



[**The NAIC Research Quarterly Interview**](#)

With Catherine J. Weatherford

Catherine J. Weatherford assumed the duties of the NAIC Executive Vice President on July 22, 1996. This article provides a brief summary of Ms. Weatherford's background and views on NAIC issues.



[**Insurance Industry Statistical Compilations and Market Share Report**](#)

By Natalai G. Webster

This article is the second of three articles appearing in the Research Quarterly this year featuring the NAIC statistical publications. Statistical compilations and market share reports summarize in a concise manner aggregate and combined data for the entire insurance industry and for every individual company and group that files an annual statement with the NAIC.



[**Annual Statement Reporting Anomalies**](#)

By Teresa J. Wright

This article highlights annual statement reporting anomalies that are detected by the NAIC Quality Assurance staff during their review of the annual financial data.



[**Market Coverage in the NAIC's State Average Auto Expenditure Report**](#)

By Steve Lamberty

This article takes a close look at the auto liability premium data collected for the State Average Expenditures & Premiums for Personal Automobile Insurance report.



[**Medicare Supplement Insurance Loss Ratios**](#)

Compiled by NAIC Staff

The Medicare Supplement Loss Ratios is published annually by the NAIC based on information reported to the NAIC on the Medicare supplement Insurance Experience Exhibit of the annual statement. This article gives a definitive summary of information found within the report.



[**Normalization of the Yield Curve in Asset Adequacy Analysis**](#)

By Mark Peavy

The NAIC Model Actuarial Opinion and Memorandum Regulation requires that the appointed actuary must consider the effect of at least seven listed interest rate scenarios in performing asset adequacy analysis. The article lists the results of a survey of the NAIC's Life and Health Actuarial (Technical) Task Force states to determine their positions regarding normalization.



[**Aggregate Balance Sheet and Income Statement for HMOs Filing With the NAIC in 1996**](#)

Compiled by NAIC Staff

The NAIC began including HMO financial data on its extensive financial database. Aggregate industry data for those HMOs on the NAIC database as of the publication date are provided in table form for review.



[**Nationally Significant P&C Companies**](#)

By Steve Lamberty

Among the 1997 charges to the NAIC's Examination Oversight (EX4) Task Force is a requirement to "Review criteria for selecting insurers to be reviewed by the NAIC Financial Analysis Division and make recommendations if changes to the criteria are needed by the 1997 Summer National Meeting." The data contained in this article are excerpted from the preliminary report to the Financial Analysis Division.



[**Life Risk-Based Capital Results for 1996**](#)

Compiled by NAIC Staff

This article summarizes the aggregate industry RBC results for 1996 and discusses some of the data quality issues encountered in RBC filings. The composition of total RBC by company size is also discussed.



P&C Risk-Based Capital Results for 1996

By Mike Barth

The aggregate 1996 RBC results for property-casualty insurers are presented, along with a discussion of trend results for those insurers triggering one of the RBC action levels.

Last Updated: April 14, 1998

NAIC Research Quarterly
April 1997, Volume III, Issue 2

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Address corrections requested.
Please mail the old address label with the correction to the
NAIC Publications Department at the Kansas City office.

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ISBN 0-89382-460-7

To subscribe, call:
National Association of Insurance Commissioners
Publications Department
(816) 374-7259

Published quarterly by the NAIC for insurance regulators, professionals and consumers.

The National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico and the Virgin Islands. The NAIC provides its members with a forum for discussing common interests and for working cooperatively on regulatory matters that transcend the boundaries of their own jurisdictions.

The views expressed in these articles do not necessarily represent the view of the NAIC members, individually or collectively.

The NAIC Research Quarterly

Interview with Catherine J. Weatherford

*Executive Vice President,
National Association of Insurance
Commissioners*

NAIC Research Quarterly: Cathy, please tell us a little about your background and how you came to lead the National Association of Insurance Commissioners.

Ms. Weatherford: I'm pleased that the *Research Quarterly* wanted to talk with me. I assumed the duties of the NAIC Executive Vice President on July 22, 1996, where I serve as the chief administrative officer and chief of staff for the organization.

I had the honor of being named insurance commissioner for the state of Oklahoma in 1991. I began my career with the Oklahoma Insurance Department in 1976 in the Agents' Licensing Division. In the ensuing years, I served in several capacities including assistant to the commissioner, policy analyst, legislative liaison, and assistant commissioner. In the year prior to my appointment as commissioner, I was a senior policy advisor on the Oklahoma Governor's staff.

During my years as an insurance commissioner, I was an active member of the NAIC and was elected to the office of Recording Secretary of the NAIC in December 1993. I also served as the elected Chair of the NAIC's Midwestern Zone and held a seat on the NAIC Executive Committee. In addition, I served as chair of the association's Long-Term Care In-

urance Task Force and Senior Issues Task Force, and as Treasurer of the NAIC Education Foundation.

Immediately prior to joining the NAIC, I was based in Dallas as the regional manager for public affairs for Liberty Mutual Insurance Group.

I graduated from the University of Central Oklahoma with a B.A. in Political Science and now reside in Kansas City, Mo., with my husband Steve and three daughters.

NAIC Research Quarterly: What do the insurance commissioners expect from the NAIC?

Ms. Weatherford: As the nation's oldest association of state officials, formed in 1871, our members expect a lot of the NAIC. And they deserve it. The membership consists of insurance regulators from the 50 states, the District of Columbia, and four U.S. territories. State insurance regulators are responsible for protecting the interests of insurance consumers. The NAIC helps regulators fulfill that obligation by assisting with the shared objectives of financial and market conduct regulation. The NAIC was created to address the needs for coordination of regulation of multistate insurers, and its earliest action included the development of uniform financial reporting for insurance companies. Today, the NAIC assists the states through the world's largest insurance financial database and accompanying analytical tools, the development of model laws and regulations, the development of consumer materials, market information systems, securities valuation, and more. Further, the NAIC assists its members with the presentation of Congressional testimony whenever we are called upon to take the message of state regulation to Capitol Hill. This year alone, state insurance regulators have already testified before Congressional committees a total of five times on health issues.

NAIC Research Quarterly: How does the NAIC accomplish its mission?

Ms. Weatherford: The NAIC mission statement covers three key areas. First, the organization

is devoted to protecting the public interest by promoting competitive markets and facilitating the fair and equitable treatment of insurance consumers. Next, state regulators work through the NAIC to promote the reliability, solvency and financial solidity of insurance institutions. And of equal importance, the association seeks to support and improve state regulation. To fulfill its mission, the NAIC holds four national meetings a year. These quarterly meetings serve as a national forum for addressing major insurance issues and allow regulators to develop national policy whenever appropriate. Activities of the organization are based on a committee structure comprised of working groups, task forces, subcommittees and committees. Association policy is adopted only by vote of the full membership during a plenary session held at each national meeting. Through the NAIC committee system, state insurance regulators pool their knowledge, experience and resources to study regulatory issues and seek innovative solutions. The NAIC also holds public hearings on a variety of topics to seek input from consumers, industry representatives and other interested parties.

NAIC Research Quarterly: From your perspective how do you see the property/casualty market today? Is it on balance, underreserved or is it sound? What do you make of the consolidation in the brokerage community?

Ms. Weatherford: State insurance regulators, working independently and together through the NAIC, have met the challenges of regulating property/casualty companies. Effective and efficient solvency regulation is one of the key components of state regulation. State insurance regulators make extensive use of the NAIC's financial database and use tools like our risk-based capital standards for p/c companies as a key part of the solvency review process. Our members are working to ensure that the property/casualty market is a strong and viable one that is supported by financially strong insurers.

Brokers serve an important function and are active participants in exploring regulatory issues at the NAIC. Insurance brokers and their

trade associations have been working with the NAIC for many years. They are actively involved in efforts like the commercial lines re-engineering project. In addition, brokers have taken the lead in bringing the Insurance Regulatory Information Network (IRIN) to fruition. IRIN is a non-profit subsidiary of the NAIC that is designed to serve the states, insurers and the agent and broker community by streamlining the process used to determine if an agent or broker has any outstanding regulatory actions that would affect his or her licensing status in states. This important project is a joint effort between NAIC members and those they regulate that will bring efficiencies to the agent licensing and enforcement process. It should be beneficial to consumers as the bad actors will no longer be able to pull up stakes in one state and receive a license in the next jurisdiction. Businesses must be flexible to survive and the consolidations in the brokerage community are evidence that business is adjusting to changing times and changing customer demands.

NAIC Research Quarterly: What are the one or two most important regulatory issues for property/casualty carriers? How do you think the issues will play out?

Ms. Weatherford: Only one or two??? The two most important regulatory issues for property/casualty insurers are the way in which insurers choose to deal with insurance availability and affordability issues for personal lines and the way in which they manage change.

