



Financial Sector (Collection of Data) (reporting standard) determination No. 51 of 2013

Reporting Standard LRS 118.0 Operational Risk Charge

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 LRS 118.0 Operational 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 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 in section 5 of the Act.

Schedule

Reporting Standard LRS 118.0 Operational Risk Charge comprises the 9 pages commencing on the following page.



Reporting Standard LRS 118.0

Operational 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 Operational Risk Charge.

It includes *Form LRF 118.0 Operational Risk Charge* and associated specific instructions and must be read in conjunction with the general instruction guide and *Prudential Standard LPS 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* (Collection of Data Act).

Purpose

2. Information collected in *Form LRF 118.0 Operational Risk Charge* (LRF 118.0) 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 Form LRF 118.0 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:
 - (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 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 the Form LRF 118.0 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;

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

LRF_118_0: Operational Risk Charge

Australian Business Number	Entity identifier, to be provided
Institution Name	Life companies, including friendly societies
Reporting Period	As at end of each quarter and as at financial year end
Scale Factor	Thousands of dollars, no decimal places
Reporting Consolidation	One form per statutory fund, and general fund (friendly societies)

Section 1: Operational risk charge calculation

Specialist reinsurer? (Y/N)

1. Operational risk charge for risk business.....

1.1. Premium income (12 months ending on reporting date).....

1.2. Premium income (12 months ending on date 12 months prior to reporting date).....

1.3. Adjusted policy liabilities (net of reinsurance).....

2. Operational risk charge for investment-linked business.....

2.1. Premium income (12 months ending on reporting date).....

2.2. Adjusted policy liabilities (net of reinsurance).....

2.3. Adjusted policy liabilities (gross of reinsurance).....

2.4. Gross claim payments to meet policy owner liabilities (12 months ending on reporting date).....

3. Operational risk charge for other business.....

3.1. Premium income (12 months ending on reporting date).....

3.2. Adjusted policy liabilities (net of reinsurance).....

3.3. Adjusted policy liabilities (gross of reinsurance).....

3.4. Gross claim payments to meet policy owner liabilities (12 months ending on reporting date).....

4. Adjustments to operational risk charge as approved by APRA.....

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

5. Operational risk charge.....

LRF_118_0 Operational Risk Charge

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

Instructions for specific items

Section 1: Operational risk charge calculation

Specialist reinsurer

For the purpose of this section, indicate “Y” if the reporting fund is a specialist reinsurer and “N” otherwise. This confirms whether or not the statutory fund is a specialist reinsurer, as defined in *Prudential Standard LPS 001 Definitions*.

Specialist reinsurer refers to a statutory fund of a registered life company where all policies referable to the fund are inwards reinsurance policies and none of the policies are owned by a related entity of the life company.

1. Operational risk charge for risk business

This is the operational risk charge relating to the fund's risk business.

This item is calculated automatically by the form using values reported in Item 1.1, Item 1.2 and Item 1.3, in accordance with paragraph 11 of *Prudential Standard LPS 118 Capital Adequacy: Operational Risk Charge* (LPS 118). The prescribed factor A is 2 per cent for a statutory fund that is a specialist reinsurer and 3 per cent for other funds.

1.1. Premium income (12 months ending on reporting date)

This is the total premium income gross of any outwards reinsurance expense in respect of risk business, for the period of 12 months ending on the reporting date.

This amount may not always correspond to the premium reported in *LRF 310.1 Income Statement (SF and SF Eliminations)* (LRF 310.1) as data in LRF 310.1 is reported on a year-to-date basis.

1.2. Premium income (12 months ending on date 12 months prior to reporting date)

This is the total premium income gross of any outwards reinsurance expense in respect of risk business, for the period of 12 months ending on the date that is 12 months prior to the reporting date.

This amount may not always correspond to the premium reported in LRF 310.1 as data in LRF 310.1 is reported on a year-to-date basis.

1.3. Adjusted policy liabilities (net of reinsurance)

This adjusted policy liabilities refers to the policy liabilities to policy owners as defined for the purpose of determining the capital base of statutory fund in Attachment H of *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112), in respect of risk business.

