



Financial Sector (Collection of Data) (reporting standard) determination No. 35 of 2013

Reporting Standard GRS 116.0 _G Insurance Concentration Risk Charge (Level 2 Insurance Group)

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) DETERMINE *Reporting Standard GRS 116.0_G Insurance Concentration Risk Charge (Level 2 Insurance Group)*, 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 on 1 January 2013.

This instrument commences on the day it is signed.

Dated: 12 February 2013

[Signed]

Ian Laughlin
Member

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

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

Schedule

Reporting Standard GRS 116.0_G Insurance Concentration Risk Charge (Level 2 Insurance Group) comprises the 17 pages commencing on the following page.



Reporting Standard GRS 116.0_G

Insurance Concentration Risk Charge (Level 2 Insurance Group)

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA relating to the calculation of the Level 2 insurance group's insurance concentration risk charge.

It includes *Form GRF 116.0_G Insurance Concentration Risk Charge (G)* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge*.

Authority

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

Purpose

2. Information collected in *Form GRF 116.0_G Insurance Concentration Risk Charge (G)* (GRF 116.0_G) is used by APRA for the purpose of prudential supervision, including assessing compliance with the capital standards.

Application and commencement

3. This Reporting Standard applies to a parent entity of a Level 2 insurance group as defined in *Prudential Standard GPS 001 Definitions* (GPS 001). This Reporting Standard applies for reporting periods ending on or after 1 January 2013. The parent entity of a Level 2 group is required to ensure that each requirement in this Reporting Standard is complied with.

Information required

4. The parent entity of a Level 2 insurance group must provide APRA with the information required by Form GRF 116.0_G in respect of the Level 2 insurance group for each reporting period.

Forms and method of submission

5. 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

6. Subject to paragraph 7, the parent entity of a Level 2 insurance group must provide the information required by this Reporting Standard:
 - (a) in respect of each half year based on the financial year of the Level 2 insurance group on an unaudited basis; and
 - (b) in respect of each financial year of the Level 2 insurance group on an audited basis.

Note: The annual information required by paragraphs 4, 5 and 6(b), together with certain annual information required by other reporting standards, will form part of the Level 2 insurance group's annual accounts within the meaning of GPS 001. *Prudential Standard GPS 310 Audit and Related Matters* (GPS 310) contains the relevant provisions governing audits.

7. If, having regard to the particular circumstances of a Level 2 insurance group, APRA considers it necessary or desirable to obtain information more or less frequently than as provided by subparagraph 6(a) or 6(b), APRA may, by notice in writing to the parent entity, change the reporting periods, or specify reporting periods, for the particular Level 2 insurance group.
8. The information required by this Reporting Standard in respect of a Level 2 insurance group must be provided to APRA:
 - (a) within the time stated in *Reporting Standard GRS 001 Reporting Requirements* (GRS 001); or
 - (b) in the case of information provided in accordance with paragraph 7, within the time specified by notice in writing.

Note: GPS 310 requires a Level 2 insurance group to ensure that its Group Auditor conducts a limited assurance review of the group's annual accounts. Accordingly, the Group Auditor's report(s) as required by GPS 310 (relating to the information required by paragraph 4) must be provided to APRA by the time specified in GRS 001 (unless an extension of time is granted under GRS 001).

9. On the written application of the parent entity of a Level 2 insurance group, APRA may by notice in writing to the parent entity exclude the requirement under subparagraph 6(a) to provide half yearly information.

Quality control

10. The information provided by the parent entity of a Level 2 insurance group under this Reporting Standard must be the product of systems, processes and controls that have been reviewed and tested by the Group Auditor of the Level 2 insurance group. This will require the Group Auditor to review and test the Level 2 insurance group's systems, processes and controls designed to enable the group to report 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 Group 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 GPS 310.
11. All information provided by the parent entity of a Level 2 insurance group under this Reporting Standard must be subject to systems, processes and controls developed by the Level 2 insurance group for the internal review and authorisation of that information. It is the responsibility of the Board and senior management of the parent entity of the Level 2 insurance group to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

