets with an indefinite or finite life.

Interest income is the value of interest income recognised during the relevant period. Interest must be recognised and measured in accordance with the relevant Australian Accounting Standards. This means interest is to be recognised on an accrual basis, unless the asset is considered to be impaired or non-performing in which case, interest is to be recognised on a cash basis.

Investment income from September 2010 onwards refers to Investment income on shareholders' funds plus investment income attributed to assets backing insurance liabilities less investment expenses relating to assets backing insurance liabilities.

Investment income on shareholders' funds is the investment income on assets not otherwise allocated to support insurance liabilities.

Listed direct equity holdings are equity securities held directly by the reporting insurer that are listed on a recognised stock exchange.

Listed subordinated debt refers to debt securities classified as subordinated which are listed on a recognised exchange.

LMIs (Lenders mortgage insurers) provide cover to protect lenders from default by borrowers on loans secured by mortgage. LMI insurers are substantially different to other insurers and are subject to special conditions of authority.

Long-tail classes of business include CTP motor vehicle, employers' liability, professional indemnity and public and product liability.

Minimum capital requirement is the minimum required level of capital for regulatory purposes, calculated under the prescribed risk based capital framework.

Net earned premium comprises Gross earned premium less Outwards reinsurance expense. Net incurred claims (current and prior years) is Gross incurred claims (current and prior years) net of Non-reinsurance recoveries revenue (current and prior years) and Reinsurance recoveries revenue (current and prior years).

Net incurred claims (future years) is Gross incurred claims (future years) net of Non-reinsurance recoveries revenue (future years) and Reinsurance recoveries revenue (future years).

Net incurred claims (prospective) comprises Net incurred claims (current and prior years) and Net incurred claims (future years).

Net investment income on assets backing insurance liabilities is the investment income attributed to assets backing insurance liabilities less investment expenses relating to assets backing insurance liabilities.

Net loss ratio (prospective) is the Net incurred claims (current and prior years) plus Net incurred claims (future years) divided by Net written premium.

Net loss ratio is Net incurred claims (current and prior years) divided by Net earned premium. Net profit/loss after tax refers to profit or loss from ordinary activities after income tax, before extraordinary items.

Net U/W combined ratio (prospective) is the Net incurred claims (current and prior years) plus Net incurred claims (future years) plus Underwriting expenses divided by Net written premium.

Net U/W combined ratio is the Net incurred claims (current and prior years) plus Underwriting expenses divided by Net earned premium.

Net written premium comprises Gross written premium less Outwards reinsurance expense (prospective).

Non Branch insurer is an Australian incorporated insurer/reinsurer.

Non-proportional reinsurance is reinsurance where the reinsurer pays losses only above an agreed retention/ deductible up to an agreed maximum limit.

Non-recurring items that are part of net claims is the amount of Net incurred claims (current and prior years) that is not included in Current period claims expense.

Non-reinsurance recoverables (prospective) comprise Non-reinsurance recoverables for current and prior years and Non-reinsurance recoverables on premium liabilities.

Non-reinsurance recoverables comprise recoverables for current and prior years from subrogation, salvage, sharing arrangements etc, net of provision for doubtful debts and includes input tax credits (from March 2007 onwards due to revised general insurance reporting forms).

Non-reinsurance recoverables on premium liabilities comprise expected recoverables for future years from subrogation, salvage, sharing arrangements etc, net of provision for doubtful debts and includes input tax credits (from March 2007 onwards due to revised general insurance reporting forms).

Non-reinsurance recoveries revenue (current and prior years) comprises amounts the insurer has recovered or is entitled to recover from subrogation, salvage and other non-reinsurance recoveries relating to current and prior years.

Non-reinsurance recoveries revenue (future years) comprises changes in amounts the insurer expects to be able to recover from subrogation, salvage and other non-reinsurance recoveries relating to future years.

Non-reinsurance recoveries revenue (prospective) comprises Non-reinsurance recoveries revenue (current and prior years) and Non-reinsurance recoveries revenue (future years).

Number of risks written is the number of risks written during the relevant period for direct business only. Where a policy covers multiple APRA classes of business and the premium is apportioned between these classes, one risk is reported in each APRA class of business to which premium was allocated. For example, a home and contents policy with a domestic liability component has premium allocated to both the householders class of business, and the public liability class of business. For this policy, one risk will be reported for the householders class of business, and one risk will be reported for the public liability class of business.