Now I get to gaze into my crystal ball. There are ever increasing pressures on insurers to develop personal lines products that are more like commodities than traditional insurance products. Almost every state has a requirement that individuals purchase auto insurance if that person wishes to drive a car. Lending institutions require that property insurance be purchased if that individual is to secure a mortgage on a home. Thus, if insurance is not available, the person will be deprived of what most people now consider to be a fundamental right to drive a car or own a home. If insurers are to survive, and indeed thrive, in the future,

they must come to grips with the reality that traditional underwriting that excludes many people will no longer be acceptable. I predict that insurers will meet this challenge and find innovative ways to write urban residents in dwellings where the market value is significantly less than the replacement cost. Insurers will find ways to spread the risk of catastrophic events to those faced with exposure to earthquakes and hurricanes. Insurers will find ways to write auto insurance for all but those drivers who should not be on our nation's roads. I believe that all of these things will occur in our lifetime because if they do not occur, government will be asked to step in and replace the insurance industry as the provider of these important financial guarantees.

Insurers, like any other business, must be prepared to manage change. Those that successfully meet this challenge will be the market leaders of the future. Those that stick their heads in the sand will go by the wayside and watch as their more savvy competitors pass them by. With all the issues facing property/casualty insurers today, forward thinking, insightful leaders will recognize and reward innovation so that insurance products can be delivered more efficiently and better meet the needs of the insuring public. Industry leaders will need to look at ways to streamline delivery systems and address many of the daunting challenges that face the industry today. Included in those challenges are addressing concerns over mass torts such as asbestos and environmental exposures; dealing with potential mass torts involving the tobacco industry; resolving the controversy that surrounds Superfund retroactive liability; addressing the continuing litigiousness of our society; addressing concerns over insurance business conducted over the Internet; meeting the challenge of the globalization of the insurance business; and recognizing the opportunities and limitations of the merging of the financial services and insurance markets.

NAIC Research Quarterly: What's the outlook for 24-hour health care—integrated workers' compensation, disability, and/or

medical? What are the regulatory concerns, the pros and cons from the consumer's standpoint? Are people demanding this, or is it carrier driven?

Ms. Weatherford: Proponents of 24-hour coverage point out several potential advantages to the concept of coverage integration. They tout economic factors, such as the potential to control the rapid escalation in the cost of medical and hospital services that has occurred in the late 1980s and early 1990s. There is the potential for administrative savings that might be gained from combining the systems. In concept, there are structural efficiencies which might be realized from better integration of the systems for providing health services, just as there were for insurers when fire and liability insurance were combined into homeowners and commercial package policies. Currently, a myriad of social and insurance programs deliver certain elements of health care in this country. This complicated delivery system can lead to coverage gaps and overlaps that might be more efficiently handled by a system that integrates and monitors the coverage provided. Avoiding duplicate payments for the same elements of loss could lead to some savings.

The topic of 24-hour coverage has become increasingly the focus of national attention with the difficulties that have arisen in the health insurance and workers' compensation markets. The Clinton Administration's proposal to first investigate and then integrate the medical portion of workers' compensation into the national health care delivery system caused increased focus on the potential benefits that 24-hour coverage might offer. Since employers provide the majority of health insurance benefits delivered in this country, it seems logical to investigate methods to accomplish this result in the most efficient manner possible.

A variety of hurdles stand in the way of complete and true coverage integration. These have developed in response to the systems that we have in place today and the laws and regulations that have developed to administer today's systems. We must remember that today's workers' compensation system was developed

at the turn of the century to address a specific problem: namely that injured workers were suing their employers for damages when they were hurt on the job. If the employer was found not to be responsible, no recovery was available to the injured employee and his/her family. This situation was impeding the industrial revolution that was occurring at that time.

There are several areas that employers and employees must agree upon in order to move 24-hour coverage forward. Once employers and employees have reached agreement, legislative action will often be required to remove barriers to coverage integration. It is important to remember that the basic agreement is between an employer and its employees so that the interests of other stakeholders must take a back seat in the negotiation process for a positive outcome to occur. Although there are a host of details to be addressed, there are four fundamental areas that must be addressed before 24-hour coverage can be seriously considered. These four critical areas are: 1) benefits must be identical; 2) exclusive remedy must be maintained; 3) entities that will deliver benefits must be identified; and 4) legislative/regulatory obstacles must be overcome.

It is interesting to note that statutory enabling language to test 24-hour coverage contracts has generally been enacted as part of a more general workers' compensation system reform effort. In many cases the reform has been so successful that employer interest in trying an untested idea like 24-hour coverage has waned. The employer community seems inclined to prefer the certainty offered by a tested system with declining rate levels to the uncertainty offered by 24-hour coverage pilot projects. I also found it interesting that both the employers and the employees that participated in the Oregon pilot projects liked the idea of 24-hour coverage and the ability to use the same health care providers for work and non-work related injuries and illness.

The self-insured market seems to be moving toward the idea of integrated delivery systems.

Can the insured market be far behind? Only time will tell.

NAIC Research Quarterly: There used to be a long list of states with workers' compensation systems in disarray. Which of them remain troubled? Is there a pattern among them? What about the second injury funds?

Ms. Weatherford: There have been many success stories in recent years. I will leave it to the insurance trade associations to identify specific states that may benefit from further reform. The NAIC performed a workers' compensation market analysis in 1992 that contained a number of suggestions for states experiencing market difficulties. These recommendations represented a consensus of opinion as to ways that markets could be improved. Although credit for workers' compensation reforms should be given to the state legislators who faced these complex issues head on, insurance regulators were very involved in the process. The outcome is improving workers' compensation financial results. Based on NAIC data, workers' compensation loss ratios have dropped from 82.9 percent in 1992 to 61.1 percent in 1995. Much of the change can be attributed to system reform, increased rate level adequacy and movement to make residual market mechanisms self-supporting.

I do not have an opinion about the continued use of second injury funds. Their use seems to be generally in decline. It is important that the small business owner not be forced into a position where he or she does not hire an individual because of a previous work-related injury. The provisions of the Americans with Disabilities Act will make this occurrence unlikely for larger employers.

NAIC Research Quarterly: What is your view of the efforts made by carriers to achieve workers' compensation savings through managed care? Do you think there are more savings to be gained in this area or have carriers reached a limit?

Ms. Weatherford: The introduction of managed care into the workers' compensation system has had a major impact on recent positive financial

results for insurers. There remains room for further improvement in this area as not all states allow managed care. Also, not all insurers have implemented the cost containment techniques that are available to them. As more employers find themselves at a competitive disadvantage with other employers in the same line of business, they will be forced to consider implementing managed care techniques suggested by their insurers. Insurers need to be mindful that using managed care does not mean that inadequate health care can be delivered to injured employees. For the no-fault workers' compensation system to flourish, insurers will need to serve the needs of both employers and injured employees. Careful and thoughtful treatment of the individual will result in a rapid return to work which will benefit the employee, the employer and the insurer's bottom line.

NAIC Research Quarterly: The NAIC collects a tremendous amount of data on the industry. How much is available to the public and how can the insurance industry access it? Is there a Web site?

Ms. Weatherford: There is a wealth of information collected by and for the states through the NAIC. There are numerous databases that assist regulators in solvency and market conduct regulation. The NAIC is probably best known for its collection and compilation of financial information on behalf of state insurance regulators. The NAIC's extensive financial database provides states with accurate and detailed financial information derived from insurers' annual and quarterly financial statements. This information provides state insurance regulators with on-line access so that states can more efficiently handle the financial examination of insurers. In fact, a financial examiner can remotely access the NAIC's database when the examiner is on site auditing an insurer's financial records. This direct access saves the insurance industry a substantial amount each year. As a by-product, some of the financial information is available to the public. This is provided through hard copy publications like the statistical compilation, the profitability report and the market share reports and electronically

through the NAIC's Database Sales unit. For a publications catalog, please call (816) 374-7259. The Regulatory Information Retrieval System (RIRS) provides a computerized information bank containing the names of individuals and companies that have been the subjects of final regulatory or disciplinary actions. The states contribute information to the database on a regular basis and regulators can use RIRS to ensure that violators do not move from state to state unchecked. RIRS is available by subscription from the NAIC and is now available on CD-ROM. Another vital information resource is the Insurance Regulatory Information Network (IRIN). IRIN, a unique public/private partnership between the NAIC and the insurance industry, is designed to bring new efficiencies to the licensing of insurance agents and brokers through the development of a Producer Information Network (PIN). IRIN also is overseeing the Producer Database (PDB), designed to provide licensing data for the states. Companies are now signing up to participate in the Internet PDB by calling (816) 889-6878. For general information about the NAIC and available publications, your readers can visit our Home Page at <http://www.naic.org>. With a single click of the mouse, viewers can link from the NAIC Web site to the Home Pages of many member states. Our web site also provides the latest on NAIC education programs and meetings, including conference call meetings of NAIC committees.

