



Financial Sector (Collection of Data) (reporting standard) determination No. 37 of 2013

Reporting Standard GRS 118.0 _G Operational 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 118.0_G Operational 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 118.0_G Operational Risk Charge (Level 2 Insurance Group) comprises the 9 pages commencing on the following page.



Reporting Standard GRS 118.0_G

Operational 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 Operational Risk Charge.

It includes *Form GRF 118.0_G Operational Risk Charge (G)* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard GPS 118 Capital Adequacy: Operational 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 118.0_G Operational Risk Charge (G)* (GRF 118.0_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 118.0_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 118.0_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_118_0_G: Operational 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

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

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

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

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

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

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

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

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

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

Description (1)	Transitional? (2)	Amount (3)

4. Total Operational Risk Charge.....

GRF_118_0_G: Operational Risk Charge (G)

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

Explanatory notes

Intra-group exposures

The Operational Risk Charge for a Level 2 insurance group is calculated after consolidation of intra-group exposures.

Instructions for specific items

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

This is the Operational Risk Charge relating to the Level 2 insurance group's inwards reinsurance business.

This is automatically calculated by the form using values reported in Items 1.1, 1.2 and 1.3, in accordance with paragraph 9 of *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge* (GPS 118).

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

This is the value of gross written insurance premium revenue relating to the Level 2 insurance group's inwards reinsurance business, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the *Insurance Act 1973* (the Act) and unclosed business. This is gross of any associated outwards reinsurance expense.

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

This is the value of gross written insurance premium revenue relating to the Level 2 insurance group's inwards reinsurance business, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

1.3. Central estimate of net insurance liabilities (ORCI)

This is the value, relating to the Level 2 insurance group's inwards reinsurance business, of the central estimate component of outstanding claims liabilities (OCL) and premiums liabilities (PL), net of any recoveries that relate to the gross OCL and

gross PL, determined in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320).

Under GPS 320, a Level 2 insurance group may use accounting entries to determine its PL. For the purposes of this item, where accounting entries have been used to determine net PL, the Level 2 insurance group must use the accounting net PL instead of the net central estimate.

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

This is the Operational Risk Charge relating to business written directly by the Level 2 insurance group.

This is automatically calculated by the form using values reported in Items 2.1, 2.2 and 2.3, in accordance with paragraph 10 of GPS 118.

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

This is the value of gross written insurance premium revenue relating to business written directly by the Level 2 insurance group, recognised for the 12 months ending on the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

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

This is the value of gross written insurance premium revenue relating to business written directly by the Level 2 insurance group, recognised for the 12 months ending on the date that is 12 months prior to the reporting date, as determined in accordance with relevant accounting standards. This item includes any fire service levy or other levies imposed by state and territory governments, and revenue related to transfers of insurance business made in accordance with the Act and unclosed business. This is gross of any associated outwards reinsurance expense.

2.3. Central estimate of net insurance liabilities (ORCNI)

This is the value, relating to business written directly by the Level 2 insurance group, of the central estimate component of OCL and PL, net of any recoveries that relate to the gross OCL and gross PL, determined in accordance with the relevant prudential standard. The OCL and PL relate to business written directly by the Level 2 insurance group.

Under GPS 320, a Level 2 insurance group may use accounting entries to determine its PL. For the purposes of this item, where accounting entries have been used to determine net PL, the Level 2 insurance group must use the accounting net PL instead of the net central estimate.

3. Adjustments to Operational Risk Charge as approved by APRA

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

4. Total Operational Risk Charge

This is the minimum amount of capital a Level 2 insurance group must hold against the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This is calculated in accordance with GPS 118.

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