12. When an officer, or agent, of a parent entity of a Level 2 insurance group provides the information required by this Reporting Standard using the 'Direct to APRA' software it will be necessary for an officer, or agent, to digitally sign the relevant information using a digital certificate acceptable to APRA.
13. If a parent entity of a Level 2 insurance group provides the information required by this Reporting Standard through an agent who submits using the 'Direct to APRA' software, on the parent entity of the Level 2 insurance group's behalf, the parent entity of the Level 2 insurance group must:
 - (a) obtain from the agent a copy of the completed form with the information provided to APRA; and
 - (b) retain the completed copy.
14. An officer, or agent, of a parent entity of a Level 2 insurance group who submits the information under this Reporting Standard for, or on behalf of, the parent entity of a Level 2 insurance group must be authorised by either:
 - (a) the Principal Executive Officer of the parent entity of the Level 2 insurance group; or
 - (b) the Chief Financial Officer of the parent entity of the Level 2 insurance group.

Variations

15. APRA may, by written notice to the parent entity of a Level 2 insurance group, vary the reporting requirements of Form GRF 116.0_G in relation to that Level 2 insurance group.

Interpretation

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

- (a) unless the contrary intention appears, words and expressions have the meanings given to them in GPS 001; and
- (b) **APRA-authorised reinsurer** means an insurer carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Insurance Act is an APRA-authorised reinsurer if it carries on reinsurance business;

capital standards means the prudential standards which relate to capital adequacy as defined in GPS 001;

Chief Financial Officer means the chief financial officer of the parent entity of the Level 2 insurance group, by whatever name called;

financial year means the financial year (within the meaning of the *Corporations Act 2001*) of the parent entity of the Level 2 insurance group;

foreign insurer means a foreign general insurer within the meaning of the Insurance Act;

Note: A reference to a 'branch' or 'branch operation' is a reference to the Australian operations of a foreign insurer.

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

Group Auditor has the meaning given in GPS 310;

Insurance Act means the *Insurance Act 1973*;

insurer means a general insurer within the meaning of section 11 of the Insurance Act;

Note: In the forms and instructions, a reference to an 'authorised insurer', 'authorised insurance entity' or 'licensed insurer' is a reference to an insurer, and a reference to an 'authorised reinsurance entity' is a reference to an insurer whose business consists only of undertaking liability by way of reinsurance.

non-APRA authorised reinsurer means any reinsurer that is not an APRA-authorised reinsurer;

Principal Executive Officer means the current principal executive officer of the entity, regardless of title, and whether or not he or she is a member of the governing board of the entity; and

reporting period means a period mentioned in subparagraph 6(a) or 6(b) or, if applicable, paragraph 7.

GRF_116_0_G: Insurance Concentration Risk Charge (G)

Australian Business Number

Entity identifier, to be provided

Institution Name

Name of Level 2 insurance group

Reporting Period

As at end of each half-year and as at financial year end

Scale Factor

Thousands of dollars no decimal place

Reporting Consolidation

Level 2 insurance group

Region / Approach.....

1. Natural perils vertical requirement (NP VR).....

1.1. Basis for determination of NP VR.....

1.2. NP PML.....

1.3. Less: NP reinsurance recoverables.....

1.4. Net whole-of-portfolio loss.....

1.5. Less: NP reinstatement premiums.....

1.6. Add: NP reinstatement cost.....

1.7. Less: Other adjustments.....

2. Natural perils horizontal requirement (NP HR).....

2.1. Commencement date of catastrophe reinsurance program.....

2.2. End date of catastrophe reinsurance program.....

2.3. H3 requirement.....

2.3.1. Basis for determination of H3 requirement.....

2.3.2. Single event loss from H3 event.....

2.3.3. H3 reinsurance recoverables.....

First event (1)	Second event (2)	Third event (3)	Total (4)

2.3.4. H3 aggregate offset.....

2.3.5. H3 reinstatement premiums.....

2.3.6. H3 reinstatement cost.....

2.3.7 H3 loss per event.....

2.4. H4 requirement.....

2.4.1. Basis for determination of H4 requirement.....

2.4.2. Single event loss from H4 event.....

2.4.3. H4 reinsurance recoverables.....

First event (1)	Second event (2)	Third event (3)	Fourth event (4)	Total (5)