NAIC Research Quarterly: How does the NAIC interact with the NCCI? How do insurance commissioners interact with them? Do you share data or research?

Ms. Weatherford: The NAIC was involved in a \$3.2 million examination of NCCI ratemaking and data collection activities. The examination, which started in 1990, was performed under the examination authority of Florida, Maine, Nebraska and Utah and led to the production of more than 200 recommendations for improvements. I am pleased to say that the NCCI has implemented the vast majority of these suggestions resulting in great improvements to its ratemaking techniques and modernization of its data collection processes. As a result, regula-

tors generally have greater confidence in the information provided by the NCCI than they did in the past.

The NAIC has a Workers' Compensation (D) Task Force that is part of its committee structure. This task force is ably chaired by South Dakota Director of Insurance Darla L. Lyon. The task force has faced many tough issues over the last five years. They have made some very positive contributions that have left the workers' compensation market in much better shape in recent years. The task force has, over that time, appointed working groups that have investigated residual market concerns, 24-hour coverage, alternative coverages, data collection processes and problems in other areas. The task force recently spent considerable time dealing with the NCCI's proposed conversion from its traditional non-profit status to a for-profit stock corporation. Regulators were wary that such a conversion would change the fundamental way insurance regulators deal with the NCCI. Under the McCarran-Ferguson Act, insurers receive a limited anti-trust exemption that allows collective pricing activity that would be prohibited in other businesses. As a result, insurance regulators have delegated the regulatory responsibility to collect statistical information about the workers' compensation markets to rating or advisory organizations like the NCCI. In many states, the NCCI has a monopoly on that information. Insurance regulators need to be concerned about the public perception that the delegation of regulatory authority to exclusively collect information would have if that entity would then make a profit on the sale of that information.

The NAIC does work closely with the NCCI to address regulatory concerns that transcend state boundaries. The NCCI purchases some financial information from the NAIC. The NCCI has been cooperative in providing the regulatory community with data crucial to measuring market performance when called upon. The NAIC members will continue to work with the NCCI for the common good of the organization and the membership individually. Issues that are under consideration at the time of this writing are the way in which the NCCI prices

its database products; the interaction of open records acts, trade secret acts and copyright laws with regard to rate and form filings; and improvements to data quality and timeliness.

NAIC Research Quarterly: Is there an issue out there now that is being ignored in the marketplace that you believe will loom larger over the next 5-10 years?

Ms. Weatherford: The rapid growth of the Internet poses particularly complex problems for insurance regulators, both today and in the coming years. Because this new medium represents unprecedented access for both consumers and insurers, regulators must move ahead to be certain that consumers are protected. That's why the NAIC created the Internet Marketing Issues Working Group last year, to explore this new technology and understand how it will be used for the sale and marketing of insurance products. This working group is analyzing technology issues such as electronic signatures; funds transfer and applications; licensing issues; privacy and confidentiality issues; and commission payment arrangements. This is just one more example of how the states, working together through the NAIC, can use their collective experience to benefit consumers everywhere.

NAIC Research Quarterly: Finally, how have you enjoyed your position so far? How do you wish to leave your mark on this important organization?

Ms. Weatherford: I am truly enjoying this opportunity to serve the state insurance commissioners and look forward to our future endeavors. I am proud to have a strong staff supporting the NAIC efforts, and I am committed to providing efficient and effective leadership for this group of dedicated professionals who understand the important role state insurance regulation plays in the lives of the citizens of our states. I am hoping that I will be remembered as a dedicated leader who values good financial stewardship and the honest efforts of NAIC staff to serve the states in their important role of protecting insurance consumers by effective and cost efficient regulation of the insurance industry.

Insurance Industry Statistical Compilations And Market Share Reports

by Natalai G. Webster (NAIC/SSO)

The NAIC assists state insurance regulators by developing and distributing various statistical publications that provide detailed financial and analytical information on the insurance industry. Many of these publications are developed by the NAIC's Research Division or as a joint effort between the Research and Information Systems Divisions. Many reports have NAIC membership oversight provided by the Statistical (Technical) Task Force. These publications can be categorized into three groups: analytical market reports; statistical compilations and market share reports; and special interest reports. This article will focus on the second group—statistical compilations and market share reports.

The statistical compilations and market share reports, which were first published in 1993, are relatively new additions to the list of statistical publications produced through the joint efforts of the Research and Information Systems Divisions. The reports summarize in a concise manner aggregate and combined data for the entire insurance industry and for every individual company and group that files an annual statement with the NAIC. Because of the wealth of important financial and underwriting information they contain, each report has already generated a sizable interest and demand.

This article is the second of three articles appearing in the *Research Quarterly* this year featuring the NAIC statistical publications. The January 1997 *Research Quarterly* issue contained an

article on the first group of publications—Analytical Market Reports—including: the *State Average Expenditures and Premiums for Personal Automobile Insurance Report*; the *Homeowners Average Premium Report*; and the *Report on Profitability By Line By State*. NAIC special interest reports such as the *Medicare Supplemental Loss Ratios Report*, the *Long-Term Care Insurance Experience Report*, the *Credit Life and Accident and Health Insurance Loss Ratios Report* and several investment analysis reports relating to the nature and quality of investment held by insurance companies, will be the subject of a future *Research Quarterly* article.

NAIC Statistical Compilations

Separate statistical compilations for property/casualty, life/health and hospital, medical and dental service or indemnity (HMIDI) annual statement information have been developed to serve as "annual statements for the industry." The data provide trends in the industry with respect to distribution of assets, policyholder surplus, liabilities, premium writings, losses and virtually all other data contained in the annual statements. Combined statement information enhances the value of these reports by eliminating the potential overstatement of key financial figures among affiliated insurers.

Statistical Compilation of Annual Statement Information for Property/ Casualty Insurance Companies

This report presents property/casualty insurance company data developed from the annual statements of individual companies as well as combined annual statements. In 1995, 2,695 annual statements were filed for individual companies and 355 combined annual statements were filed. The report is divided into three major sections: (1) Annual Statement Financial Data, (2) State and Countrywide Insurance Data and (3) Selected Data Elements From Company and Combined Statements.

Annual Statement Financial Data

The first section consists of countrywide financial data presented in the NAIC annual statement format for Assets, Liabilities, Underwriting and Investment Exhibits, Analysis of Assets, Schedule D (Long-Term Bonds and Stocks), Schedule H (Ac-

cident and Health Exhibit), Schedule P (Analysis of Losses and Loss Expenses) and the Insurance Expense Exhibit (IEE).

In 1995 total property/casualty insurance company assets were \$792,745,635,000, of which \$489,490,945,000 or 61.7 percent were bonds, \$134,223,511,000 or 17 percent were stocks and the remaining \$169,031,179,000 or 22 percent consisted of mortgage loans, real estate, investments and various other assets.

1995 property/casualty liabilities totaled \$554,252,549,000 or 69.6 percent of total assets. Losses made up 39.6 percent of liabilities, loss adjustment expenses another 8.1 percent, while unearned premiums equaled 13.5 percent. Policyholder surplus totaled \$238,493,086,000 or 30.4 percent of assets.

Industry totals for interest, dividends and real estate income are displayed and capital gains and losses on investments are provided. Data from annual statements submitted for the report year and four previous years provide a five-year history for an "at-a-glance" view of significant trends. A five-year financial ratio analysis history including: gross written premium to surplus, net written premium to surplus, reserves to surplus, loss ratio, expense ratio, policyholder dividend ratio and combined ratio, is also presented in the first section of the compilation.

Industry investment income including interest, dividend and real estate income, and capital gains (losses) on investments are shown. Premiums written and earned, gross and net, as well as loss experience and loss adjustment expenses are exhibited by line of business.

State and Countrywide Insurance Data

The second section of the property/casualty compilation consists primarily of direct premium and loss data by state and by line of insurance. This includes Schedule T (Exhibits of Premiums Written Allocated by State and Territories) and Page 15 (Exhibits of Premiums and Losses countrywide and by state). A 10-year historical premium volume table by line of business is exhibited in this section.

Total 1995 direct written premium for the property/casualty insurance companies was \$280,960,243,000. Private passenger liability and private passenger no-fault premiums represent about 25 percent of this amount while all auto coverages, including private passenger physical damage, commercial liability, no-fault and physical damage, represent about 44.2 percent. Workers' compensation premiums represent 12 percent of 1995 total premiums written. Homeowners multiple peril insurance represent 9.2 percent and commercial multiple peril is another 7.5 percent. Direct losses incurred in 1995 totaled \$180,265,164,000. Approximately 45.3 percent of incurred losses were automobile liability and physical damage, 11 percent were workers' compensation, 9.3 percent were homeowners. Dividends paid or credited to policyholders totaled \$4,152,082,000.

