



Financial Sector (Collection of Data) (reporting standard) determination No. 59 of 2013

Reporting Standard LRS 430.0 Sources of Profit

Financial Sector (Collection of Data) Act 2001

I, Ian Laughlin, delegate of APRA, under paragraph 13(1)(a) of the *Financial Sector (Collection of Data) Act 2001* (the Act) and subsection 33(3) of the *Acts Interpretation Act 1901*:

- (a) REVOKE Financial Sector (Collection of Data) (reporting standard) determination No. 15 of 2009, including *Reporting Standard LRS 430.0 Sources of Profit* made under that Determination; and
- (b) DETERMINE *Reporting Standard LRS 430.0 Sources of Profit* in the form set out in the Schedule, which applies to the financial sector entities to the extent provided in paragraph 3 of the reporting standard.

Under section 15 of the Act, I DECLARE that the reporting standard shall begin to apply to those financial sector entities, and the revoked reporting standard shall cease to apply, on 1 January 2013.

This instrument commences on 1 January 2013.

Dated: 20 December 2012

[Signed]

Ian Laughlin
Member

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

financial sector entity has the meaning given in section 5 of the Act.

Schedule

Reporting Standard LRS 430.0 Sources of Profit comprises the 12 pages commencing on the following page.



Reporting Standard LRS 430.0

Sources of Profit

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA in relation to a life company's sources of profit.

It includes *Form LRF 430.0 Sources of Profit* and associated specific instructions and must be read in conjunction with the general instruction guide.

Authority

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

Purpose

2. Information collected in *Form LRF 430.0 Sources of Profit* (LRF 430.0) is used by APRA for the purpose of prudential supervision including assessing compliance with capital standards.

Application and commencement

3. This Reporting Standard applies to all life insurance companies including friendly societies (together referred to as 'life companies') registered under the *Life Insurance Act 1995* (Life Insurance Act). This Reporting Standard applies for reporting periods ending on or after 1 January 2013.

Information required

4. A life company must provide APRA with the information required by the Form LRF 430.0 for each reporting period.

5. The information reported to APRA under this Reporting Standard is not required to be given to policy owners pursuant to section 124 of the Life Insurance Act. It does not constitute a reporting document for the purposes of section 124.

Forms and method of submission

6. The information required by this Reporting Standard must be given to APRA in electronic format using the 'Direct to APRA' application or, where 'Direct to APRA' is not available, by a method notified by APRA prior to submission.

Note: The 'Direct to APRA' application software may be obtained from APRA.

Reporting periods and due dates

7. Subject to paragraph 8, a life company must provide the information required by this Reporting Standard in respect of each financial year of the life company on an audited basis.

Note: The annual audited form must be submitted in conjunction with the annual auditor's report, as required under *Prudential Standard LPS 310 Audit and Related Matters* (LPS 310).

8. If, having regard to the particular circumstances of a life company, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by paragraph 7, APRA may, by notice in writing, change the reporting periods, or specify reporting periods, for the particular life company.
9. The information required by this Reporting Standard in respect of a life company must be provided to APRA:
 - (a) within the time stated in *Reporting Standard LRS 001 Reporting Requirements* (LRS 001); or
 - (b) in the case of information provided in accordance with paragraph 8, within the time specified by notice in writing.

Quality control

10. The information provided by a life company under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Auditor of the life company. This will require the Auditor to review and test the life company's systems, processes and controls supporting the reporting of the information to enable the life company to provide 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 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 (AUASB) as may be amended from time to time, to the extent that they are not inconsistent with the requirements of LPS 310.

11. All information provided by a life company under this Reporting Standard must be subject to systems, processes and controls developed by the life company for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the life company to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.
12. Actuarial valuations and calculations included in or used in the preparation of the information provided to APRA must be in accordance with the prudential standards in force for the reporting period. However, life companies may use reasonable estimates when preparing information that will not be audited (i.e. for the first four submissions of information for a full financial year).

Authorisation

13. When an officer of a life company provides the information required by this Reporting Standard using the 'Direct to APRA' software, it will be necessary for the officer to digitally sign the relevant information using a digital certificate acceptable to APRA.
14. An officer of a life company submitting information under this Reporting Standard must be authorised by either:
 - (a) the Principal Executive Officer of the life company; or
 - (b) the Chief Financial Officer of the life company.

Variations

15. APRA may, by written notice to the life company, vary the reporting requirements of Form LRF 430.0 in relation to that life company.

Transition

16. A life company 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 (being the reporting standard which this Reporting Standard replaces); and

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

- (a) which ended before the date of revocation of the old reporting standard; and

- (b) in relation to which the life company 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 life company 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 life company is still required to provide any overdue reporting documents in accordance with the old reporting standard.