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.

Other assets comprises investment income receivable, other reinsurance assets receivable from reinsurers (i.e. other than reinsurance recoveries), GST receivable, other receivables, tax assets, plant and equipment (net of depreciation), derivative assets held at fair value (from March 2007 onwards due to AIFRS) and other assets.

Other direct classes comprises aviation, consumer credit, marine, other accident, travel and other classes of direct insurance business.

Other direct insurers are direct insurers that are not part of a large group, and do not predominantly write either personal lines, commercial lines or mortgage business.

Other distributions refers to individually specified distributions of investment income not covered by interest income, dividend income, rental income or trust distributions.

Other investment income refers to all other investment income not specifically covered by other categories.

Other investments are strategic investments/acquisitions and other investments that do not constitute investments integral to insurance operations.

Other items comprises other operating income and income tax expense or benefit (and goodwill amortisation in periods prior to March 2007).

Other liabilities comprises creditors and accruals, other provisions, derivative liabilities held at fair value (from March 2007 onwards due to AIFRS) and other liabilities.

Other operating expenses are all operating expenses not related to underwriting.

Other profit and loss items refers to any profit and loss items not already defined in this publication. Specifically, it is comprised of: bargain purchases immediately recognised in profit and loss; Profit(loss) from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations.

Other risk charges are asset concentration risk charge plus operational risk charge plus adjustment to prescribed capital amount as approved by APRA less aggregation benefit.

Other underwriting expenses includes all other underwriting expenses which are not included in Acquisition costs (excluding LAT) or Commission expenses and are subject to deferral under AASB 1023.

Outstanding claims liability is the insurer's liability for outstanding claims. It recognises the potential cost to the insurer of settling claims which it has incurred at the reporting date (including estimates of claims that have not yet been notified to the insurer), but which have not been paid. The amount reported is after taking account of inflation and discounting, without deducting reinsurance and non-reinsurance recoveries. Prior to September 2010, outstanding claims was reported under APRA's previous prospective reporting framework which required a minimum level of outstanding claims provision calculated in accordance with GPS 310. Since September 2010, Outstanding claims liability is reported on an AASB 1023 basis, with any deficiency compared to amount calculated under a GPS 310 basis deducted from capital.

Outwards reinsurance expense (prospective) is premium ceded to reinsurers, recognised as an expense fully when incurred or contracted.

Outwards reinsurance expense is the total outwards reinsurance expense relating to current and prior years cover. Outwards reinsurance expense is recognised in accordance with the pattern of reinsurance service received as required by AASB 1023.

Payables on reinsurance contracts comprise amounts payable to reinsurers. This includes premiums payable but not yet due for payment, deposits withheld from reinsurers, commissions due to reinsurers and the reinsurers' portion of recoveries and salvage.

Personal line insurers are direct insurers that primarily sell personal lines business.

Personal lines are insurance products primarily sold to private individuals. It typically includes houseowners/householders, domestic motor vehicle, CTP motor vehicle, travel and consumer credit classes of business.

Premium liabilities relate to the future claims arising from future events insured under existing policies reported under APRA's previous prudential reporting framework. Under AASB 1023, premiums to cover the cost related to future events are included in the concept of Unearned premium liability. The amount reported is after taking account of inflation and discounting, without deducting reinsurance recoverables and non-reinsurance recoveries.

Premium receivables are premiums due, net of provision for doubtful debts, including unclosed business written close to the reporting date.

Prescribed capital amount is the minimum required level of capital for regulatory purposes, calculated under APRA's new capital framework which was effective from 1 January 2013.
Prescribed capital amount will not necessarily equal the sum of all risk charges, as insurers are required to hold $5 million minimum capital.

Proportional reinsurance is reinsurance where the reinsurer and reinsured share, in proportion, the premium and losses of the reinsured.

Realised gains/losses refers to the value of the total realised gains / losses (excluding foreign exchange gains/ losses) associated with the entity's investments. Gains / losses are realised where the entity disposed of an asset during the relevant period. If an asset has not been disposed of during the relevant period, then any increases or decreases in the fair value of the asset are recognised as unrealised gains / losses.

Reinsurance and other recoverables (prospective) is the aggregate of reinsurance recoverables (prospective) and non-reinsurance recoverables (prospective).

Reinsurance recoverables (prospective) comprise Reinsurance recoverables for current and prior years and Reinsurance recoverables on premium liabilities.