2.4.4. H4 aggregate offset.....

2.4.5. H4 reinstatement premiums.....

2.4.6. H4 reinstatement cost.....

2.4.7. H4 loss per event.....

2.5. PL offset.....

3. Other accumulations vertical requirement (OA VR).....

3.1. OA PML.....

3.2. Less: PL adjustment to OA PML.....

3.3. Less: OA reinsurance recoverables.....

3.4. Add: OA reinstatement cost.....

4. LMI Concentration Risk Charge (LMICRC).....

	Year			Total
	1	2	3	
4.1. PML.....				
4.2. Adjustment to the PML.....				
4.3. Adjusted PML.....				
4.4. Available reinsurance.....				
4.5. Allowable reinsurance.....				
4.6. PML net of reinsurance.....				
4.7. Net premium liability deduction.....				
4.8. Adjustments to LMICRC as approved by APRA.....				

5. Adjustments to Insurance Concentration Risk Charge.....

Description (1)	Transitional? (2)	Amount (3)
	Y/N	

6. Insurance Concentration Risk Charge.....

GRF_116_0_G: Insurance Concentration Risk Charge (G)

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

Explanatory notes

Insurance concentration risk charge (ICRC)

The Level 2 insurance group is 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.

Natural perils horizontal requirement (NP HR)

The NP HR of the ICRC will be effective from 1 January 2014.

This would mean that, from 1 January 2013 to 31 December 2013, the calculation of ICRC will be based only on the natural perils vertical requirement (NP VR), the other accumulations vertical requirement (OA VR) and the lenders mortgage insurer concentration risk charge (LMICRC). The NP HR must be considered for calculating the ICRC for reporting periods commencing after 1 January 2014.

Instructions for specific items

Region/Approach

The Level 2 insurance group must enter the region used to determine the applicable component that produces the highest ICRC. Where the Level 2 insurance group has used an approach agreed with APRA under paragraph 7(b) of Attachment B of *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116), enter 'APRA-agreed approach' in this field.

1. Natural perils vertical requirement (NP VR)

The NP VR is automatically calculated as:

- (a) the greater of Item 1.2 less Item 1.3, or Item 1.4; less
- (b) Item 1.5; plus
- (c) Item 1.6; less
- (d) Item 1.7.

1.1 Basis for determination of NP VR

The Level 2 insurance group must enter 'Gross' or 'Net' at this item.

The Level 2 insurance group must enter 'Gross' if it has determined that the NP VR would be greater, if it is based on the gross loss arising from the occurrence of a single event, than the net loss arising from the occurrence of a single event.

The Level 2 insurance group must enter 'Net' if it has determined that the NP VR would be greater, if it is based on the net loss arising from the occurrence of a single event, than the gross loss arising from the occurrence of a single event.

1.2 NP PML

The Level 2 insurance group must only report this item if the Level 2 insurance group has entered 'Gross' in Item 1.1.

NP PML is the gross loss arising from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual loss with a 0.5 per cent probability of occurrence.

1.3 Less: NP reinsurance recoverables

The Level 2 insurance group must only report this item if the Level 2 insurance group has entered 'Gross' in Item 1.1.

NP reinsurance recoverables is the level of potential reinsurance recoverables should there be the occurrence of the event that gives rise to NP PML. This amount must not include any amounts due from aggregate reinsurance cover.

1.4 Net whole-of-portfolio loss

The Level 2 insurance group must only report this item if the Level 2 insurance group has entered 'Net' in Item 1.1.

Net whole-of-portfolio loss is the net loss arising from the occurrence of a single event where that net loss is not less than the whole-of-portfolio annual net loss with a 0.5 per cent probability of occurrence.

1.5 Less: NP reinstatement premiums

NP reinstatement premiums are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the event that gives rise to its NP PML, or the net whole-of-portfolio loss. NP reinstatement premiums must only be included in NP VR if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.

1.6 Add: NP reinstatement cost

NP reinstatement cost is the cost (if any) of reinstating all catastrophe reinsurance cover relating to the reinsurance recoverables determined. In determining this cost, if

the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on current reinsurance market conditions. The amount must not be less than the full original cost of the cover with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail.