The adjusted policy liabilities here are to be reported net of expected reinsurance recoveries at the reporting date.

2. Operational risk charge for investment-linked business

This is the operational risk charge relating to the fund's investment-linked business.

This is calculated automatically by the form using values reported in item 2.1, item 2.2, item 2.3 and item 2.4 in accordance with paragraph 14 of LPS 118. The prescribed factors B is 0.15 per cent for a statutory fund that is a specialist reinsurer and 0.25 per cent for other funds.

2.1. Premium income (12 months ending on reporting date)

This is the total premium income gross of any outwards reinsurance expense in respect of investment-linked business, for the period of 12 months ending on the reporting date.

This amount may not always correspond to the premium reported in LRF 310.1 as data in LRF 310.1 is reported on a year-to-date basis.

2.2. Adjusted policy liabilities (net of reinsurance)

The adjusted policy liabilities refers to the policy liabilities to policy owners as defined for the purpose of determining the capital base of statutory fund in Attachment H of LPS 112, in respect of investment-linked business.

The adjusted policy liabilities are to be reported net of expected reinsurance recoveries at the reporting date.

2.3. Adjusted policy liabilities (gross of reinsurance)

The adjusted policy liabilities refers to the policy liabilities to policy owners as defined for the purpose of determining the capital base of statutory fund in Attachment H of LPS 112, in respect of investment-linked business.

The adjusted policy liabilities are to be reported gross of expected reinsurance recoveries at the date which is 12 months prior to the reporting date.

2.4. Gross claim payments to meet policy owner liabilities (12 months ending on reporting date)

This is the total claim payments to meet liabilities to policy owners, gross of any reinsurance recoveries, in respect of investment-linked business, for the period of 12 months ending on the reporting date.

The amounts reported exclude payments used as premium income for another life policy issued by the life company to avoid double counting.

3. Operational risk charge for other business

This is the operational risk charge relating to the fund's businesses other than risk and investment-linked business.

This item is calculated automatically by the form using values reported in item 3.1, item 3.2, item 3.3 and item 3.4 in accordance with paragraph 14 of LPS 118. The prescribed factors B is 0.15 per cent for a statutory fund that is a specialist reinsurer and 0.25 per cent for other funds.

3.1. Premium income (12 months ending on reporting date)

This is the total premium income, gross of any outwards reinsurance expense, in respect of life business other than risk and investment-linked business, for the period of 12 months ending on the reporting date.

This amount may not always correspond to the premium reported in LRF 310.1 as data in LRF 310.1 is reported on a year-to-date basis.

3.2. Adjusted policy liabilities (net of reinsurance)

This adjusted policy liabilities refers to the policy liabilities to policy owners as defined for the purpose of determining the capital base of the statutory fund in Attachment H of LPS 112, in respect of life business other than risk and investment-linked business.

The adjusted policy liabilities here are to be reported net of expected reinsurance recoveries at the reporting date.

3.3. Adjusted policy liabilities (gross of reinsurance)

This adjusted policy liabilities refers to the policy liabilities to policy owners as defined for the purpose of determining the capital base of the statutory fund in Attachment H of LPS 112, in respect of life business other than risk and investment-linked business.

The adjusted policy liabilities here are to be reported gross of expected reinsurance recoveries at the date which is 12 months prior to reporting date.

3.4. Gross claim payments to meet policy owner liabilities (12 months ending on reporting date)

This is the total claim payments to meet liabilities to policy owners, gross of any reinsurance recoveries, in respect of life business other than risk and investment-linked business, for the period of 12 months ending on the reporting date.

The amount reported excludes payments used as premium income for another life policy issued by the life company to avoid double counting.

4. 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 life company, or a life company has used inappropriate judgement or estimation in calculating the operational risk charge, APRA may adjust the operational risk charge calculation for that life company.

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 operational 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.

5. Operational risk charge

The 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.

This item is calculated automatically as the sum of item 1, item 2, item 3 and item 4.