



Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

What RBC Pages should be Submitted?

For year-end 2008 property RBC, hard copies of pages **PR001 through PR032, PR035 and PR036** should be submitted to any state that requests a hard copy in addition to the electronic filing. For year-end 2008 RBC, a hard copy will not be required to be submitted to the NAIC.

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.

Securities Lending Agreements

At the Feb. 24, 2008, conference call of the Capital Adequacy (E) Task Force, changes for securities lending were adopted for the 2008 P/C RBC.

A new line was added to page PR013 Miscellaneous Off-Balance Sheet Items to split out qualifying securities lending programs. The qualifying programs will receive a smaller RBC factor of 0.2%. Programs that are not qualifying will still receive a 1.0% factor.

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.
 - f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
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.

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New Page for Off-Balance Sheet Collateral

In addition to the PR013 changes, a new page was added called PR014 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 LR016 bond factors will be the same as the bond factors used on page PR005.

New Underwriting Risk Factors

At the March 15 conference call of the Capital Adequacy (E) Task Force new factors were adopted for the Underwriting Risk page PR016 (PR015 for 2007 RBC) Underwriting Risk – Reserves Lines (4) and (8) and PR017 (PR016 for 2007 RBC) Underwriting Risk – Net Written Premiums Lines (4) and (7).

Unlike the Line (1) industry average factors that are updated annually, these factors had not been updated since the inception of the RBC formula in 1994. The factors will be phased-in for some lines of business over a two year period. The change in the factors for year-end 2008 was capped at 15%. So, the factors will change again for year-end 2009 again capped from changing more than 15%. Going forward in the future, there will be a methodology for periodically updating the factors. The new 2008 factors will be as follows:

Col.	Line of Business	2007 PR015 Line (4) Factor	2008 PR016 Line (4) Factor	2007 PR015 Line (8) Factor	2008 PR016 Line (8) Factor	2007 PR016 Line (4) Factor	2008 PR017 Line (4) Factor	2007 PR016 Line (7) Factor	2008 PR017 Line (7) Factor
(1)	H/F	0.275	0.230	0.928	0.939	0.917	0.927	0.942	0.951
(2)	PPA	0.254	0.221	0.921	0.927	1.046	1.014	0.924	0.921
(3)	CA	0.287	0.254	0.905	0.909	1.013	1.005	0.90	0.883
(4)	WC	0.273	0.310	0.872	0.835	1.008	1.031	0.84	0.832
(5)	CMP	0.374	0.403	0.880	0.884	0.917	0.924	0.884	0.888
(6)	MM OCCURRENCE	0.709	0.490	0.788	0.869	1.761	1.727	0.719	0.778
(7)	MM CLMS MADE	0.346	0.269	0.829	0.893	1.072	1.047	0.800	0.835
(8)	SL	0.244	0.242	0.887	0.901	0.917	0.918	0.913	0.897
(9)	OL	0.520	0.478	0.832	0.862	1.082	1.045	0.808	0.820
(10)	FIDELITY / SURETY	0.269	0.280	0.942	0.957	0.875	0.863	0.913	0.921
(11)	Special Property	0.160	0.165	0.956	0.966	1.014	0.985	0.949	0.944
(12)	Auto Physical	0.160	0.135	0.970	0.975	0.853	0.847	0.968	0.972
(13)	Other(credit a&h)	0.160	0.164	0.954	0.964	0.867	0.876	0.952	0.956
(14)	Mortg Guaranty	0.160	0.150	0.942	0.962	1.400	1.400	0.913	0.916
(15)	INTL	0.327	0.327	0.864	0.877	1.169	1.169	0.879	0.901
(16)	REIN. P&F Lines	0.313	0.256	0.849	0.901	1.224	1.273	0.879	0.884
(17)	REIN. Liability	0.838	0.678	0.733	0.834	1.379	1.354	0.762	0.810
(18)	PL	0.532	0.571	0.832	0.838	1.095	1.164	0.808	0.778

Warranty Line of Business Added

The warranty line of business was added to the P/C RBC formula to be consistent with the line of business being added to the 2008 annual statement. The factors used for RBC will be the same as fidelity and surety.

New Industry Average Risk Factors – Annual Update

The new 2007 industry average risk factors are as follows:

PR016 Underwriting Risk – Reserves

Line (1), Industry Average Development Factors

Col.	Line of Business	2007 Factor	2008 Factor
(1)	H/F	0.995	0.983
(2)	PPA	1.007	1.003
(3)	CA	1.062	1.045
(4)	WC	1.051	1.033
(5)	CMP	1.037	1.034
(6)	MM OCCURRENCE	1.333	1.343
(7)	MM CLMS MADE	1.140	1.083
(8)	SL	1.108	1.060
(9)	OL	1.015	1.006
(10)	FIDELITY / SURETY	1.274	1.290
(11)	Special Property	1.102	1.102
(12)	Auto Physical	1.106	1.110
(13)	Other(credit a&h)	1.282	1.325
(14)	Mortg Guaranty	1.495	1.483
(15)	INTL	1.291	1.175
(16)	REIN. P&F Lines	1.048	1.025
(17)	REIN. Liability	1.296	1.314
(18)	PL	1.112	1.109
(19)	Warranty	1.274	1.290

PR017 Underwriting Risk – Net Written Premiums

Line (1), Industry Average Loss and Expense Ratios

Col.	Line of Business	2007 Factor	2008 Factor
(1)	H/F	0.750	0.742
(2)	PPA	0.836	0.831
(3)	CA	0.784	0.763
(4)	WC	0.847	0.830
(5)	CMP	0.727	0.710
(6)	MM OCCURRENCE	1.231	1.195
(7)	MM CLMS MADE	1.091	1.003
(8)	SL	0.732	0.709
(9)	OL	0.758	0.738
(10)	FIDELITY / SURETY	0.582	0.583
(11)	Special Property	0.568	0.590
(12)	Auto Physical	0.716	0.705
(13)	Other(credit a&h)	0.789	0.737
(14)	Mortg. Guaranty	0.827	0.805
(15)	INTL	0.874	0.930
(16)	REIN. P&F Lines	0.994	0.977
(17)	REIN. Liability	1.164	1.165
(18)	PL	0.822	0.802
(19)	Warranty	0.582	0.583

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