Reinsurance recoverables comprise amounts recoverable for current and prior years under reinsurance contracts.

Reinsurance recoverables From contracts ineligible under GPS 230 are any amounts due to an insurer from a reinsurer that arise from the recognition of outstanding claims liabilities, where the reinsurance arrangement does not meet the reinsurance document test or governing law requirements detailed in GPS 230 Reinsurance Management.

Reinsurance recoverables on premium liabilities comprise expected amounts recoverable for future years under reinsurance contracts.

Reinsurance recoverables Overdue for more than 6 months are any amounts due to an insurer from a reinsurer that arise from the recognition of outstanding claims liabilities where receivables are overdue for more than six months since a request for payment was made to the reinsurer and where there is no formal dispute between the insurer and reinsurer in relation to the receivables.

Reinsurance recoverables related to events that occurred prior to the insurer's previous financial year are any amounts due to an insurer from a reinsurer that arise from the recognition of outstanding claims liabilities in the insurer's previous financial year.

Reinsurance recoverables related to events that occurred within the insurer's current and previous financial years are any amounts due to an insurer from a reinsurer that arise from the recognition of outstanding claims liabilities in the insurer's current and previous financial years.

Reinsurance recoveries revenue (current and prior years) comprises amounts the insurer has recovered or is entitled to recover from reinsurers on incurred claims relating to current and prior years during the reporting period.

Reinsurance recoveries revenue (future years) comprises changes in amounts the insurer expects to be able to recover from reinsurers on incurred claims relating to future years during the reporting period.

Reinsurance recoveries revenue (prospective) comprises Reinsurance recoveries revenue (current and prior years) and Reinsurance recoveries revenue (future years).

Reinsurers are those insurers who, excluding intra-group arrangements, predominantly undertake liability by way of reinsurance business.

Rental income is the value, for the relevant period, of rent recognised by the reporting insurer as income in accordance with Australian Accounting Standards. Rent other than royalties includes revenue for the use of, or the right to use, property, both tangible and intangible, not included as royalties.

Results of liability adequacy tests refers to any adjustments to deferred acquisition costs or the unexpired risk liability as a result of performing the liability adequacy tests in accordance with AASB 1023.

Return on net assets is net profit/loss divided by the average net assets for the period. See Returns.

Return on total assets is net profit/loss divided by the average on-balance sheet total assets for the period. See Returns.

Return on total investments is investment income divided by the average total investments for the period. See Returns.

Returns are expressed as annual percentage rates. For quarterly returns this is achieved by multiplying the rate, calculated using the formulae specified, by 4. For returns relating to financial/calendar years, this is achieved by using the full year income/profit and average asset/equity figures to calculate the rate.

Securities issued by financial corporations are bank accepted bills, commercial paper, promissory notes and long term debt securities issued by ADIs, general insurers and securitisers.

Securities issued by government and government corporations are commercial paper, promissory notes and long term debt securities issued by the Australian Commonwealth Government, Australian Commonwealth Government corporations, and state, territory and local government.

Short-tail property classes of business include houseowners/ householders, domestic motor vehicle, fire and industrial special risks, and commercial motor vehicle.

Solvency coverage is the Capital base divided by the Minimum capital requirement.

Tier 1 capital is the second-highest quality component of capital held by the insurer.

Tier 2 capital is the third-highest quality component of capital held by the insurer.

Trust distributions are distributions by trusts received by the reporting insurer during the relevant period.

U/W expense ratio (prospective) is Underwriting expenses divided by Net written premium.

U/W expense ratio is Underwriting expenses divided by Net earned premium.

Unlisted subordinated debt refers to debt securities classified as subordinated which are not listed on a recognised exchange.

Unlisted direct equity holdings are equity securities held directly by the reporting insurer that are not listed on a recognised stock exchange.

Underwriting expenses are expenses incurred as a result of underwriting activities: i.e. acquisition costs plus levies and charges plus other underwriting expenses not including outwards reinsurance expense less commission revenue.

Underwriting result is net premium revenue less net incurred claims and underwriting expenses.

Unearned premium liability represents the component of premium revenue that is unearned. Premium should be earned in accordance with the pattern of risk expected under the general insurance contract under AASB 1023.

Unexpired risk liability is recognised in accordance with AASB 1023 as a result of liability adequacy test failures.

Unrealised gains/ losses refers to any increases or decreases in the fair value of an asset where the asset has not been disposed of during the relevant period.