RBC Catastrophe Charge

Q 1: Is it true that property/casualty insurers will have a catastrophe risk charge implemented into the 2013 Risk-Based Capital Report?

A 1: Yes. Beginning with the 2013 Risk-Based Capital Report, two new risk charges have been introduced: R6 and R7 (hurricane and earthquake charges). Where appropriate, amendments have been made to the 2013 Risk-Based Capital Report to integrate these two charges into the formula. For 2013, these charges are reported for informational purposes only.

Q 2: Won’t some of the risk captured in these two factors already be counted in the R5 factor?

A 2: In order to prevent catastrophe losses from impacting a company’s Risk-Based Capital result twice, an R5A charge has been introduced that removes catastrophe losses. Since the catastrophe charge in the 2013 Risk-Based Capital Report is informational only, the existing R5 charge will be used to compute a company’s Risk-Based Capital Report for regulatory purposes.

Q 3: When will this catastrophe risk charge impact a company’s capital requirement?

A 3: In or around 2015, after the Subgroup has had a chance to examine the reported catastrophe loss data and its effect on RBC, the risk charge is expected to be fully integrated into the RBC formula, thereby affecting the capital requirement.

Q 4: How is the catastrophe risk charge calculated?

A 4: The catastrophe risk charge is calculated as two separate components for hurricane and earthquake risk (R6 and R7) within the square root. The charges are based on modeled net catastrophe losses and associated reinsurance recoverable risk. See new PR025 for more calculation details.

Catastrophe Loss Data

Q 5: What types of catastrophe losses will companies have to report?

A 5: At this time, only losses from hurricanes (including tropical storms) and earthquakes that are listed as “catastrophes” by Property Claim Services (PCS) or appearing on the subgroup’s US and non-US event list will be reported in the Schedule P RBC filings. Losses from tornadoes and other types of catastrophic events are not to be reported as catastrophe losses. This data is used to calculate R5A, including the line 4 underwriting factors.

Q 6: Where in the Risk-Based Capital Report will companies report this data?

A 6: The Schedule P pages of the Risk-Based Capital Report contain additional columns for reporting catastrophe losses. While columns for reporting catastrophe losses have been added to every Schedule P line of business, not every line will have catastrophe losses and we anticipate eventually removing catastrophe loss columns from lines where few if any catastrophe losses have been reported.
Q 7: What if companies have losses from hurricanes and earthquakes that occur outside the US? Will they have to report them too?

A 7: The 2013 Risk-Based Capital Report will contain columns to provide for separate entry of US and non-US catastrophe losses. A listing of non-US events that should be reported in the 2013 Risk-Based Capital Report has been adopted by the subgroup and is available on the subgroup’s website.

Contact

Q 8: If I have questions, who should I contact?

A 8: If information found at http://www.naic.org/committees_e_capad_cat_risk_sg.htm does not answer all of your questions, please contact Eva Yeung at eyeung@naic.org.