## Identifying Source and Form(s)/Instructions to Be Changed

- **Health RBC Blanks**
- **Property/Casualty RBC Blanks**
- **Life RBC Instructions**
- **Property/Casualty RBC Instructions**
- **Fraternal RBC Instructions**
- **Other (Specify)**

## Description of Change(s)

Instructions and Interrogatories added to the PR026 of the P/C Risk-Based Capital Formula and Instruction for reporting year 2015. Please see the attached pages for details.

## Reason or Justification for Change **

These proposed changes provide an exemption from completing PR026 by providing interrogatories to determine whether there is “substantive earthquake and hurricane risk exposure” based on minimum coverage exposure and surplus percentages of Insured Value - Property in Catastrophe-Prone Areas.

## Additional Staff Comments

12/08/14 – Exposed at the Catastrophe Risk (E) Subgroup Meeting.
3/28/15 – Adopted by P/C RBC WG
3/29/15 – Adopted the structure by Capital Adequacy Task Force
4/22/15 - Re-exposed the revised wording at the Catastrophe Risk (E) Subgroup Meeting.
The catastrophe risk charge for earthquake and hurricane risks is calculated by multiplying the RBC factors by the corresponding modeled losses and reinsurance recoverables. The risk applies on a net basis with a corresponding contingent credit risk charge for certain categories of reinsurers. Data must be provided for the worst year in 50, 100, 250, and 500; however, only the worst year in 100 will be used in the calculation of the catastrophe risk charge. Using the worst year in 100 means that aggregate losses from possible multiple events in one year should be modeled and input, not the worst single occurrence one in 100 year event. Note that no tax effect offsets or reinstatement premiums should be included in the modeled losses. Further note that the catastrophe risk charge is for earthquake (R6) and hurricane (R7) risks only.

As per the footnote on this page, modeled losses to be entered in Lines (1) through (8) are to be calculated using one of the approved commercially available catastrophe models – AIR, EQECAT, RMS, ARA HurLoss (hurricane only); or the Florida Public Model (hurricane only); and using the insurance company's own insured property exposure information as inputs to the model. The insurance company may elect to use the modeled results from any one of the models, or any combination of results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same exposure data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. Any exceptions must be explained in the required Attestation Re: Catastrophe Modeling Used in RBC Catastrophe Risk Charges within this RBC Report.

This page includes an interrogatory to determine if certain companies are exempt from completing this page. In general, if a company uses an intercompany pooling arrangement or quota share arrangement with affiliates covering 100% of its earthquake and hurricane risks such that there is no exposure for these risks, then this page may be left blank. For all other companies with substantive earthquake and hurricane risk exposure, this page must be completed. Zero entries may be made for companies with no or minimum exposure if any of the following circumstances:

1. Satisfy the 0% net exposure standard as described in interrogatory #1 in PR027 or
2. Has a ratio of Insured Value – Property to surplus as regards policyholders of less than 50% or
3. Write Insured Value – Property that includes hurricane and/or earthquake coverage in Catastrophe-Prone areas representing less than 10% of its surplus as regards policyholders.

"Insured Value – Property" includes aggregate policy limits for structures and contents for policies written and assumed in the following annual statement lines – Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi Peril.

“Catastrophe-Prone Areas" include:

i. For hurricane risks, states bordering on the Atlantic Ocean and/or the Gulf of Mexico including Puerto Rico.
ii. For earthquake risk or for fire following earthquake, any of the following commonwealth or states: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico or any location within the New Madrid Fault Zone

Specific Instructions for Application of the Formula

Column (1) – Direct and Assumed Modeled Losses
These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an intercompany pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company’s share of the pool.

**Column (2) – Net Modeled Losses**
These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

**Column (3) - Ceded Amounts with Zero Credit Risk Charge**
Per the footnote, modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

**Column (4) – Amount**
These are automatically calculated based on the previous columns.

**Column (5) RBC Requirement**
A factor of 1.000 is applied to the modeled catastrophe losses and a factor of 0.100 is applied to the reinsurance recoverables.
### INTERROGATORY TO DETERMINE EXEMPTION FROM COMPLETING PR027

(1) The following questions are required to be completed by companies that are participants in an inter-company reinsurance pooling arrangement and/or an inter-company quota share reinsurance agreement.)

<table>
<thead>
<tr>
<th>Question</th>
<th>Y/N</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1a) Has the company entered into a reinsurance agreement covering earthquake or hurricane exposure with a non-affiliate or a non-US affiliate?</td>
<td></td>
</tr>
<tr>
<td>(1b) If a participant in an inter-company pool, is the company’s pool percentage 0%, leaving no net exposure for earthquake and hurricane risks?</td>
<td></td>
</tr>
<tr>
<td>(1c) If a participant in a quota share reinsurance agreement, does the company cede 100% of its earthquake and hurricane exposure, leaving no net exposure for earthquake and hurricane risks?</td>
<td></td>
</tr>
</tbody>
</table>

If the answer to question 1a is "N" and the answer to either question 1b or 1c is "Y", the company does not have to complete this page.

(2) For companies that are not exempted under interrogatory (1) completion of the following questions will determine if they have "substantive earthquake and hurricane risk exposure":

<table>
<thead>
<tr>
<th>Question</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(2a) Is the Company's Ratio of Insured Value - Property to surplus as regards policyholders &lt; 50% ?</td>
<td></td>
</tr>
<tr>
<td>(2b) Has the company written Insured Value - Property that includes hurricane and/or earthquake coverage in Catastrophe-Prone areas representing less than 10% of its surplus as regards policyholders?</td>
<td></td>
</tr>
</tbody>
</table>

If any of the answer to question 2a or 2b is "Y", the company does not have to complete PR027.

Denotes items that must be manually entered on the filing software.