1.7 Less: Other adjustments

Other adjustments include potential reinsurance recoverables from aggregate reinsurance cover. Aggregate reinsurance cover is eligible to be considered for inclusion in the NP VR once the aggregate reinsurance cover has reached its attachment point, or will as a result of the occurrence of NP PML, or net whole-of-portfolio loss, as appropriate. The reinsurance recoverables from aggregate reinsurance cover must then be applied up until the cover has been exhausted by claims by the Level 2 insurance group or the date that the aggregate reinsurance treaty expires, whichever occurs first.

2. Natural perils horizontal requirement (NP HR)

The NP HR is automatically calculated by the form and is equal to the greater of Items 2.3 and 2.4, less Item 2.5.

2.1 Commencement date of catastrophe reinsurance program

The Level 2 insurance group is required to report the commencement date of the catastrophe reinsurance program. Where the Level 2 insurance group has multiple inception dates for its catastrophe reinsurance program it must consult with APRA to determine the relevant commencement date.

2.2 End date of catastrophe reinsurance program

The Level 2 insurance group is required to report the end date of the catastrophe reinsurance program. Where the Level 2 insurance group has multiple inception dates for its catastrophe reinsurance program it must consult with APRA to determine the relevant end date.

2.3 H3 requirement

The H3 requirement is automatically calculated in this form as the sum of the determined amounts for the three events in Item 2.3.7.

2.3.1 Basis for determination of H3 requirement

The Level 2 insurance group must select 'Gross' or 'Net' from the drop-down box.

The Level 2 insurance group must select 'Gross' if it has determined that the H3 requirement would be greater if it is based on the gross loss arising from the occurrence of a single event, when compared to the net loss arising from the occurrence of a single event.

The Level 2 insurance group must select 'Net' if it has determined that the H3 requirement would be greater if it is based on the net loss arising from the occurrence of a single event, when compared to the gross loss arising from the occurrence of a single event.

2.3.2 Single event loss from H3 event

The single event loss from the H3 event is the gross or net loss from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual (gross/net) loss with a 10 per cent probability of occurrence.

2.3.3 H3 reinsurance recoverables

This item must only be reported if the Level 2 insurance group has selected 'Gross' in Item 2.3.1.

H3 reinsurance recoverables are the level of potential reinsurance recoverables should there be the occurrence of three H3 losses over the catastrophe reinsurance program treaty year. H3 reinsurance recoverables must not include any amounts due from aggregate reinsurance cover.

Column 4 is automatically calculated as the sum of Columns 1 to 3.

2.3.4 H3 aggregate offset

H3 aggregate offset is the amount of potential reinsurance recoverables from aggregate reinsurance cover. The Level 2 insurance group must not allow for any reinstatements of aggregate reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be netted from the offset. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.

This methodology may allow for any portion of paid and outstanding claims and premiums liabilities (PL) that contribute to the Level 2 insurance group's retained losses for the purposes of the retention on any aggregate reinsurance cover, provided it does not result in a double-count between this offset and the PL offset.

Column 4 is automatically calculated as the sum of Columns 1 to 3.

2.3.5 H3 reinstatement premiums

H3 reinstatement premiums are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the events that give rise to three H3 losses. H3 reinstatement premiums must only be included in NP HR if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.

Column 4 is automatically calculated as the sum of Columns 1 to 3.

2.3.6 H3 reinstatement cost

The Level 2 insurance group is not required to determine a H3 reinstatement cost after the third event.

NP reinstatement cost is the cost (if any) of reinstating catastrophe reinsurance cover after the occurrence of the first two H3 losses. The cost (if any) must reflect the cost of reinstating reinsurance cover up to the size of the third event. In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on the reinsurance market conditions that would prevail after the occurrence of the events. The amount must not be less than the full original cost of the cover, with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail in the market after the occurrence of the events.

Column 4 is automatically calculated as the sum of Columns 1 to 2.

2.3.7 H3 loss per event

The H3 loss per event is automatically calculated by the form and is equal to Item 2.3.2 less Item 2.3.3 less Item 2.3.4 less Item 2.3.5 plus Item 2.3.6 (except for the third event). This is to be determined for each H3 event.

