



Risk-Based Capital Newsletter

NAIC

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National Association of Insurance Commissioners

What RBC Pages Should be Submitted?

For year-end 2008 Health RBC, submit hard copies of pages **XR001 through XR025** to any state that requests a hard copy in addition to the electronic filing. Starting with the year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC.

Other pages, such as the capitations worksheet do not need to be submitted. Those pages would need to be retained by the company as documentation.

New Lines Added for Off-Balance Sheet Risk

New lines (1) and (2) were added to XR005 Off-Balance Sheet Risk. Lines were added for Non-Controlled Assets from Lines 22.5 and 22.6 from General Interrogatories Part 1. This change was made so a separate factor could be assigned for each line. This change was made per the February 20, 2008 conference call of the Capital Adequacy Task Force.

Risk Factor Change for Vision Only Coverage

At the October 11, 2007, conference call of the Health Risk-Based Capital Working Group, changes for vision only coverage were adopted for the 2008 Health RBC formula and instructions.

The vision only coverage has been moved to column 3 of the Underwriting Risk, Experience Fluctuation Risk page (XR012). Vision only coverage will now receive a low risk charge.

Hybrid Securities Notching

The short-term solution of notching certain hybrid securities implemented by Hybrid RBC (E) Working Group for year-end 2006 will continue to be in effect until 1/1/2009.

So, the notching would still be in effect for year-end 2008 RBC but not year-end 2009.

Starting 1/1/2009 hybrid securities will be moved to a new line on Schedule D Part 1 and the notching will no longer be in effect.

Stand –Alone Medicare Part D Coverage

An editorial change has been made to pages XR012, XR013 and XR015 for Stand-Alone Medicare Part D Coverage. The words “Stand-Alone” were added to Column 4 on page XR012 and XR013 and to Line (22.1) on page XR015.

The clarification was made to ensure that only Stand-Alone Medicare Part D Coverage is included in Column 4 and Line (22.1). Medicare Part D Coverage that is part of a Medicare Advantage program should not be included Column 4 and Line (22.1)

In this issue...

- What RBC Pages to Submit..... Page 1
- Off-Balance Sheet Changes.....Page 1
- Hybrid Securities Notching.....Page 1
- Risk Factor Change for Vision Only CoveragePage 1
- Stand – Alone Medicare Part D.....Page 1
- Securities Lending Changes.....Page 2

Securities Lending Changes

At the February 20, 2008, conference call of the Capital Adequacy (E) Task Force, changes for securities lending were adopted for the 2008 Health RBC formula and instructions.

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
 - a. Documented investment guidelines, including where applicable, those between lender and investment manager with established procedure for review of compliance.
 - b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements
 - c. Approved borrower lists and loan limits to allow for adequate diversification.
 - d. Holding excess collateral with margin percentages in line with industry standards which are currently 102% (or 105% for cross currency loans).
 - e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
3. A binding securities lending agreement (standard "Master Lending Agreement" from Securities Industry and Financial Markets Association), is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1 rated securities Affiliate issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.
- f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

In addition to the XR005 changes, a new page was added called XR006 Off-Balance Sheet Collateral. Collateral for securities lending agreements that is accounted for off-balance sheet will now receive an RBC charge as if it were accounted for on the balance sheet.

The off-balance sheet collateral will receive a similar RBC charge to the on-balance sheet assets. So, the new page will have lines for bonds, preferred stock, common stock, Schedule BA assets. The RBC factors will be the same as used elsewhere. For example, the XR006 bond factors will be the same as the bond factors used on page XR007.

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