July 2005 Property and Casualty Volume11.1

Risk-Based Capital Newsletter

NAIC Revised 7/27/2005 National Association of Insurance Commissioners

P/C Trend Test Page Added

A Trend Test was added to the property and casualty risk-based capital calculation. The Risk-Based Capital for Insurers Model Act is currently in the process of being modified for the P&C trend test.

Once state law changes are made, Company Action Level could be triggered for companies with an RBC percentage between 200% and 300% (Total Adjusted Capital divided by Authorized Control level RBC) and a combined ratio of greater than 120. The combined ratio is calculated as follows:

Combined Ratio Data	Annual Statement Reference
Premiums Earned	Pg 4, Col 1, L 1
Losses Incurred	Pg 4, Col 1, L 2
Loss Expenses Incurred	Pg 4, Col 1, L 3
Other Underwriting Expenses Incurred	Pg 4, Col 1, L 4
Aggregate Write-ins for Underwriting Deductions	Pg 4, Col 1, L 5
Dividends to Policyholders	Pg 4, Col 1, L 17
Net Written Premiums	Pg 8, Col 6, L 34

Combined Ratio Calculation	
Loss Ratio	[Pg 4, Col 1, L 2 + Pg 4, Col 1, L 3] / Pg 4, Col 1, L 1
Dividend Ratio	Pg 4, Col 1, L 17 / Pg 4, Col 1, L 1
Expenses Ratio	[Pg 4, Col 1, L 4 + Pg 4, Col 1, L 5] / Pg 8, Col 6, L 34
Combined Ratio	Sum of Three Ratios Above

What Risk-Based Capital Pages should be Submitted?

For year-end 2005 property RBC, hard copies of pages **PR001 through PR031, PR034 and PR035** should be submitted to the NAIC in addition to the electronic filing.

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

Addition of New Lines for Cash Equivalent Bonds

PR008 Miscellaneous Assets page Lines (3) and (4) were added for cash equivalent bonds. This change was made due to the annual statement instructions changing for Schedule D Part 1A Section 1 indicating cash equivalent bonds are now included with other bonds on that schedule. These amounts are brought into RBC automatically on page PR005 Unaffiliated Bonds.

The change was made to avoid a duplicate RBC charge for cash equivalent bonds that are included as bonds on Schedule D Part 1A Section 1.

In this issue…

Disability Premium Factor Changes Made to Health Premiums Page

New lines were added to the Health Premiums page to further split out disability premiums. In addition to the new lines, new factors were also adopted for use in calculating the RBC requirement. The changes were made to be consistent with the other health RBC calculations for other business types. The new disability RBC calculations are now as follows:

Disability Premium	Factor
Line (15)	
Noncancellable Disability Income - Individual Morbidity	
first 50 Million	0.350
over 50 Million	0.150
Line (16)	
Other Disability Income - Individual Morbidity	
first 50 Million less the premium in line (15) up to 50 million	0.250
over 50 Million not included above subject to the 7% factor	0.070
Line (17)	
Disability Income - Credit Monthly Balance	
first 50 Million	0.200
over 50 Million	0.030
Line (18)	
Disability Income – Group Long Term	
first 50 Million less premium in line (17) up to 50 million	0.150
not included above subject to the 3% factor	0.030

Disability Premium	Factor
Line (19)	
Disability Income - Credit Single Premium with Additional Reserves	
(a) Amount to be reported on Health Premiums, Line (19)	
(b) Additional Reserves (LR016 Health Premiums Column (1) Line (28))	
(c) Prior Year Additional Reserves (LR016 Health Premiums Column (1) Line (29))	
(d) Adjusted Premiums equals ((a) - (b) + (c))	
Adjusted Premium (Line (d) above) first 50 Million less the premium in lines (17) + (18) up to 50 million	0.100
Adjusted Premium (Line (d) above) not included above subject to 3% factor	0.030
Line (20)	
Disability Income – Credit Single Premium without Additional Reserves	
first 50 Million less the premium in lines (17) + (18) + (19) up to 50 million	0.150
not included above subject to 3 percent factor	0.030
Line (21)	
Disability Income – Group Short Term	
first 50 Million less the premium in lines (17) + (18) + (19) + (20) up to 50 million	0.050
over 50 Million not included above subject to 3 percent factor	0.030

New Long-Term Care Page Added to Risk-Based Capital

A new page PR021 Long-Term Care will be added to the RBC formula for year-end 2005 risk-based capital. Previously, the risk-based capital charge for long-term care business had been based on premiums only.