Selected Data Elements From Company and Combined Statements

The third section of the property/casualty compilation consists of selected data elements from both company and combined annual statements. A list of technical notes identify the annual statement sources for each of these data. Two separate totals are calculated. A "combined" total is calculated by summing combined statements with those individual companies not included in combined statements. An "aggregate" total is calculated by summing all individual company statements. Combined statements are not included in aggregate totals. Combined annual statements for property/casualty insurance companies have been used, where available, to more accurately reflect industry financial data. An index is included to help locate companies that are included in combined statements.

Data elements displayed by company include: state of domicile, assets, policyholder surplus, direct premiums written, net premiums written and earned, net loss and loss expenses incurred, loss and loss adjustment expense as a percent of earned premium, net underwriting expenses, net underwriting gain (loss), net investment gain (loss), federal taxes incurred and net income.

Statistical Compilation of Annual Statement Information for Life/Health Insurance Companies

Aggregated data are developed from the annual statements of individual companies. Combined data are developed from combined annual statements plus the annual statements of individual companies that are not included in any combined annual statement. In 1995 aggregated data was developed from 1,648 individual companies, and combined data was developed from 221 combined annual statements and 937 individual companies not included in any combined statement.

Like the property/casualty compilation, the life/health compilation contains three major sections: (1) Annual Statement Financial Data, (2) State and Countrywide Insurance Data and (3) Selected Data Elements From Company and Combined Statements.

Annual Statement Financial Data

The first section consists of countrywide financial data presented in annual statement format for Assets, Liabilities, Summary of Operations, Analysis of Operations By Line of Business, Analysis of Increase in Reserves and Deposit Funds During The Year, Exhibit 1 (Part 1—Premiums and Annuity Considerations), Exhibits 2-7 (Net Investment Income; Realized Capital Gains and (Losses) on Investments; Unrealized Capital Gains and (Losses) on Investments; General Expenses; Taxes, Licenses and Fees (excluding federal income taxes); Dividends and Coupons to Policyholders), Exhibit 9-11 (Aggregate Reserve for Accident and Health Policies; Deposit Funds and Other Liabilities Without Life or Disability Contingencies; Policy and Contract Claims), Exhibit of Life Insurance, Schedule D (Analysis of Bonds and Stocks), and Schedule H (Accident and Health Exhibit).

In 1995 combined life/health insurance industry assets totaled \$2,156,131,584,000. Approximately 53.3 percent were bonds, 9.9 percent were mortgage loans, 4.5 percent policy loans, 2.8 percent stocks and the remaining 29.5 percent various other investments and assets. Combined life insurance industry liabilities in 1995 equaled \$2,030,338,933 with 51.1 percent consisting of ag-

gregate reserve for life policies and contracts. Total liabilities were approximately 94.2 percent of assets, surplus and other funds were 5.8 percent of assets.

State and Countrywide Insurance Data

The second section of the life/health compilation consists primarily of direct insurance data from Schedule T (Premiums and Annuity Considerations Allocated by States and Territories) and the state pages (Annual Statement Page 21). Direct life insurance premiums, annuity considerations, annuity and other fund deposits, dividends to policyholders, and claims and benefits paid are shown by line of insurance by state. Direct accident and health insurance premiums, dividends paid and losses paid and incurred are also shown by line of business and by state. A 10-year historical premium volume by line of business is provided.

The 1995 total of direct life insurance premiums, annuity considerations, accident and health insurance and deposit-type funds was \$358,364,457,000. Approximately 30.2 percent were life insurance premiums, 13 percent were annuity considerations, 25.4 percent accident/health insurance premiums and 31.3 percent deposit-type funds. \$17,745,523,000 was paid in direct dividends to policyholders in 1995 and \$158,129,976 was paid in direct claims and benefits.

Selected Data Elements From Company and Combined Statements

The third section of the life/health compilation consists of selected data elements from both company and combined annual statements. A list of technical notes identifies the annual statement sources for each of these data. As with the property/casualty report, two separate totals are calculated—a combined total, which is the sum of combined statements with those individual companies not included in combined statements, and an aggregate total, which is calculated by summing all individual company statements. An index is included to facilitate locating companies that are included in combined statements.

Specific data elements presented by company include state of domicile; total assets; capital and

surplus; direct premium and annuity considerations; net premium and annuity considerations; annuity and other fund deposits; net investment income; total income; total benefits, endowments, conversions and payments; commissions; general expenses; taxes, licenses and fees; dividends to policyholders; federal taxes; net gain from operations; net realized capital gains; net income and total amount of insurance.

The compilation is aggregated only from company and combined life/health annual statements filed with the NAIC. Accident and health data are not included from companies filing property/casualty, fraternal or HMDI annual statement blanks.

Statistical Compilation and Market Share Reports for Accident and Health Insurance Companies

The first two sections of the report contain a statistical compilation of companies filing the hospital, medical and dental service of indemnity (HMDI) annual statement blank. The format is similar to the statistical compilations of annual statement information for property/casualty and life/health. Aggregated annual statement pages and data elements are displayed for each company by state and countrywide. In 1995, 119 companies filed the HMDI annual statement.

The third and fourth sections of the report provide aggregated data from the four annual statement blanks that include accident and health insurance data: property/casualty, life/health, fraternal and HMDI. These two sections aggregate data for all companies writing accident and health insurance that also file annual statements with the NAIC. Beginning with the 1997 report year, annual statement information for health maintenance organizations will be included in this report as these organizations will be filing annual statements.

The last two sections of this report contain information on premiums by state, on net underwriting results and on the market share of the top 100 writers by state and countrywide. The market share report format is similar to the separate NAIC market share reports compiled for property/casualty groups and companies and life and

fraternal insurance groups and companies discussed later in this article.

NAIC Market Share Reports

The NAIC market share reports are developed individually for property/casualty, life and fraternal and accident/health insurance companies. They serve as ready desk references for identifying the top writers by line of insurance for each state.

Market share by group, rather than by individual company, was selected on the basis that groups more accurately reflect the number of distinct entities that are competing against one another for business in the market. For purposes of the report, "group" refers to those companies with a common NAIC group code.

Market Share Reports for Property/Casualty Groups and Companies Top 10 By Line By State; Top 100 By Line Countrywide

The report shows the top 100 property/casualty groups and companies for each line countrywide. It is limited to the top 10 groups and companies by state to keep the publication to a manageable size. Market shares for 30 lines of business in 57 jurisdictions are included.

Cumulative market share data for the top 10 writers is an indicator of degree of market concentration in a line of business and the property/casualty report contains a table displaying this information.

Also displayed are direct loss ratios for the top 10 writers as well as the total line of business. Loss ratios reflect a simple calendar year result, however, and should not be considered a measure of overall profitability. Extreme fluctuations can result in property line loss ratios from year to year because of the occurrence of a catastrophe such as an earthquake. Many other factors including expenses and investment income are used in developing profitability measures. For additional information on insurance company profitability, the NAIC Report on Profitability By Line By State (see NAIC *Research Quarterly* January, 1997) provides annual profitability results for property/casualty insurers.

The accident and health lines are not included as lines of business in the market share reports. Accident and health insurance data are reported on four annual statements: property/casualty, life, HMDI and fraternal. Market share information for accident and health insurance is included in a separate publication, Statistical Compilation and Market Share Reports for Accident and Health Insurance Companies.

Market Share Reports for Top 100 Life and Fraternal Insurance Groups and Companies By State and Countrywide

The report includes data from groups and companies filing both the life/health annual statement and the fraternal annual statement so the life market can be seen in its entirety.

Market share data are reported separately for life insurance, annuity considerations and total. The "total" market share data in this report are based on the total of life insurance, annuity consideration, deposit-type funds and accident and health insurance. As stated earlier in this article, a sepa-

rate publication reports market share for the accident and health line using data combined from the property/casualty, life/health, HMDI and fraternal annual statements. A market share report has not been developed for deposit-type funds because the transfer of funds in this category can become anomalous in a market share report. Since accident and health insurance and deposit-type funds are included in the "total" market share report, the impact of those funds is not ignored.

NAIC Statistical Reports: Publication Lists and Order Information

Readers interested in the NAIC statistical publications can obtain a complete list of reports and order information by contacting the NAIC Publications Department at (816) 374-7259. NAIC publication and order information is also available through the NAIC's Internet Web site. The NAIC Home Page can be reached at <http://www.naic.org>.

Annual Statement Reporting Anomalies

by Teresa J. Wright (NAIC/SSO)

Beginning March 1 of each year, the NAIC Quality Assurance (QA) staff commences its quality analysis of the annual statement data submitted by insurance companies. This is no small undertaking: as of April 25, 1997, 2,673 property/casualty companies, 1,555 life and health companies and 331 health maintenance organizations (HMO) had submitted 1996 year-end annual statements with the NAIC, and most of these organizations also submit quarterly data as well.

