



# Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

## What Risk-Based Capital Pages should be Submitted?

For year-end 2009 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 2009 RBC, a hard copy will not be required to be submitted to the NAIC, but a PDF file representing the hard copy filing is part of 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.

## Updated Stand-Alone Medicare Part D Prescription Drug Coverage Factors

At the June 14, 2009, meeting of the Capital Adequacy (E) Task Force, changes for stand-alone Medicare Part D prescription drug coverage factors were adopted for the 2009 Health RBC formula and instructions. The following changes were made:

### PR018 Health Premiums

The factor for stand-alone Medicare Part D Prescription drug coverage Lines 3.2 and 10.2 were changed for page PR018 Health Premiums in a two-year phase-in:

PR018 Health Premiums	Factor
Supplemental benefits within Part D Coverage	PR018 Lines 3.2 & 10.2
2008 Original Factor	0.120
2009 Updated Factor	0.210
2010 Updated Factor	0.350

### PR019 Underwriting Risk–Experience Fluctuation Risk

Factors for Medicare Part D Prescription drug coverage Column 4 were changed for page PR019 Underwriting Risk – Experience Fluctuation Risk Lines 10.1 and 10.2:

PR019 Col. 4 Category	2008 Factor	2009 Factor
(10.1) Underwriting Risk Factor for First 25 Million of Premium	0.141	0.251
(10.2) Underwriting Risk Factor for Premium Amounts in Excess of 25 Million in Premium	0.106	0.151

### PR020 Underwriting Risk – Managed Care Credit

A managed care credit is calculated for PR019 line (12). The factors were updated for page PR020 Lines 12 and 13:

LR019 Claims Category	2008 Factor	2009 Factor
(12) Category 2a - No Federal Reinsurance but Risk Corridor Protection	0.500	0.667
(13) Category 3a - Federal Reinsurance and Risk Corridor Protection apply	0.650	0.767

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## Hybrid Securities

The short-term solution of notching certain hybrid securities implemented by the Hybrid RBC (E) Working Group for year-end 2006 was in effect until Jan. 1, 2009. Starting Jan. 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. The hybrid annual statement note disclosure will also be eliminated at the same time.

Due to the changes in annual statement changes for hybrids, line references and a few additional subtotal lines needed to be added to the RBC formula. Hybrids will continue to be reported on the preferred stock page for the RBC calculation. But, the factors used for hybrids will continue to be the same as used for bonds and preferred stock.

## New Underwriting Risk Factors

At the December 17, 2008, conference call of the Property Risk-Based Capital (E) Working Group, new factors were adopted for the Underwriting Risk page PR016 Underwriting Risk – Reserves Line (4) and PR017 Underwriting Risk – Net Written Premiums Line (4).

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 were 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 changed again for year-end 2009, again capped from changing more than 15%. Going forward, there will be a methodology for periodically updating the factors. The new 2009 factors will be as follows:

