July 2011 Property and Casualty Volume 15.1

Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2011 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 2011 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.

Underwriting Risk Factors

Unlike the Line (1) industry average factors that are updated annually, until 2008, these factors had not been updated since the inception of the RBC formula in 1994. New factors were then phased in for some lines of business over a two-year period. The factors for year-end 2008 and 2009 were capped at 15%.

Concerns were raised regarding the methodology used to revise the underlying risk charges, particularly with regard to the reinsurance lines of business. After further discussion and study by the Working Group, it was agreed to lower the cap to 5% for all lines of business for year-end 2010 and the existing methodology will be re-evaluated.

At the June 21, 2011, Property Risk-Based Capital (E) Working Group conference call, no further changes were contemplated for the 2011 Underwriting Risk page PR016 Underwriting Risk – Reserves Line (4) and PR017 Underwriting Risk – Net Written Premiums Line (4) were adopted.

PR014 Off-Balance Sheet Collateral and Schedule DL, Part 1 Assets

Book/Adjusted Carrying Value Column has been divided into Off-Balance Sheet Collateral Book/Adjusted Carrying Value and Schedule DL, Part 1 Book/Adjusted Carrying Value Columns.

<u>New Real Estate, Mortgage Loans on Real Estate and Cash, Cash Equivalents and Short-Term Investments Lines</u>

New Real Estate, Mortgage Loans and Cash, Cash Equivalents and Short-Term Investments Lines were added to the annual statement Schedule DL pages. As a result, new lines were added to Page PR014 Equity Assets.

In this issue…

New Industry Average Risk Factors – Annual Update

The annual update of industry average development factors was adopted at the June 21, 2011, conference call of the Property Risk-Based Capital (E) Working Group:

PR016 Underwriting Risk – Reserves
Line (1), Industry Average Development Factors

Col.	Line of Business	2010 Factor	2011 Factor
(1)	H/F	0.984	**0.962**
(2)	PPA	0.992	**0.989**
(3)	CA	1.015	**0.992**
(4)	WC	1.005	**0.999**
(5)	CMP	0.962	**0.952**
(6)	MPL OCCURRENCE	1.213	**1.048**
(7)	MPL CLMS MADE	0.981	**0.925**
(8)	SL	0.998	**0.931**
(9)	OL	0.959	**0.954**
(10)	FIDELITY / SURETY	1.253	**1.191**
(11)	Special Property	1.144	**1.097**
(12)	Auto Physical	1.155	**1.105**
(13)	Other(credit a&h)	1.277	**1.177**
(14)	Mortg Guaranty	0.841	**1.276**
(15)	INTL	1.102	**1.015**
(16)	REIN. P&F Lines	0.965	**0.937**
(17)	REIN. Liability	1.304	**1.169**
(18)	PL	1.063	**1.009**
(19)	Warranty	1.717	**1.268**

PR017 Underwriting Risk – Net Written Premiums
Line (1), Industry Average Loss and Expense Ratios

Col.	Line of Business	2010 Factor	2011 Factor
(1)	H/F	0.736	**0.726**
(2)	PPA	0.815	**0.804**
(3)	CA	0.705	**0.679**
(4)	WC	0.780	**0.766**
(5)	CMP	0.674	**0.654**
(6)	MPL OCCURRENCE	1.031	**0.952**
(7)	MPL CLMS MADE	0.860	**0.771**
(8)	SL	0.582	**0.599**
(9)	OL	0.687	**0.662**
(10)	FIDELITY / SURETY	0.584	**0.555**
(11)	Special Property	0.565	**0.559**
(12)	Auto Physical	0.692	**0.681**
(13)	Other(credit a&h)	0.691	**0.786**
(14)	Mortg. Guaranty	0.738	**1.142**
(15)	INTL	0.954	**0.937**
(16)	REIN. P&F Lines	0.828	**0.805**
(17)	REIN. Liability	1.010	**0.915**
(18)	PL	0.747	**0.714**
(19)	Warranty	0.860	**0.916**

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