Extensive validation checks are used by the QA staff to review these statements. When reporting anomalies are discovered, the QA staff contacts the company seeking clarification or correction. If necessary, the QA staff will also suggest the appropriate accounting treatment, including prescribed practices. The QA process yields a higher level of data quality for use by regulators, researchers and other interested parties.

Each year, a large number of companies fail one or more cross-checks because of reporting discrepancies (see Figure 1). Some of these reporting discrepancies occur more frequently than others. Some of the most common discrepancies encountered in the property/casualty, life and health and HMO annual statements will be examined in the following pages.

Schedule D

Nearly 3 percent of all property/casualty companies and 4 percent of all life and health companies improperly prepare Schedule D Part 1A Section 1. Although there is no consistent pattern to these mistakes, most errors occur in the prior year data that should equal the numbers reported in the prior year annual statement. Another example would be a company reporting current year data

under an inappropriate designation in the schedule (e.g., Class 2 as Class 3). It is important to get the data right in these schedules. Property/casualty risk-based capital utilizes data from this schedule to determine the bond charges in the RBC formula, and if this schedule reflects improper classification of bonds in the current year data, a refiling of the risk-based capital calculation also may be necessary.

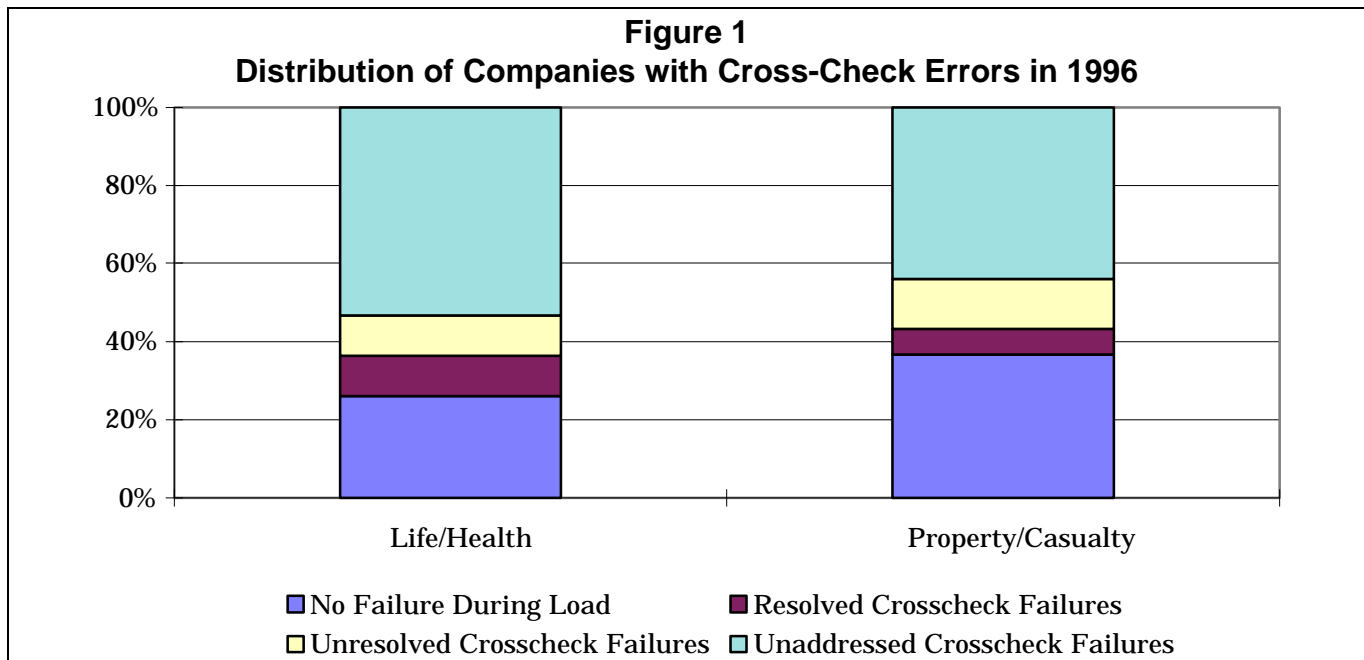
Detail schedules such as Schedule D Part 1 also continue to present a challenge to companies. Regulators utilize these schedules for various monitoring activities and the NAIC staff expends considerable effort correcting discrepancies in these schedules. Many companies continue to include extra detail lines that do not contain any financial information on the diskette for Schedule D, while other companies will omit the detailed information entirely. Habitually, companies will neglect to zero-fill the CUSIP field when a CUSIP or Private Placement Number is not available or not known. Other companies will simply enter mock CUSIP numbers, causing reports produced from this data to contain invalid information.

Reinsurance Schedules

The reinsurance schedules present different challenges. Property/casualty companies often fail to properly report pooling transactions or fail to provide valid identifiers for the companies listed in Schedule F. It is the reporting company's responsibility to acquire an alien insurer identification from the NAIC and to ensure that the NAIC company codes used in this schedule match the listed companies, but errors are frequent. Life and health insurance companies have problems as well. One frequently encountered QA problem is life/health insurers improperly reporting the codes for type of reinsurance contract. The reporting requirements for this information changed effective year-end 1995 and many companies have not yet modified systems to meet the new reporting requirements.

Schedule Y - Affiliate Transactions

Schedule Y Part 2, Summary of the Insurers Transactions With Any Affiliate, is another schedule that commonly has anomalies. The annual statement instructions are somewhat sparse, but all



companies within the holding company system should file the same exact schedule with all transactions for the group, not just for the individual company. All companies that received funds should be reported as a positive value and all companies that disbursed funds should be reported as a negative value. The individual company filing the statement should be reported to provide both parties of the transaction. When completed properly, all columns should sum to zero. Eleven percent of property/casualty companies and nearly 10 percent of all life and health companies failed to correctly complete Schedule Y Part 2 in the 1996 year end annual statement.

Mergers & Acquisitions

A company that is the survivor of a merger that took place within the reporting year has specific reporting guidelines that should be followed. Prior year amounts reported in the current year statement should be reported on a merged basis consistent with the current year’s post-merger reporting. Any page of the current year annual statement that contains prior year merged data should have a footnote placed at the bottom of the page indicating the circumstances for such reporting. These reporting guidelines are found in the general section of the *Annual Statement Instructions*.

Prior Year Adjustments

Reporting for prior year adjustments because of errors is also outlined in the general section of the *Annual Statement Instructions*. A company should not restate prior year amounts in this case unless a company has been directed by the department of insurance in its state of domicile to do so. Instead, the amount of the prior year adjustment should be reported as an adjustment to the current year surplus. This is done by using an aggregate write-in line on Page 4, Summary of Operations, Line 46 for life and health companies and Page 4, Underwriting and Investment Exhibit, Line 30 for property/casualty companies. The write-in line should contain a description that appropriately identifies the adjustment amount.

The NAIC *Annual Statement Instructions* limit adjustments companies may make against prior year surplus to those adjustments resulting from a merger. There are instances where the instructions allow changes to prior year amounts. In most instances, companies must change other beginning balances to reflect changes in accounting principles or practices or when correcting prior year errors. However, current year surplus must reflect the net surplus effect. In spite of the existing guidance, companies continue to adjust prior year surplus and omit any explanation for such adjustment. The

NAIC does not modify the data in this instance but the NAIC sends a letter to the company explaining the reporting requirements.

Schedule P - P&C Insurer Reserves

The NAIC checks the validity of Schedule P numbers by comparing the amounts reported in the summaries of Schedule P Part 1, Part 2 and Part 3, adjusted by the "prior" line in each part, to Note 20 of the Notes to Financial Statements. The failure of companies to pass this validity test indicates that companies either reported inconsistent numbers in Schedule P or incorrectly reported amounts in the discounting note. Since companies use this data for calculating risk-based capital and the one- and two-year loss development IRIS ratios, it is imperative for the data to be reasonably accurate.

Small- to medium-size companies continue to experience difficulty in the proper completion of Schedule P. Many of these smaller companies include the same numbers on the "prior" line for all parts of Schedule P in spite of specific *Annual Statement Instructions* to the contrary. A large number of these insurers omit the data for the "prior" line. For those companies that write short-tail lines of business, other than the fidelity and surety lines, the inclusion of this data may not affect risk-based capital or IRIS ratio calculations. However, the companies that write long-tail lines of business could potentially be materially understating both calculations. Review of the data for larger companies shows that the primary cause of failure for the validity check relates to tabular discounting or invalid numbers in "prior" line in the current year column for one of the applicable summaries. The improper reporting of tabular discounting for Note 20 ranges from incorrect presentation of the numbers (i.e., all amounts should be reported in whole dollars) to the exclusion of this data from diskette filing. For all applicable companies, the NAIC loads data to its database via the diskette filing from each insurer. If the company omits the data from the diskette filing, NAIC staff must manually enter the data.