Interpretation

17. In this Reporting Standard (including the attachments):

- (a) unless the contrary intention appears, words and expressions have the meanings given to them in *Prudential Standard LPS 001 Definitions* (LPS 001); and
- (b) ***capital standards*** means the prudential standards which relate to capital adequacy as defined in LPS 001;

Chief Financial Officer means the chief financial officer of the life company, by whatever name called;

financial year has the meaning in the *Corporations Act 2001*

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

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

reporting period means a reporting period under paragraph 7 or, if applicable, paragraph 8.

LRF_430_0: Sources of Profit

Australian Business Number	Entity identifier, to be provided
Institution Name	Life Insurers and Friendly Societies
Reporting Period	As at end of year only
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	One form per Statutory Fund

1. All statutory fund products

1.1. Life Insurance Act operating profit after income tax

Class of business	Product group	Profit allocation	Investment earnings on assets in excess of policy liabilities (1)	Profit margins emerging (2)	Components of experience profit or loss			
					Acquisition expenses (3)	Maintenance expenses (4)	Mortality (net of reinsurance) (5)	Morbidity (net of reinsurance) (6)
- Australia - Ordinary Business - Australia - Superannuation Business - Overseas - All Business	- F1. Education - F2. Investment Account - F3. Annuity & Superannuation - F4. Defined Benefit Risk - F5. Capital Guaranteed Defined Contribution Funeral - F6. Investment Linked - F7. Unallocated Benefit Fund Reserve - F8. Members Capital & Retained Profit - L1. Conventional Participating - L2. Participating Investment Account - L3. Annuity with Longevity Risk - L4. Individual Lump Sum Risk - L5. Individual Disability Income Insurance - L6. Group Lump Sum Risk - L7. Group Disability Income Insurance - L8. Investment Linked - L9. Non-par Investment Policy with Discretionary Additions - L10. Other Non-par Investment Policy - L11. Annuity without Longevity Risk - L12. Other - L13. Policy Owners Retained Profits - L14. Shareholders Capital & Retained Profits	- Policy Owner - Shareholder						

Class of business	Product group	Profit allocation	Investment profits from current year earnings (8)	Investment profits from change in assumed future net earned rates (9)	Tax differences (10)	Other items (11)	Total experience profit or loss (12)

Class of business	Product group	Profit allocation	New business losses recognised (13)	Loss recognition/reversal in respect of inforce business (14)	Total capitalisation of loss / reversal of capitalised loss (15)	Financial instrument profit (16)	Management services profit (17)	Change in valuation methods and assumptions (18)	Total Life Insurance Act operating profit after income tax (19)	Cumulative losses carried forward at the end of the Year (20)
- Australia - Ordinary Business - Australia - Superannuation Business - Overseas - All Business	- F1. Education - F2. Investment Account - F3. Annuity & Superannuation - F4. Defined Benefit Risk - F5. Capital Guaranteed Defined Contribution Funeral - F6. Investment Linked - F7. Unallocated Benefit Fund Reserve - F8. Members Capital & Retained Profit - L1. Conventional Participating - L2. Participating Investment Account - L3. Annuity with Longevity Risk - L4. Individual Lump Sum Risk - L5. Individual Disability Income Insurance - L6. Group Lump Sum Risk - L7. Group Disability Income Insurance - L8. Investment Linked - L9. Non-par Investment Policy with Discretionary Additions - L10. Other Non-par Investment Policy - L11. Annuity without Longevity Risk - L12. Other - L13. Policy Owners Retained Profits - L14. Shareholders Capital & Retained Profits	- Policy Owner - Shareholder								

2. Totals by class of business and profit allocation

2.1. Life Insurance Act operating profit after income tax

2.1.1. Australian business

2.1.1.1. Ordinary business

Components of experience profit or loss							
Investment earnings on assets in excess of policy liabilities (1)	Profit margins emerging (2)	Acquisition expenses (3)	Maintenance expenses (4)	Mortality (net of reinsurance) (5)	Morbidity (net of reinsurance) (6)	Surrender & discontinuance (incl. profits on terminated benefits) (7)	
2.1.1.1.1. Policy owner.....							
2.1.1.1.2. Shareholder.....							
2.1.1.1.3. Total Australian - Ordinary Business.....							

2.1.1.2. Superannuation business

2.1.1.2.1. Policy owner.....							
2.1.1.2.2. Shareholder.....							
2.1.1.2.3. Total Australian - Superannuation business.....							