Col.	Line of Business	2008 PR015 Line (4) Factor	2009 PR016 Line (4) Factor	2008 PR015 Line (8) Factor	2009 PR016 Line (8) Factor	2008 PR016 Line (4) Factor	2009 PR017 Line (4) Factor	2008 PR016 Line (7) Factor	2009 PR017 Line (7) Factor
(1)	H/F	0.230	<b>0.206</b>	0.939	0.939	0.927	<b>0.949</b>	0.951	0.951
(2)	PPA	0.221	<b>0.199</b>	0.927	0.927	1.014	<b>0.983</b>	0.921	0.921
(3)	CA	0.254	<b>0.238</b>	0.909	0.909	1.005	1.005	0.883	0.883
(4)	WC	0.310	0.310	0.835	0.835	1.031	<b>1.051</b>	0.832	0.832
(5)	CMP	0.403	<b>0.439</b>	0.884	0.884	0.924	<b>0.935</b>	0.888	0.888
(6)	MM OCCURRENCE	0.490	<b>0.439</b>	0.869	0.869	1.727	<b>1.842</b>	0.778	0.778
(7)	MM CLMS MADE	0.269	<b>0.283</b>	0.893	0.893	1.047	<b>1.071</b>	0.835	0.835
(8)	SL	0.242	<b>0.249</b>	0.901	0.901	0.918	<b>0.910</b>	0.897	0.897
(9)	OL	0.478	0.478	0.862	0.862	1.045	1.045	0.820	0.820
(10)	FIDELITY / SURETY	0.280	<b>0.315</b>	0.957	0.957	0.863	0.863	0.921	0.921
(11)	Special Property	0.165	<b>0.184</b>	0.966	0.966	0.985	<b>0.955</b>	0.944	0.944
(12)	Auto Physical	0.135	<b>0.118</b>	0.975	0.975	0.847	0.847	0.972	0.972
(13)	Other(credit a&h)	0.164	<b>0.183</b>	0.964	0.964	0.876	<b>0.891</b>	0.956	0.956
(14)	Mortg Guaranty	0.150	0.150	0.962	0.962	1.400	1.400	0.916	0.916
(15)	INTL	0.327	0.327	0.877	0.877	1.169	1.169	0.901	0.901
(16)	REIN. P&F Lines	0.256	<b>0.278</b>	0.901	0.901	1.273	<b>1.337</b>	0.884	0.884
(17)	REIN. Liability	0.678	<b>0.750</b>	0.834	0.834	1.354	<b>1.419</b>	0.810	0.810
(18)	PL	0.571	<b>0.627</b>	0.838	0.838	1.164	<b>1.195</b>	0.778	0.778
(19)	Warranty	0.280	<b>0.315</b>	0.957	0.957	0.863	0.863	0.921	0.921

### New Industry Average Risk Factors – Annual Update

The annual update of industry average development factors were adopted at the June 1, 2009, conference call of the Property Risk-Based Capital Working Group:

#### PR016 Underwriting Risk – Reserves

Line (1), Industry Average Development Factors

Col.	Line of Business	2008 Factor	2009 Factor
(1)	H/F	0.983	0.983
(2)	PPA	1.003	<b>0.998</b>
(3)	CA	1.045	<b>1.031</b>
(4)	WC	1.033	<b>1.016</b>
(5)	CMP	1.034	<b>0.993</b>
(6)	MM OCCURRENCE	1.343	<b>1.251</b>
(7)	MM CLMS MADE	1.083	<b>1.033</b>
(8)	SL	1.060	<b>1.043</b>
(9)	OL	1.006	<b>0.963</b>
(10)	FIDELITY / SURETY	1.290	<b>1.247</b>
(11)	Special Property	1.102	<b>1.097</b>
(12)	Auto Physical	1.110	<b>1.107</b>
(13)	Other(credit a&h)	1.325	<b>1.262</b>
(14)	Mortg Guaranty	1.483	<b>0.893</b>
(15)	INTL	1.175	<b>1.181</b>
(16)	REIN. P&F Lines	1.025	<b>0.969</b>
(17)	REIN. Liability	1.314	<b>1.259</b>
(18)	PL	1.109	<b>1.073</b>
(19)	Warranty	1.290	<b>1.634</b>

#### PR017 Underwriting Risk – Net Written Premiums

Line (1), Industry Average Loss and Expense Ratios

Col.	Line of Business	2008 Factor	2009 Factor
(1)	H/F	0.742	<b>0.737</b>
(2)	PPA	0.831	<b>0.821</b>
(3)	CA	0.763	<b>0.737</b>
(4)	WC	0.830	<b>0.805</b>
(5)	CMP	0.710	<b>0.695</b>
(6)	MM OCCURRENCE	1.195	<b>1.104</b>
(7)	MM CLMS MADE	1.003	<b>0.928</b>
(8)	SL	0.709	<b>0.673</b>
(9)	OL	0.738	<b>0.714</b>
(10)	FIDELITY / SURETY	0.583	<b>0.586</b>
(11)	Special Property	0.590	<b>0.575</b>
(12)	Auto Physical	0.705	<b>0.697</b>
(13)	Other(credit a&h)	0.737	<b>0.697</b>
(14)	Mortg. Guaranty	0.805	<b>0.605</b>
(15)	INTL	0.930	<b>0.956</b>
(16)	REIN. P&F Lines	0.977	<b>0.924</b>
(17)	REIN. Liability	1.165	<b>1.107</b>
(18)	PL	0.802	<b>0.780</b>
(19)	Warranty	0.583	<b>0.800</b>

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