Life/Health Insurer Operations

Exhibit 1 Part 1, Premiums and Annuity Considerations, is a schedule used for reporting premi-

ums by lines of business. The premiums are grouped by first year (other than single), single and renewal premiums. Within the three groupings the premiums are broken down by collected vs. uncollected, deferred, advanced and direct vs. assumed or ceded. The derivation of one line of the schedule may require multiple data reconciliation within the schedule. For example, net deferred and uncollected premiums reported on Line 13d equals the sum of direct and assumed less ceded, deferred and uncollected premiums. Line 13d also needs to equal the sum of uncollected and deferred amounts reported on Lines 11 and 12. This type of reporting tends to be confusing and troublesome for many insurers. The preparation of such schedules must be done with careful consideration given the details involved.

Line 4B was added to the Summary of Operations (Page 4) for the year-end 1996 annual statement. This new line reports the total net gain from operations from the separate accounts statement that is reported on Page 4 Line 17 of the separate accounts statement. The correct presentation of the change in separate accounts surplus should be reported on Page 3 of the separate accounts statement, Line 19 Column 1 less Column 2, and should equal the sum of the amounts reported on Page 4 of the general accounts statement, Column 1, the sum of Line 4B and Line 42. Many companies are having difficulty adjusting to the use of the new Line 4B and should note the proper reporting for this line.

A line description change was made on the state page (Page 21), Line 21 in the year-end 1996 annual statement. Previously the line description read "Ceased to be in force during year (Net)," which allowed companies to report a positive amount on Line 21 for decreases in policies in force. The new line description "Other changes to in force (Net)" makes it necessary for insurers to report decreases as negative amounts and increases as positive amounts on Line 21. Many companies did not note the change in this line that resulted in companies reporting decreases as positive amounts. Increased awareness of the change will hopefully eliminate most of these errors in the 1997 annual statement.

Health Maintenance Organizations

The NAIC captured HMO data for the first time at year-end 1996 and many of these companies are first-time filers with the NAIC. These insurers are not always familiar with statutory accounting concepts and as a result frequently present information improperly. Many HMOs did not reduce retained earnings for the change in nonadmitted assets but did reduce the asset. A substantial number of HMOs report surplus notes on the balance sheet. If the domiciliary state permits accrual of interest on surplus notes, rather than reclassifying retained earnings to surplus notes, these companies have decreased net worth. Net worth should not decrease prior to the payment of such interest. HMOs improperly completed Schedule M Part 2 for transactions between affiliates within a holding company group and omitted the Notes to Financial Statements. The NAIC *Annual Statement Instructions* provide specific guidance for each note.

Annual Statement Training Seminars Offered by the NAIC

Although the data for each company type presents special challenges, the media for filing with the NAIC requires special treatment of all data. In particular, the detail schedules require special formatting and presentation. As a result, some of the errors that staff members detect and correct are because of the formatting requirements for diskette filings. Early filing dates, filing media and the huge volume of data that must be filed contribute to the quality of data. Companies make every effort to file accurate and complete data and to comply with requests for corrections. In an effort to assist with annual statement preparation, various seminars are being held where NAIC staff, state insurance department regulators and industry personnel can come together and receive a more complete understanding of filing requirements and reporting guidelines.

The NAIC is offering a two-day training seminar for 1997 annual statement changes. It would be beneficial for those responsible for the preparation, analysis or auditing of the annual statement to attend. During 1997, this seminar will be offered May 19 through 20 in Kansas City, Mo., June 23

through 24 in Chicago, and July 17 through 18 in Washington, D.C.

On the first day of the seminar, NAIC staff will present an in-depth review of changes and reporting procedures for the 1997 annual statements. An extensive discussion of accounting for loan-backed and other structured securities is included in the program. Participants will also have the opportunity to attend a session on diskette filing. The second day offers separate life and health and property/casualty topics. Life and health sessions cover life risk-based capital (LRBC) and the IMR/AVR. Schedule P and property risk-based capital (PRBC) will be the topics offered in property/casualty sessions. These topics will be covered in detail with a case study provided for each topic.

Aug. 18 through 20 in Kansas City, Mo., a HMO annual statement preparation seminar will be presented. The seminar is intended to be a complete "how to" course on the preparation of the HMO annual statement and will include detailed discussion of applicable statutory accounting procedures, an in-depth review of the changes and reporting procedures for 1997, and an overview of available HMO annual statement software. The seminar will also include a detailed discussion on variations in reporting requirements among states and an update on the status of the risk-based capital for health insurers. The seminar is recommended for all persons responsible for the preparation, analysis or audit of a HMO's annual statement.

A property/casualty annual statement preparation seminar will be offered Oct. 20 through 24 in Kansas City, Mo. This workshop is designed to assist property/casualty insurers in meeting the NAIC filing guidelines for the annual statement and its supplements. In the four and one-half day seminar, NAIC staff will provide a complete "how to" preparation of the property/casualty annual statement, discuss statutory accounting procedures and review in depth changes and reporting procedures for 1997.

For further information or registration details, call the NAIC Education and Training Department at (816) 374-7192, fax to (816) 889-6840 or e-mail to et@naic.org.

Market Coverage in the NAIC's State Average Auto Expenditures Report

by Steve Lamberty (NAIC/SSO)

One of the NAIC's most popular and widely reported on publications is the annual *State Average Expenditures & Premiums for Personal Automobile Insurance* report. This report shows the state average premiums for liability, comprehensive and collision coverages. Estimates for the average expenditure and for the combined average premium (full coverage) are also given. Data for this report are collected from industry statistical reporting agents (American Association of Insurance Services, Insurance Services Office, Inc., National Association Independent Insurers and National Insurance Statistical Services), state insurance departments (California, South Carolina and Texas) and the Massachusetts Commonwealth Automobile Reinsurers.

The reliability of the data is dependent on the sample data collected. This is because the data included in this report does not include all of the personal auto insurance policies written each year. To estimate the market share represented in the *State Average Expenditures* report, state specific auto liability direct premiums written data was pulled from the annual statement's Exhibit of Premiums and Losses for all companies reporting to the NAIC for the years of 1993 to 1995 and compared to the liability direct premiums written data reported in the 1995 *State Average Expenditures* report.

Table 1 shows the comparison of liability premiums written from the two separate sources. Countrywide, the liability direct premiums writ-

ten reported in the *State Average Expenditures* report make up more than 94 percent of the liability premiums reported in companies' annual statement filings. On a state by state basis, 34 states had figures of 95 percent or above with only four states below 85 percent.

Table 2 gives the same information for 1994 data. Countrywide the market share reported in the *State Average Expenditures* report was equal to nearly 95 percent of annual statement filings. While for 1994 38 states had included market shares of 95 percent or higher, five states were less than 85 percent.

Finally, looking at 1993 data Table 3 shows a *State Average Expenditures* report market share of close to 96 percent. This included 36 states with figures of more than 95 percent and only four states coming in below 85 percent.

Reasons for discrepancies between the two data sources are many. States with ratios greater than 100 percent could be including data from companies that are not required to file with the NAIC. In some instances the data include shared market or residual market premiums that are not reported in the annual statement. Ratios less than 100 percent, on the other hand, result from companies that file annual statements but, for one reason or another, do not report data to one of the statistical reporting agents that supply data for the *State Average Expenditures* report. In Texas, for instance, county mutual insurers write a significant share of the auto insurance premiums in the state but do not report to a statistical agent.