2.1.1.3. Total Australian business

2.1.1.3.1. Policy owner.....							
2.1.1.3.2. Shareholder.....							
2.1.1.3.3. Total Australian business.....							

2.1.2. Overseas - All business

2.1.2.1. Policy owner.....							
2.1.2.2. Shareholder.....							
2.1.2.3. Total overseas - All business.....							

2.1.3. Total statutory fund business

2.1.3.1. Policy owner.....							
2.1.3.2. Shareholder.....							
2.1.3.3. Total statutory fund business.....							

Components of experience profit or loss				
Investment profits from current year earnings (8)	Investment profits from assumed future net earned rates (9)	Tax differences (10)	Other items (11)	Total experience profit or loss (12)

2.1.1. Australian business				
2.1.1.1. Ordinary business				
2.1.1.1.1. Policy owner.....				
2.1.1.1.2. Shareholder.....				
2.1.1.1.3. Total Australian - Ordinary business.....				
2.1.1.2. Superannuation business				
2.1.1.2.1. Policy owner.....				
2.1.1.2.2. Shareholder.....				
2.1.1.2.3. Total Australian - Superannuation business.....				
2.1.1.3. Total Australian business				
2.1.1.3.1. Policy owner.....				
2.1.1.3.2. Shareholder.....				
2.1.1.3.3. Total Australian business.....				
2.1.2. Overseas - All business				
2.1.2.1. Policy owner.....				
2.1.2.2. Shareholder.....				
2.1.2.3. Total overseas - All business.....				
2.1.3. Total statutory fund business				
2.1.3.1. Policy owner.....				
2.1.3.2. Shareholder.....				
2.1.3.3. Total statutory fund business.....				

New business losses recognised (13)	Loss recognition/reversal in respect of inforce business (14)	Total capitalisation of loss / reversal of capitalised loss (15)	Financial instrument profit (16)	Management services profit (17)	Change in valuation methods and assumptions (18)	Total Life Insurance Act operating profit after income tax (19)	Cumulative losses carried forward at the end of the Year (20)
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2.1.1. Australian business							
2.1.1.1. Ordinary business							
2.1.1.1.1. Policy owner.....							
2.1.1.1.2. Shareholder.....							
2.1.1.1.3. Total Australian - Ordinary business.....							
2.1.1.2. Superannuation business							
2.1.1.2.1. Policy owner.....							
2.1.1.2.2. Shareholder.....							
2.1.1.2.3. Total Australian - Superannuation business.....							
2.1.1.3. Total Australian business							
2.1.1.3.1. Policy owner.....							
2.1.1.3.2. Shareholder.....							
2.1.1.3.3. Total Australian business.....							
2.1.2. Overseas - All business							
2.1.2.1. Policy owner.....							
2.1.2.2. Shareholder.....							
2.1.2.3. Total Overseas - All business.....							
2.1.3. Total statutory fund business							
2.1.3.1. Policy owner.....							
2.1.3.2. Shareholder.....							
2.1.3.3. Total statutory fund business.....							

LRF_430_0 Sources of Profit

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

Explanatory notes

Classes of business

This section is to be completed for each class of business, as specified in the drop-down box list.

- Australia – Superannuation business
- Australia – Ordinary business
- Overseas – All business

The expressions ‘ordinary business’ and ‘superannuation business’ are defined in the *Life Insurance Act 1995* (the Act).

APRA product group

The APRA product groups that apply for the purpose of this form are:

Friendly societies

- F1. Education;
- F2. Investment Account;
- F3. Annuity & Superannuation;
- F4. Defined Benefit Risk;
- F5. Capital Guaranteed Defined Contribution Funeral;
- F6. Investment Linked;
- F7. Unallocated Benefit Fund Reserve
- F8. Members' Capital & Retained Profit

Life companies other than friendly societies

- L1. Conventional Participating;
- L2. Participating Investment Account;

- L3. Annuity with Longevity Risk;
- L4. Individual Lump Sum Risk;
- L5. Individual Disability Income Insurance;
- L6. Group Lump Sum Risk;
- L7. Group Disability Income Insurance;
- L8. Investment Linked;
- L9. Non-participating Investment Policy with Discretionary Additions;
- L10. Other Non-participating Investment Policy;
- L11. Annuity without Longevity Risk;
- L12. Other;
- L13. Policy Owners' Retained Profits; and
- L14. Shareholders' Capital & Retained Profits.

For each APRA product group, two iterations of reporting are required to capture the breakdown of sources of profit between policy owners and shareholders. This is controlled by the drop-down box titled profit allocation.

Application of items

While these instructions apply to all life insurance companies, including friendly societies, not all items may be applicable to both. Some items may not be applicable to friendly societies while others may not be applicable to life insurers.

