

Commonwealth Insurance Limited Capital Adequacy.

30 June 2020



CommInsure

Commonwealth Insurance Limited

Commonwealth Insurance Limited (CIL) is a wholly owned subsidiary of the Commonwealth Bank Group (the Group).

CIL is a general insurance company offering a range of general insurance products including home and motor insurance products. CIL is regulated by the Australian Prudential Regulation Authority (APRA) under the Insurance Act 1973 (Cth).

Prudential Standards

To protect the interests of policy owners and prospective policy owners, APRA issues prudential standards with which general insurance companies must comply. The General Insurance Prudential Standards (GPS) and Cross-Industry Prudential Standards (CPS) both apply to general insurance companies including CIL.

Purpose

This document has been prepared for the purpose of satisfying the reporting requirements set out in APRA's Prudential Standards GPS110 'Capital Adequacy' (GPS110).

The document includes details on the Capital Base, Prescribed Capital Amount and Capital Adequacy Multiple for CIL. GPS110 requires CIL to publish these details, at least annually, so they are readily accessible to both policy owners and other market participants. Consistent with this requirement, this document is available on the Group's corporate website commbank.com.au

While this document is unaudited, it has been prepared in accordance with the Board approved Internal Capital Adequacy Assessment Process (ICAAP) and has been compiled based on audited information supplied to APRA.

Further Information

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GPS110 requires CIL to disclose the capital adequacy position for the general insurance company. This has been calculated as at 30 June 2020 and is provided in Figures 1 to 3.

Figure 1: CIL Capital Base (\$'000)	
Common Equity Tier 1 Capital	247,513
plus Additional Tier 1 Capital	0
plus Tier 2 Capital	0
Capital Base	247,513
less Regulatory Adjustments to Common Equity Tier 1 Capital	(1,563)
plus Regulatory Adjustments to Additional Tier 1 Capital	0
plus Regulatory Adjustments to Tier 2 Capital	0
Net Assets	245,950

Figure 2: CIL Prescribed Capital Amount (\$'000)	
Insurance Risk Charge	69,095
plus Insurance Concentration Risk Charge	50,000
plus Asset Risk Charge	27,123
plus Asset Concentration Risk Charge	0
plus Operational Risk Charge	24,068
less Aggregation Benefit	(18,894)
plus APRA Prescribed Adjustments	0
Prescribed Capital Amount	151,392

Figure 3: CIL Capital Adequacy Multiple (\$'000)	
Capital Base	247,513
divided by	
Prescribed Capital Amount	151,392
Capital Adequacy Multiple	163%

Important Information:

This document is issued by Commonwealth Insurance Limited ABN 96 067 524 216 AFSL 235030 (CIL) which is a wholly owned but non-guaranteed subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124. The information in this document is factual in nature and is not intended as advice, financial or otherwise.

Glossary

Term	Reference	Definition
Additional Tier 1 Capital	GPS112	Additional Tier 1 Capital comprises high quality components of capital that satisfy the following essential characteristics: (a) provide a permanent and unrestricted commitment of funds; (b) are freely available to absorb losses; (c) rank behind the claims of policy owners and other more senior creditors in the event of winding up of the issuer; and (d) provide for fully discretionary capital distributions.
Aggregation Benefit	GPS110	The Aggregation Benefit makes an explicit allowance for diversification between asset and insurance risks in the calculation of the Prescribed Capital Amount. This amount is calculated using a prescribed methodology.
APRA		The Australian Prudential Regulation Authority (APRA) oversees banks, credit unions, building societies, general and life insurance companies (including reinsurance companies), friendly societies and most participants in the superannuation industry.
Asset Concentration Risk Charge	GPS117	The Asset Concentration Risk Charge relates to the risk resulting from concentrations in individual assets or large exposures to individual counterparties or groups of related counterparties. This amount is calculated using a prescribed methodology.
Asset Risk Charge	GPS114	The Asset Risk Charge relates to the risk of adverse movements in the value of a fund's on-balance sheet and off-balance sheet exposures. This amount is calculated using a prescribed methodology.
Capital Adequacy Multiple	GPS110	The Capital Adequacy Multiple is equal to the Capital Base divided by the Prescribed Capital Amount.
Capital Base	GPS112	The Capital Base consists of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital. The Capital Base includes deductions for items which APRA does not deem eligible for inclusion, for example Deferred Tax Assets.
Common Equity Tier 1 Capital	GPS112	This is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions.
ICAAP	GPS110	The Internal Capital Adequacy Assessment Process is the process by which CIL manages the adequacy of its Capital Base in line with its risk profile and Target Capital requirements.
Insurance Concentration Risk Charge	GPS116	The Insurance Concentration Risk Charge for CIL represents the net financial impact from either a single large event, or a series of smaller events, within a one year period. This amount is calculated using a prescribed methodology.
Insurance Risk Charge	GPS115	The Insurance Risk Charge relates to the risk of adverse impacts due to movements in future claims, expenses and other insurance risks as applicable. This amount is calculated using a prescribed methodology.
Operational Risk Charge	GPS118	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 amount is calculated using a prescribed methodology.
Prescribed Capital Amount	GPS110	The Prescribed Capital Amount is a measure of the capital requirement of an insurance company. The Prescribed Capital Amount of a fund, as determined using the prescribed methodology, is intended to be sufficient such that if a fund was to start the year with a Capital Base equal to the Prescribed Capital Amount, and losses occurred at the 99.5 per cent confidence level, then the assets remaining would be at least sufficient to provide for the liabilities of the fund at the end of the year.
Regulatory Adjustments	GPS112	Regulatory Adjustments are applied to assets using a prescribed methodology for the purposes of calculating the Capital Base.
Tier 1 Capital	GPS112	Tier 1 Capital comprises of Common Equity Tier 1 Capital and Additional Tier 1 Capital. It is net of Regulatory Adjustments.