Table 1
Auto Liability Direct Premiums Written - 1995 Data

State	C(1) Annual Statement Page 14	C(2) Average Expenditures & Premiums Report	C(2)/C(1)
Alabama	678,396,341	662,662,372	97.7%
Alaska	133,139,131	130,431,740	98.0%
Arizona	1,223,872,615	1,192,404,714	97.4%
Arkansas	519,033,392	478,514,306	92.2%
California	7,578,322,898	7,266,199,115	95.9%
Colorado	1,137,759,549	1,112,517,743	97.8%
Connecticut	1,217,200,315	1,214,144,160	99.7%
Delaware	260,614,697	250,678,704	96.2%
Dist. of Columbia	99,483,933	95,760,213	96.3%
Florida	4,493,916,542	3,596,660,525	80.0%
Georgia	1,465,574,828	1,433,922,194	97.8%
Hawaii	435,784,168	446,930,664	102.6%
Idaho	223,586,035	185,211,650	82.8%
Illinois	2,410,197,969	2,300,769,822	95.5%
Indiana	1,232,533,197	1,205,044,551	97.8%
Iowa	477,559,148	466,381,513	97.7%
Kansas	489,219,700	480,660,395	98.3%
Kentucky	889,581,014	873,539,805	98.2%
Louisiana	1,298,824,539	1,162,342,458	89.5%
Maine	239,331,496	231,040,871	96.5%
Maryland	1,394,780,301	1,377,826,322	98.8%
Massachusetts	2,229,979,289	2,210,034,557	99.1%
Michigan	2,385,062,071	2,129,246,378	89.3%
Minnesota	1,259,653,531	1,192,364,478	94.7%
Mississippi	411,531,967	403,561,020	98.1%
Missouri	1,130,457,331	1,093,219,734	96.7%
Montana	164,113,584	154,033,166	93.9%
Nebraska	299,354,136	292,073,062	97.6%
Nevada	527,987,873	461,932,808	87.5%
New Hampshire	277,863,472	277,172,823	99.8%
New Jersey	3,085,472,745	2,999,566,803	97.2%
New Mexico	396,821,469	390,462,395	98.4%
New York	5,058,856,937	5,030,368,570	99.4%
North Carolina	1,762,316,700	1,763,308,828	100.1%
North Dakota	103,308,768	82,809,536	80.2%
Ohio	2,263,161,585	2,225,382,707	98.3%
Oklahoma	696,495,981	660,097,749	94.8%
Oregon	805,605,534	748,010,460	92.9%
Pennsylvania	3,237,432,268	3,198,993,000	98.8%
Rhode Island	344,564,057	344,452,012	100.0%
South Carolina	793,984,671	921,418,435	116.0%
South Dakota	135,397,740	121,585,793	89.8%
Tennessee	953,017,239	885,681,955	92.9%
Texas	5,186,891,676	3,985,831,553	76.8%
Utah	409,654,077	385,940,848	94.2%
Vermont	115,240,323	114,025,034	98.9%
Virginia	1,594,135,589	1,577,501,787	99.0%
Washington	1,521,781,200	1,316,428,286	86.5%
West Virginia	463,030,470	455,452,423	98.4%
Wisconsin	958,578,315	940,977,952	98.2%
Wyoming	85,015,005	77,337,237	91.0%
Countrywide	66,555,477,411	62,602,915,226	94.1%

Sources: NAIC, *State Average Expenditures & Premiums for Personal Automobile Insurance in 1995*

Table 2
Auto Liability Direct Premiums Written - 1994 Data

State	C(1)	C(2)	C(2)/C(1)
	Annual Statement Page 14	Average Expenditures & Premiums Report	
Alabama	626,546,289	614,737,049	98.1%
Alaska	131,433,383	129,112,324	98.2%
Arizona	1,173,170,284	1,143,246,766	97.4%
Arkansas	483,961,095	445,418,201	92.0%
California	7,273,821,015	7,030,440,036	96.7%
Colorado	1,084,656,165	1,064,368,168	98.1%
Connecticut	1,194,583,497	1,193,136,036	99.9%
Delaware	249,045,025	242,582,315	97.4%
Dist. of Columbia	95,504,735	96,946,735	101.5%
Florida	4,110,341,254	3,319,512,931	80.8%
Georgia	1,417,414,392	1,390,782,743	98.1%
Hawaii	428,504,524	440,575,390	102.8%
Idaho	212,951,910	177,903,206	83.5%
Illinois	2,257,702,669	2,152,758,752	95.4%
Indiana	1,145,517,630	1,136,505,294	99.2%
Iowa	455,558,745	450,141,917	98.8%
Kansas	461,214,259	454,195,818	98.5%
Kentucky	822,261,684	818,934,281	99.6%
Louisiana	1,252,341,998	1,022,019,794	81.6%
Maine	239,301,322	231,586,216	96.8%
Maryland	1,374,868,989	1,362,301,673	99.1%
Massachusetts	2,433,946,114	2,507,598,155	103.0%
Michigan	2,388,365,690	2,108,352,868	88.3%
Minnesota	1,206,444,575	1,147,507,259	95.1%
Mississippi	389,516,314	387,561,717	99.5%
Missouri	1,060,171,456	1,030,759,084	97.2%
Montana	157,066,557	151,624,060	96.5%
Nebraska	287,444,844	281,870,024	98.1%
Nevada	473,189,592	420,400,197	88.8%
New Hampshire	273,173,590	275,105,734	100.7%
New Jersey	2,847,821,443	2,848,889,897	100.0%
New Mexico	374,335,731	375,808,611	100.4%
New York	4,795,456,830	4,746,110,523	99.0%
North Carolina	1,555,992,328	1,549,206,860	99.6%
North Dakota	98,872,487	78,787,362	79.7%
Ohio	2,106,781,810	2,086,186,426	99.0%
Oklahoma	643,813,521	630,662,059	98.0%
Oregon	787,325,534	750,980,527	95.4%
Pennsylvania	3,200,835,926	3,174,158,693	99.2%
Rhode Island	348,541,169	349,215,887	100.2%
South Carolina	778,713,961	894,153,782	114.8%
South Dakota	126,062,255	117,538,253	93.2%
Tennessee	905,718,096	844,978,920	93.3%
Texas	4,869,646,762	3,942,068,065	81.0%
Utah	381,769,223	361,590,340	94.7%
Vermont	109,925,313	109,074,943	99.2%
Virginia	1,518,620,681	1,506,308,718	99.2%
Washington	1,492,203,592	1,288,314,768	86.3%
West Virginia	442,910,197	439,882,428	99.3%
Wisconsin	932,010,961	919,799,415	98.7%
Wyoming	79,842,437	72,848,577	91.2%
Countrywide	63,557,219,853	60,314,549,797	94.9%

Sources: NAIC, *State Average Expenditures & Premiums for Personal Automobile Insurance in 1995*

Table 3
Auto Liability Direct Premiums Written - 1993 Data

State	C(1) Annual Statement Page 14	C(2) Average Expenditures & Premiums Report	C(2)/C(1)
Alabama	570,910,145	559,239,810	98.0%
Alaska	124,734,597	123,077,167	98.7%
Arizona	1,132,623,938	1,079,774,668	95.3%
Arkansas	461,579,995	426,257,922	92.3%
California	7,289,737,433	6,833,113,170	93.7%
Colorado	1,029,183,339	1,008,846,421	98.0%
Connecticut	1,250,583,150	1,249,141,572	99.9%
Delaware	240,795,528	233,096,188	96.8%
Dist. of Columbia	90,053,584	91,771,762	101.9%
Florida	3,755,633,496	3,712,509,509	98.9%
Georgia	1,345,967,766	1,322,849,534	98.3%
Hawaii	428,549,008	442,139,591	103.2%
Idaho	197,265,365	167,281,517	84.8%
Illinois	2,078,697,227	1,846,159,323	88.8%
Indiana	1,093,257,691	1,073,580,324	98.2%
Iowa	432,294,368	440,763,063	102.0%
Kansas	428,293,808	420,849,652	98.3%
Kentucky	752,084,685	749,183,264	99.6%
Louisiana	1,201,806,419	958,847,887	79.8%
Maine	230,045,022	229,400,849	99.7%
Maryland	1,345,231,375	1,331,472,792	99.0%
Massachusetts	2,223,807,617	2,207,408,033	99.3%
Michigan	2,347,000,386	2,335,509,749	99.5%
Minnesota	1,111,629,149	1,049,679,097	94.4%
Mississippi	367,082,946	366,148,200	99.7%
Missouri	985,515,831	955,908,956	97.0%
Montana	143,431,751	138,416,214	96.5%
Nebraska	266,636,880	262,831,714	98.6%
Nevada	434,150,866	382,775,937	88.2%
New Hampshire	264,213,772	264,468,200	100.1%
New Jersey	2,848,251,171	2,824,950,529	99.2%
New Mexico	341,874,062	336,883,451	98.5%
New York	4,472,025,744	4,453,747,762	99.6%
North Carolina	1,464,920,352	1,476,720,253	100.8%
North Dakota	93,046,736	74,037,006	79.6%
Ohio	2,008,785,936	1,985,928,170	98.9%
Oklahoma	618,182,815	609,232,829	98.6%
Oregon	787,347,480	745,917,903	94.7%
Pennsylvania	3,054,782,431	3,011,920,576	98.6%
Rhode Island	314,883,565	315,952,397	100.3%
South Carolina	753,589,516	883,438,167	117.2%
South Dakota	113,963,719	102,735,874	90.1%
Tennessee	828,971,100	775,360,332	93.5%
Texas	4,415,366,177	3,585,957,844	81.2%
Utah	345,755,049	327,534,342	94.7%
Vermont	102,546,058	101,584,686	99.1%
Virginia	1,439,762,871	1,427,509,385	99.1%
Washington	1,432,058,890	1,237,025,302	86.4%
West Virginia	398,470,337	396,582,689	99.5%
Wisconsin	897,377,674	874,631,616	97.5%
Wyoming	74,487,781	67,336,736	90.4%
Countrywide	60,429,246,601	57,877,489,934	95.8%

Sources: NAIC, *State Average Expenditures & Premiums for Personal Automobile Insurance in 1995*

Medicare Supplement Insurance Loss Ratios

Compiled by NAIC Staff

Annually, the NAIC publishes *Medicare Supplement Loss Ratios*, based on the information reported to the NAIC on the Medicare supplement Insurance Experience Exhibit of the annual statement. The 1996 edition, which will be available in October 1997, includes breakdowns of the premiums, losses and number of covered lives by individual companies as well as detail on the various types of Medicare supplement policies issued by companies (group versus individual, policy year issued, etc.). Additionally, a number of aggregate tables are also included to indicate industry-level trends.