2.4 H4 requirement

The H4 requirement is automatically calculated in this form as the sum of the determined amounts for the four events in Item 2.4.7.

2.4.1 Basis for determination of H4 requirement

The Level 2 insurance group must select 'Gross' or 'Net' from the drop-down box.

The Level 2 insurance group must select 'Gross' if it has determined that the H4 requirement would be greater if it is based on the gross loss arising from the occurrence of a single event, when compared to the net loss arising from the occurrence of a single event.

The Level 2 insurance group must select 'Net' if it has determined that the H4 requirement would be greater if it is based on the net loss arising from the occurrence of a single event, when compared to the gross loss arising from the occurrence of a single event.

2.4.2 Single event loss from H4 event

The single event loss from the H4 event is the gross or net loss from the occurrence of a single event, where that loss is not less than the whole-of-portfolio annual loss with a 16.7 per cent probability of occurrence.

2.4.3 H4 reinsurance recoverables

This item must only be reported if the Level 2 insurance group has selected 'Gross' in Item 2.4.1.

H4 reinsurance recoverables are the level of potential reinsurance recoverables should there be the occurrence of four H4 losses over the catastrophe reinsurance program treaty year. H4 reinsurance recoverables must not include any amounts due from aggregate reinsurance cover.

Column 5 is automatically calculated as the sum of Columns 1 to 4.

2.4.4 H4 aggregate offset

H4 aggregate offset is the amount of potential reinsurance recoverables from aggregate reinsurance cover. The Level 2 insurance group must not allow for any reinstatements of aggregate reinsurance cover unless these have been contractually agreed with the reinsurer(s). If reinstatements are included, the cost of reinstatement must be netted from the offset. The Level 2 insurance group must agree with APRA a methodology for the determination of this adjustment.

This methodology may allow for any portion of paid and outstanding claims and PL that contribute to the Level 2 insurance group's retained losses for the purposes of the retention on any aggregate reinsurance cover, provided it does not result in a double-count between this offset and the PL offset.

Column 5 is automatically calculated as the sum of Columns 1 to 4.

2.4.5 H4 reinstatement premiums

H4 reinstatement premiums are applicable to Level 2 insurance groups that write reinsurance and may receive inwards reinstatement premiums from cedants as a result of the events that give rise to three H4 losses. H4 reinstatement premiums must only be included in NP HR if the reinsurance contract specifically stipulates that offsetting with the cedant will occur at the time of the payment of the reinsurance claim.

Column 5 is automatically calculated as the sum of Columns 1 to 4.

2.4.6 H4 reinstatement cost

The Level 2 insurance group is not required to determine a H4 reinstatement cost after the fourth event.

H4 reinstatement cost is the cost (if any) of reinstating catastrophe reinsurance cover after the occurrence of the first three H4 losses. The cost (if any) must reflect the cost of reinstating reinsurance cover up to the size of the fourth event. In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the Level 2 insurance group must estimate the cost based on the reinsurance market conditions that would prevail after the occurrence of the events. The amount must not be less than the full original cost of the cover, with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the

Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail in the market after the occurrence of the events.

Column 5 is automatically calculated as the sum of Columns 1 to 3.

2.4.7 H4 loss per event

The H4 loss per event is automatically calculated by the form and is equal to Item 2.4.2 less Item 2.4.3 less Item 2.4.4 less Item 2.4.5 plus Item 2.4.6 (except for the fourth event). This is to be determined for each H4 event.

2.5 PL offset

‘PL offset’ is the portion of the premiums liability provision which relates to catastrophic losses (those that give rise to a relatively significant number of claims and occur no more frequently than every three months), as determined by the Group Actuary.

3. Other accumulations vertical requirement (OA VR)

The OA VR is automatically calculated by this form as Item 3.1 less Item 3.2 less Item 3.3 plus Item 3.4.

3.1 OA PML

OA PML is the gross loss arising from the occurrence of a single event, where that loss has 0.5 per cent probability of occurrence over 12 months. A Level 2 insurance group with exposures to accumulations of losses arising from a common dependent source or non-natural perils must determine OA PML.

