Financial Sector (Collection of Data) (reporting standard) determination No. 29 of 2023

Reporting Standard LRS 115.0 Insurance Risk Charge

Financial Sector (Collection of Data) Act 2001

I, Michael Murphy, 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. 49 of 2013, including *Reporting Standard LRS 115.0 Insurance Risk Charge* made under that Determination; and

(b) DETERMINE *Reporting Standard LRS 115.0 Insurance Risk Charge,* 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 April 2023, and the revoked reporting standard shall cease to apply, on 1 April 2023.

This instrument commences on 1 April 2023.

Dated: 16 March 2023

Michael Murphy
General Manager – Chief Data Officer (Acting),
Technology and Data Division

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 LRS 115.0 Insurance Risk Charge comprises the document commencing on the following page.

Reporting Standard LRS 115.0

Insurance Risk Charge

Objective of this Reporting Standard

This Reporting Standard sets out the requirements for the provision of information to APRA in relation to calculating a life company's Insurance Risk Charge.

It includes *Form LRF 115.0 Insurance Risk Charge (SF)* and *Form LRF 115.1 Insurance Risk Charge (GF),* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge.*

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 115.0 Insurance Risk Charge (SF)* and *Form LRF 115.1 Insurance Risk Charge (GF)* (the LRF 115 series) 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 April 2023.

Information required

4. A life company must provide APRA with the information required by the LRF 115 series 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.

Method of submission

6. The information required by this Reporting Standard must be given to APRA:

   (a) in electronic format using an electronic method available on APRA's website; or

   (b) by a method notified by APRA prior to submission.

Reporting periods and due dates

7. Subject to paragraph 8, a life company must provide the information required by this Reporting Standard:

   (a) in respect of each quarter based on the financial year of the life company on an unaudited basis; and

   (b) in respect of each financial year of the life company on an audited basis.

   Note 1: This means that this form will be submitted five times for a full financial year.

   Note 2: 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 subparagraph 7(a) or 7(b), 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 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 the LRF 115 series in relation to that life company.

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 *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; and

reporting period means a reporting period under subparagraph 7(a) or 7(b) or, if applicable, paragraph 8.

LRF_115_0: Insurance Risk Charge (SF)

Australian Business Number	Institution Name
	Life companies, including friendly societies
Reporting Period	**Scale Factor**
Quarterly / Annual	Thousands
Reporting Consolidation	
Statutory fund	

Section 1: Insurance risk charge calculation

1. Fund TOTAL: Stressed policy liabilities

1.1. Non-participating benefits without entitlement to discretionary additions

1.2. Non-participating benefits with entitlement to discretionary additions

1.3. Participating benefits

2. Fund TOTAL: Adjusted policy liabilities

2.1. Non-participating benefits without entitlement to discretionary additions

2.2. Non-participating benefits with entitlement to discretionary additions

2.3. Participating benefits

3. Fund TOTAL: Stress impact on adjusted policy liabilities

4. Less: Tax benefits

5. Adjustments to insurance risk charge as approved by APRA

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

6. Insurance risk charge

LRF_115_0 Insurance Risk Charge (SF)

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

Explanatory notes

This form must be completed for each quarter and each financial year of the life company if the Insurance Risk Charge is greater than zero.

This form must be completed at least once during each financial year even if the Insurance Risk Charge is zero for all four quarters.

Instructions for specific items

Section 1: Insurance risk charge calculation

1. Fund TOTAL: Stressed policy liabilities

This is the total value of stressed policy liabilities across all product groups within the fund that is determined in accordance *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge*.

This is calculated automatically as the sum of item 1.1 to item 1.3.

1.1. Non-participating benefits without entitlement to discretionary additions

This is the total value of stressed policy liabilities in respect of policies providing non-participating benefits without entitlement to discretionary additions.

This is to be reported net of expected reinsurance recoveries.

1.2. Non-participating benefits with entitlement to discretionary additions

This is the total value of stressed policy liabilities in respect of policies providing non-participating benefits with entitlement to discretionary additions.

This is to be reported net of expected reinsurance recoveries.

1.3. Participating benefits

This is the total value of stressed policy liabilities in respect of policies providing participating benefits.

This is to be reported net of expected reinsurance recoveries.

2. Fund TOTAL: Adjusted policy liabilities

This is the total adjusted policy liabilities determined in accordance with Attachment H of *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* and aggregated across all product groups within the statutory fund.

This is calculated automatically as the sum of item 2.1 to item 2.3.

2.1. Non-participating benefits without entitlement to discretionary additions

This is the total adjusted policy liabilities in respect of policies providing non-participating benefits without entitlement to discretionary additions.

This is to be reported net of expected reinsurance recoveries.

2.2. Non-participating benefits with entitlement to discretionary additions

This is the total adjusted policy liabilities in respect of policies providing non-participating benefits with entitlement to discretionary additions.

This is to be reported net of expected reinsurance recoveries.