Instructions for specific items

Section 1: All statutory fund products

1.1. Life Insurance Act operating profit after income tax

While there is no specific data to be entered directly against this major heading, it introduces the basis of profit for this form as operating profit which is specifically defined in the Act – refer Division 5 of Part 4 (sections 56-60) for life insurers other than friendly societies. A simpler regime, which is still catered for in this return, applies to a friendly society.

The quantum of total profit for the period, for which the sources listed in this form are required to be reported, is determined at item 2.6 in *LRF 340.1 Retained Profits (SF and SF Eliminations)* (LRF 340.1).

(1). Investment earnings on assets in excess of policy liabilities

Assets in excess of policy liabilities are intended to be accommodated in APRA product groups L13 (Policy Owners' Retained Profits) and L14 (Shareholders' Capital & Retained Profits) for life insurers; and F7 (Unallocated Benefit Fund Reserves) and F8 (Members' Capital & Retained Profits) for friendly societies. Include investment revenue of these groups for the period; earnings are to be reported net of relevant investment expenses.

(2). Profit margins emerging

This is profit arising in the period from applying the profit margin(s) determined at the beginning of the period to the expected value of the profit carrier(s) on the basis of best estimate assumptions at the beginning of the period.

(3) to (12) Components of Experience Profit or Loss

The total experience profit or loss is the profit or loss arising in the period from differences between the actual experience during the period and the expected experience on the basis of the best estimate assumptions at the beginning of the period.

The total experience profit or loss is to be broken down into the components arising in respect of applicable categories from the following items.

(3). Acquisition expenses

The fixed and variable expenses of the company to the extent they are, either directly or indirectly, referable to those activities of the company related to the acquiring of that new business expected to derive from the expenditure.

Include any profit arising from a situation where establishment fee revenue is greater than acquisition expenses, and the surplus is not required to support future expense.

(4). Maintenance expenses

The fixed and variable expenses of the company to the extent they are, either directly or indirectly, referable to those activities of the company related to the administration of (a) policies subsequent to their sale, including policies subject to claim; and (b) the general operations, including maintenance of the overall health of the company.

(5). Mortality (net of reinsurance)

This is to be reported net of reinsurance.

(6). Morbidity (net of reinsurance)

This is to be reported net of reinsurance.

(7). Surrender & discontinuances

Include profits (or losses) on terminated benefits.

(8). Investment profits from current year earnings

Report the movement in profit and loss due to changes in assumptions other than earning rates on assets backing policy liabilities.

(9). Investment profits from change in assumed future net earned rates

Include profits (or losses) due to asset liability mismatch.

(10). Tax differences

Report the movement in profit and loss due to changes in assumptions about tax rates on earnings on assets backing policy liabilities.

(11). Other items

Include other components of experience profit or loss not specifically categorised above. It is calculated automatically as column (12) less the sum of columns (3) to (10).

(12). Total Experience Profits or Loss

This is the profit or loss arising in the period from differences between the actual experience during the period and the expected experience on the basis of the Best Estimate Assumptions at the beginning of the period.

(13). New business losses recognised

This column arises in respect of business written at a loss which is not otherwise absorbed in profit margins for existing in force business. Losses should be entered as negative numbers.

Include (as a positive number) any new business profits that have been used to offset in force business losses. In such circumstances, the gross in-force loss is to be reported in Column (14).

(14). Loss recognition/reversal in respect of in force business

This column arises from changes in assumptions which eliminate (or reinstate) the value of profit margins in respect of in force business.

Include (as a positive number) any in force business profits that have been used to offset new business losses. In such circumstances, the gross new business loss is to be reported in Column (13).

(15). Total capitalisation of loss / reversal of capitalised loss

This column is calculated automatically by the form, as sum of columns (13) and (14).

(16). Financial instrument profit

Financial instrument profit is determined as the sum of all cash flows relating to the financial instrument element of life investment contracts, including investment earnings on the underlying assets, less the change in the value of the life investment contract liability (i.e. the financial instrument liability). Essentially, any profit arising from changes in fair values of financial instruments that are not matched by changes in fair values of the underlying assets.

(17). Management services profit

Management services profit is determined as the sum of all cash flows relating to the management service element of life investment contracts, plus/(less) the change in the value of any asset/(liability) arising in respect of the management services element. Essentially fees less expenses for that component of the business, where fees include changes in deferred fee revenue and expenses include changes in deferred acquisition costs.

(18). Change in valuation methods and assumptions

Include one-off changes in the amortisation of deferred fee revenue and deferred acquisition costs.

(19). Total Life Insurance Act operating profit after income tax

The number entered should equal the sum of all profit items above.

(20). Cumulative losses carried forward at the end of the Year

This item is recorded for keeping track of total amounts of losses recognised and not reversed. Losses should be entered as negative numbers.