Now, the RBC charge will be based on a combination of both premiums and a two-year premium to loss ratio multiplied by total claims.

The premiums will be multiplied in a tiered factor calculation as follows:

Other Long-Term Care Premium	Pre-tax Factor
First 50 Million	0.100
Over 50 Million	0.030

A ratio of premiums to claims will be calculated for the current year and prior year. For the loss ratios to be used, the current year and prior year premiums must be greater than zero. In addition, the current and prior year claims incurred must be greater or equal than zero.

Otherwise, the current year incurred claims are used instead of the two-year loss ratio multiplied by the current year premiums.

The result of the claims ratio or the current year's incurred claims is multiplied by tiered factors as follows:

Long-Term Care Claims	If Current Year LTC Premium Positive: Claim Factor	If Current Year LTC Premium Negative or Zero: Claim Factor
First 35 Million	0.250	0.370
Over 35 Million	0.080	0.120

Non-Cancellable Long-Term Care Business Risk-Based Capital Charge

All non-cancellable long-term care business receives one standard charge based on premiums on PR017 the Health Premiums page Line (22). Only premiums and not claims are not used to calculate RBC for non-cancellable long-term care.

The non-cancellable long-term care business should be excluded from the new Long-Term Care page PR021 that was added for 2005. Non-cancellable long-term care premium receives an RBC charge of 10% on PR017 Line (22).

New Industry Average Risk Factors

The new 2005 industry average risk factors are as follows:

PR015 Underwriting Risk – Reserves
Line (1), Industry Average Development Factors

Col.	Line of Business	2004 Factor	2005 Factor
(1)	H/F	1.003	**1.007**
(2)	PPA	1.003	**1.018**
(3)	CA	1.072	**1.075**
(4)	WC	1.043	**1.061**
(5)	CMP	1.038	**1.054**
(6)	MM OCCURRENCE	1.367	**1.347**
(7)	MM CLMS MADE	1.292	**1.285**
(8)	SL	1.113	**1.098**
(9)	OL	1.002	**1.054**
(10)	FIDELITY / SURETY	1.221	**1.250**
(11)	Special Property	1.098	**1.125**
(12)	Auto Physical	1.104	**1.140**
(13)	Other(credit a&h)	1.235	**1.262**
(14)	Mortg Guaranty	0.909	**0.894**
(15)	INTL	1.186	**1.261**
(16)	REIN. P&F Lines	1.194	**1.169**
(17)	REIN. Liability	1.343	**1.398**
(18)	PL	1.100	**1.123**

PR016 Underwriting Risk – Net Written Premiums
Line (1), Industry Average Loss and Expense Ratios

Col.	Line of Business	2004 Factor	2005 Factor
(1)	H/F	0.804	**0.792**
(2)	PPA	0.857	**0.852**
(3)	CA	0.848	**0.832**
(4)	WC	0.838	**0.846**
(5)	CMP	0.767	**0.755**
(6)	MM OCCURRENCE	1.336	**1.291**
(7)	MM CLMS MADE	1.160	**1.141**
(8)	SL	0.737	**0.734**
(9)	OL	0.761	**0.775**
(10)	FIDELITY / SURETY	0.580	**0.588**
(11)	Special Property	0.626	**0.567**
(12)	Auto Physical	0.753	**0.742**
(13)	Other(credit a&h)	0.769	**0.764**
(14)	Mortg. Guaranty	0.951	**0.913**
(15)	INTL	0.822	**0.850**
(16)	REIN. P&F Lines	0.937	**0.952**
(17)	REIN. Liability	1.046	**1.147**
(18)	PL	0.831	**0.857**

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