2.3. Participating benefits

This is the total adjusted policy liabilities in respect of policies providing participating benefits.

This is to be reported net of expected reinsurance recoveries.

3. Fund TOTAL: Stress impact on adjusted policy liabilities

This is the excess (if any) of the total stressed policy liabilities over total adjusted policy liabilities.

This is calculated automatically as item 1 less item 2, subject to a floor of zero.

4. Less: Tax benefits

This is the total tax benefits arising from the increase in adjusted policy liabilities to stressed policy liabilities due to the application of insurance risk stresses.

This should be reported as a positive value where tax benefits are recognised. Admissibility of tax benefits will be assessed in calculating the prescribed capital amount.

5. Adjustments to insurance risk charge as approved by APRA

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

Approved adjustments are to be reported separately in the associated table highlighting the description of the adjustment, transitional status and amount of adjustment applied.

This is calculated automatically as the sum of column 3 in the table that follows.

Adjustments that would result in an increase to insurance risk charge should be reported as a positive value. Where the adjustment is a transitional adjustment, the end date for the transitional period is to be clearly included in the description of the item.

6. Insurance risk charge

The insurance risk charge is the minimum amount of capital required to be held against insurance risks. The insurance risk charge relates to the risk of adverse impacts due to movements in future mortality, morbidity, longevity, servicing expenses and lapses.

This is calculated automatically as item 3 less item 4 plus item 5.

LRF_115_1: Insurance Risk Charge (GF)

Australian Business Number	Institution Name
	Friendly societies
Reporting Period	**Scale Factor**
Quarterly / Annual	Thousands
Reporting Consolidation	
General fund	

1. Expected management fees (net of any assumed reduction shown in 1.1)
   1.1. Reduction in management fees assumed under asset and/or insurance stress

2. Expected servicing expenses

3. Expected deficiency (before prescribed multiplier)

4. Additional deficiency from prescribed servicing expense stress

5. Expected deficiency (post prescribed multiplier)

6. Total servicing expense reserve

7. Less: Tax benefits

8. Adjustments to insurance risk charge as approved by APRA

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

9. Insurance risk charge

LRF_115_1 Insurance Risk Charge (GF)

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

Explanatory notes

This form must be completed for each quarter and each financial year of the friendly society if the Insurance Risk Charge for the general fund is greater than zero.

This form must be completed at least once during each financial year even if the Insurance Risk Charge is zero for all four quarters.

Instructions for specific items

1. Expected management fees (net of any assumed reduction shown in 1.1)

This is the total amount of management fees expected to be received by the general fund from benefit funds.

The reported expected management fees must allow for the effect of item 1.1 below and should cover the period of 12 months subsequent to the reporting date.

1.1. Reduction in management fees assumed under asset and/or insurance stress

This is the amount of reduction in management fees to be paid by the benefit funds to the general fund that has been assumed in response to the asset risk and insurance risk stress scenarios.

Where a reduction in management fees has been assumed, the amount should be reported as a negative figure.

2. Expected servicing expenses

This is the amount of servicing expenses incurred by the general fund in relation to the life insurance activities of the friendly society.

The reported amount should cover the period of 12 months subsequent to the reporting date.

3. Expected deficiency (before prescribed multiplier)

This is the expected deficiency in management fees and the servicing expenses expected to arise over the period of 12 months subsequent to the reporting date.

This is calculated automatically as item 2 less item 1, subject to a floor of zero.

4. Additional deficiency from prescribed servicing expense stress

This is the additional deficiency arising (if any) in management fees relative to servicing expenses from the application of the servicing expense stress over and above the expected deficiency as determined in item 3.

This is calculated automatically as item 2 times 110 per cent less item 1 less item 3, subject to a floor of zero.

5. Expected deficiency (post prescribed multiplier)

This is the expected deficiency in management fees received relative to the servicing expenses incurred over the next 12-month period, post the application of the prescribed multiplier.

This is calculated automatically as item 3 times by a factor of 3.

6. Total servicing expense reserve

This is the servicing expense reserve component of the insurance risk charge.

This is calculated automatically as item 4 plus item 5.

7. Less: Tax benefits

This is the tax benefits arising from the inclusion of the servicing expense reserve in liabilities.

This should be reported as a positive value where there are tax benefits recognised. Admissibility of tax assets will be assessed in calculating the prescribed capital amount.

8. Adjustments to insurance risk charge as approved by APRA

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

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.

This is calculated automatically as the sum of column 3 in the table that follows.

Adjustments that would result in an increase to insurance risk charge should be reported as a positive value. Where the adjustment is a transitional adjustment, the end date for the transitional period is to be clearly included in the description of the item.

9. Insurance risk charge

The insurance risk charge is the minimum amount of capital required to be held against insurance risks. The insurance risk charge for the general fund is the servicing expense reserve. This is automatically calculated as item 6 less item 7 plus item 8.