3.2 Less: PL adjustment to OA PML

The Level 2 insurance group may reduce the OA PML for any losses included in the other accumulation scenario that is already specifically allowed for in the PL of the Level 2 insurance group.

3.3 Less: OA reinsurance recoverables

OA reinsurance recoverables is the level of potential reinsurance recoverables should there be occurrence of OA PML. This amount may include any amounts from aggregate reinsurance cover if the cover has reached its attachment point, or will as a result of OA PML.

The reinsurance recoverables can then be applied until the cover has been exhausted by claims by the Level 2 insurance group or the date that the aggregate reinsurance treaty expires, whichever occurs first.

3.4 Add: OA reinstatement cost

OA reinstatement cost is the cost (if any) of reinstating all catastrophe reinsurance cover relating to OA reinsurance recoverables. In determining this cost, if the Level 2 insurance group does not have contractually agreed rates for the reinsurance cover, the

Level 2 insurance group must estimate the cost based on the current reinsurance market conditions. The amount must not be less than the full original cost of the cover with no deduction for the expiry of time since the inception of the reinsurance arrangements unless the Level 2 insurance group is able to demonstrate to APRA that the amount materially overstates the cost that would prevail.

4. LMI Concentration Risk Charge (LMICRC)

This is automatically calculated as the greater of 10 per cent of Item 4.3 or, Item 4.6 less Item 4.7 plus Item 4.8.

The LMICRC is subject to a floor of 10 per cent of adjusted PML.

PML Year 1

This represents the years for the Prescribed Stress Scenario which is in the form of a three-year economic or property downturn. The PML is allocated in the proportion of 25 per cent to year one, 50 per cent to year two and 25 per cent to year three of the downturn.

4.1 PML

PML represents the total PML across all loan types, coverage types and origination channels. The Level 2 insurance group must enter an amount for Total PML. Total PML is then automatically allocated in the proportions of 25 per cent to year one, 50 per cent to year two and 25 per cent to year three of the Prescribed Stress Scenario.

4.2 Adjustment to the PML

For a Level 2 insurance group with an LMI that is no longer writing new business (i.e. in run-off), the sum insured is expected to decrease over the three-year scenario and it may be appropriate for an LMI in run-off to adjust its PML downwards. The methodology for adjusting an LMI's PML in a run-off situation must be approved by APRA and documented in the LMI's Reinsurance Management Strategy.

A reduction in PML is to be entered as a positive amount. Do not enter any other adjustments to PML in this field.

4.3 Adjusted PML

This is automatically calculated as Item 4.1 less Item 4.2.

4.4 Available reinsurance

Report the amount of available reinsurance for each of the three years of the Prescribed Stress Scenario. The methodology for calculating available reinsurance is detailed in Attachment A of GPS 116.

4.5 Allowable reinsurance

This is the lesser of available reinsurance and 60 per cent of the adjusted PML. It is automatically calculated by the form.

4.6 PML net of reinsurance

This is automatically calculated as Item 4.3 less Item 4.5.

4.7 Net premium liability deduction

In determining the LMICRC, this is the value of the deduction from the PML, allowed under GPS 116, for net PL of the LMI that relate to an economic downturn.

It is to be reported as a positive amount.

4.8 Adjustments to LMICRC as approved by APRA

If APRA is of the view that the Standard Method for calculating the LMICRC component of the prescribed capital amount does not produce an appropriate outcome in respect of a Level 2 insurance group, or a Level 2 insurance group has used inappropriate judgement or estimation in calculating the LMICRC, APRA may adjust the LMICRC calculation for that Level 2 insurance group.

An increase in the LMICRC is to be reported as a positive amount.

5. Adjustments to Insurance Concentration Risk Charge

If APRA is of the view that the Standard Method for calculating the ICRC component of the prescribed capital amount does not produce an appropriate outcome in respect of a Level 2 insurance group, or a Level 2 insurance group has used inappropriate judgement or estimation in calculating the ICRC, APRA may adjust the ICRC calculation for that Level 2 insurance group.

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.

6. Insurance Concentration Risk Charge

This is automatically calculated by the form as the greater of Items 1 to 4, plus Item 5.