



Risk-Based Capital Newsletter

NAIC

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National Association of Insurance Commissioners

What RBC Pages Should be Submitted?

For year-end 2007 Life RBC, submit hard copies of pages **LR001 through LR043** to **any state that requests a hard copy** in addition to the electronic filing. If any actuarial certifications are required per the RBC instructions, those should be included as well. **For year-end 2007 RBC, a hard copy will not be required to be submitted to the NAIC.**

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted, but still need to be retained by the company as documentation.

Changes Made to Off-Balance Sheet Risk

A new column called “Less Noncontrolled Assets Funding Guaranteed Separate Accounts or Synthetic GIC’s” was added to replace the former Line (10) of LR015 Off-Balance Sheet Items.

This change was made so a separate factor could be assigned for each of the categories from General Interrogatories Part 1 Lines 23.21 through 23.291 if needed. This change was made per a discussion held at the Mar. 11, 2007, meeting of the Capital Adequacy Task Force.

In addition, Line (9) was added to page LR015 for state deposits due to an annual statement change where General Interrogatories Part 1 Line 23.29 was added.

The Capital Adequacy (E) Task force formed a subgroup to review the RBC treatment of securities lending transactions. In addition, the RBC charge for the new state deposits line may be reviewed by the Task Force as well.

New Lines Added for Hybrid Securities

At the Dec. 10, 2006, meeting of the Hybrid RBC (E) Working Group, new lines for hybrid securities were added to the LR005 Unaffiliated Preferred and Common Stock and LR010 Asset Concentration Factor pages. Lines (7) through (12) were added to page LR005 and Lines (13) through (18) were added to page LR010.

The new lines are to split out hybrid securities from preferred stock in the RBC calculation. The change would allow different factors to be given to hybrid securities in the future. Currently though, hybrids receive the same RBC factors as preferred stock and bonds.

The short-term solution of notching certain hybrid securities implemented for year-end 2006 will continue to be in effect until a long-term solution is adopted by the Hybrid RBC (E) Working Group.

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C-3 Phase II Instruction Changes

At the May 29, 2007, conference call of the Life Risk-Based Capital (E) Working Group, changes to the 2007 life RBC instructions were adopted.

The first change simplified the assumptions for calculating surrenders for the standard scenario:

- 7) Surrender Charge Period: If the surrender charge for the contract is determined based on individual contributions or deposits to the contracts, the surrender charge amortization period may be estimated for projection purposes. Such estimated period shall not be less than the remaining duration based on the normal amortization pattern for the remaining total contract charge, assuming it resulted from a single deposit, plus one year.

The second change clarified the smoothing and transition rules:

A company who reported an amount in Line (37) last year may choose to smooth the Total Asset Requirement. A company is required to get approval from its domestic regulator prior to changing its decision about smoothing from the prior year. To implement smoothing, use the following steps. If a company does not qualify to smooth or a decision has been made not to smooth, go to the step "Reduction for reported Statutory Reserves."

Instructions Changed for Dividend Adjustments to Total Adjusted Capital

At the June 21, 2007, conference call of the Capital Adequacy (E) Task Force, changes to the 2007 life risk-based capital instructions were adopted.

Instruction changes adopted for year-end 2006 RBC had allowed actuarial judgment to take partial credit for dividend adjustments to Total Adjusted Capital. The 2007 instructions were modified to no longer allow partial credit:

"A "no" answer to either of the following two questions eliminates the company's ability to take the dividend liability credit related to such reinsurance:

1. Does the company have "total control" over the dividend decision?
2. Does the full benefit of any future ability to change the dividend scale flow to the company? (In considering the answer to this question, the company should consider the retained and reinsured portions separately.)"

Lines Added to the Asset Concentration

New lines were added to the LR010 Asset Concentration page. Lines were added for Schedule BA assets where there was not already a line available to report them.

Generally, Schedule BA assets where there is not a specific line available on the asset concentration would be reported on the line where they would be reported if the Schedule BA asset was directly owned. For example, a Schedule BA asset with the characteristics of Class 2 preferred stock would be reported on the Class 2 preferred stock line.

Line (49) was added for non-guaranteed low-income with a factor of 0.023. Please note that guaranteed low-income housing tax credits are not reported on the asset concentration because their factor is less than 1 percent. Non-guaranteed low-income housing tax credits are reported on page LR007 Real Estate Line (18).

Line (50) was added for other Schedule BA assets and receives a pre-tax factor of 15 percent on the asset concentration. Other Schedule BA assets are reported on page LR008 Other Long-Term Assets line (51.3). The asset concentration factor is limited to 15 percent because the overall factor is limited to 45 percent pre-tax.

Premium Stabilization Reserves for Medicare Part D Coverage

INT 05-05 of the Emerging Accounting Issues (E) Working Group indicates that certain risk corridor adjustments are accounted for as retrospectively rated insurance contracts. This implies that a liability for a return of premium would be reported as a premium stabilization reserve.

It was not intended that an RBC premium stabilization reserve credit would be received for stand-alone Medicare Part D prescription drug coverage. At the June 21, 2007, conference call of the Capital Adequacy (E) Task Force, changes to the 2007 RBC instructions were adopted to clarify this intent.

Please note that risk-corridor liabilities relating to Medicare Advantage Part D prescription drug coverage would still be eligible for premium stabilization reserve credit since that business is included with comprehensive medical for RBC.

C-3 Interest Rate Risk Instructions Modified for LR024

At the Dec. 9, 2006, meeting of the Life Risk-Based Capital Working Group, RBC blank and instruction changes were adopted for the C-3 interest rate risk calculations.

The RBC blank was modified to add a Line (35) to separate out interest rate risk related to the C-3 Phase II modeling calculation.

In addition, a Line 1.4 was added to specify if the RBC certifications related to C-3 Phase I and Phase II were attached with the RBC report hard copy.

The calculation for Line (34) was modified so that there is no longer a cap of 2.0 for increasing the interest rate risk calculation for Line (33). However, the floor for reducing C-3 was maintained at 0.5.

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