Most of the Medicare supplement insurance is written by organizations licensed as life/health insurers. However, a significant portion is also written by organizations licensed as hospital, medical and dental service or indemnity (HMDI) corporations (including many Blue Cross/Blue Shield organizations). Smaller amounts are also written by p/c companies, HMOs and fraternal organizations.

Figure 1 shows the estimated market share of the 1996 Medicare supplement market by organizational form. Table 1 gives some historical aggregate results by organizational form as well. The 1996 data is preliminary, as not all filings have been submitted to the NAIC as of the date of this publication. There may be some discrepancies between the aggregates reported here and the aggregates reported in earlier editions of *Medicare Supplement Loss Ratios* as well. The *Medicare Supplement Loss Ratios* includes more complete

data because it includes more organizations, such as those that file just the Medicare supplement exhibit but do not file a complete annual statement. The data used in the *Medicare Supplement Loss Ratios* publication has also undergone more rigorous quality assurance checking by the NAIC's Quality Assurance staff, which helps enhance accuracy.

Note, however, that the data included in these tables and in *Medicare Supplement Loss Ratios* is based on data filed with the NAIC. While the NAIC exercises a great deal of care in capturing data from these exhibits and producing these reports, as with any statistical project of a significant magnitude, errors can occur, so the NAIC makes no representations or warranties with respect to the accuracy of the data.

Figure 1
1996 Market Share By Organizational Form

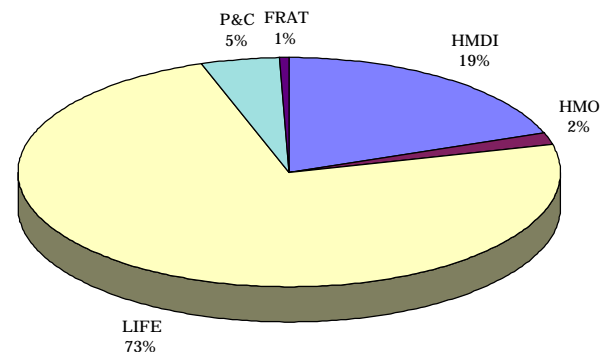


Table 1
Medicare Supplement Experience, 1993-1996
Aggregated By Organizational Form

Organizational Form	Premium Earned			
	1993	1994	1995	1996
Hospital, Medical and Dental Service or Indemnity Corp.	3,842,755,240	3,845,067,813	3,347,710,678	2,456,813,104
Life/Health Insurer	7,907,526,827	7,889,034,725	8,211,326,325	9,307,895,876
Property/Casualty Insurer	670,402,021	639,362,826	597,981,192	574,665,357
Fraternal Organization	44,834,466	50,145,553	57,034,163	73,997,124
Health Maintenance Organization	n.a	n.a	n.a	199,499,214
Grand Total	12,465,518,554	12,423,610,917	12,214,052,358	12,612,870,675

Organizational Form	Losses Incurred			
	1993	1994	1995	1996
Hospital, Medical and Dental Service or Indemnity Corp.	3,294,392,933	3,458,771,125	3,035,592,568	2,176,591,642
Life/Health Insurer	5,677,985,154	6,134,697,886	6,922,473,198	6,884,307,892
Property/Casualty Insurer	459,908,234	454,138,640	454,881,256	439,721,930
Fraternal Organization	31,448,821	34,603,994	41,240,764	58,168,321
Health Maintenance Organization	n.a	n.a	n.a	163,517,777
Grand Total	9,463,735,142	10,082,211,645	10,454,187,786	9,722,307,562

Organizational Form	Loss Ratio			
	1993	1994	1995	1996*
Hospital, Medical and Dental Service or Indemnity Corp.	85.7%	90.0%	90.7%	88.6%
Life/Health Insurer	71.8%	77.8%	84.3%	74.0%
Property/Casualty Insurer	68.6%	71.0%	76.1%	76.5%
Fraternal Organization	70.1%	69.0%	72.3%	78.6%
Health Maintenance Organization	n.a	n.a	n.a	82.0%
Grand Total	75.9%	81.2%	85.6%	77.1%

* Data for 1996 is preliminary.

n.a. Not Available

Normalization of the Yield Curve in Asset Adequacy Analysis

by Mark Peavy (NAIC/SSO)

The NAIC Model Actuarial Opinion and Memorandum Regulation (AOMR) requires that the appointed actuary must consider the effect of at least the following interest rate scenarios in performing asset adequacy analysis:

1. Level with no deviation;
2. Uniformly increasing over 10 years at a half percent per year and then level;
3. Uniformly increasing at 1 percent per year over five years and then uniformly decreasing at 1 percent per year to the original level at the end of 10 years and then level;
4. An immediate increase of 3 percent and then level;
5. Uniformly decreasing over 10 years at a half percent per year and then level;
6. Uniformly decreasing at 1 percent per year over five years and then uniformly increasing at 1 percent per year to the original level at the end of 10 years and then level; and
7. An immediate decrease of 3 percent and then level.

The model further states, “The beginning interest rates may be based on interest rates for new

investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as Treasury yields, of assets of the appropriate length on a date close to the valuation date.”

Many actuaries believe that it defeats the purpose of the interest rate scenario testing if the beginning yield curve reflects “abnormal” circumstances, e.g. long-term interest rates that are lower than short-term interest rates. Some appointed actuaries “normalize” the slope of the initial yield curve to produce differences between rates that they regard as reasonable. However, the model makes no explicit allowance for them to do so.

Earlier in the year the states on the NAIC’s Life and Health Actuarial (Technical) Task Force were surveyed to determine their positions regarding normalization. The survey is shown below. Of the 12 respondents, seven indicated that their state has taken no position on whether the appointed actuary is permitted to adjust the initial interest rate relationships. One of those respondents (California) stated that while it had taken no official position, it believed the AOMR did not preclude the use of normalization.

Three states indicated that, at a minimum, they require that the seven scenarios be tested without normalization. One of those states (Louisiana) indicated, “It does not appear that we mandate the normalization process but it may be being done implicitly in some situations without us being totally aware of it.”

Two states responded that they encouraged the use of normalization: Illinois and Connecticut. As stated in Connecticut’s response, “We require extensive testing (i.e., 14 scenarios) whenever a clearly inverted yield curve exists on year-end.” The response further stated, “If a reasonable normalization is done then these seven scenarios may be considered the basic scenarios.” Of the five states that indicated they had taken a position on this issue, none indicated that it had yet developed explicit standards that are used to determine if the yield curve has been appropriately normalized.

**Survey faxed by Mark Peavy
NAIC to the Life and Health Actuarial (Technical) Task Force
January 15, 1997**

I have been asked by a state to provide some feedback relative to the enforcement of Section 10D of the Actuarial Opinion and Memorandum Regulation. Specifically, the state wants to know if states are requiring that the seven scenarios be tested without "normalization," or if states are permitting some degree of "normalization" to those scenarios. If you could check the appropriate box below and return this page to me by fax, that would be appreciated. Thank you for your attention to this matter.

- Our state has not adopted the AOMR.
- Our state requires that, at a minimum, the seven scenarios be tested without "normalization."
- Our state allows "normalization" in testing the seven scenarios.
- Our state has taken no position on this issue.

If none of the above descriptions describe your state's position, please briefly describe it here:

If your state does allow "normalization" of the seven required scenarios, does your state have explicit standards that are used to determine if the yield curve has been appropriately "normalized?"

Yes ____ No ____

Name _____

**LHATF Responses to Question on Enforcement of Section 10 D of the
Actuarial Opinion and Memorandum Regulation
January 15, 1997**

1. Our state has not adopted the AOMR.
Oklahoma

2. Our state requires that, at a minimum, the seven scenarios be tested without “normalization.”
Louisiana (see attached)
Minnesota
New York; very few NY domestic companies have “normalized”; including one very large for 12/31/94 reserves, but not 12/31/95.

3. Our state allows “normalization” in testing the seven scenarios

4. Our state has taken no position on this issue
California—Regulation appears to permit normalization (last paragraph). We accept whatever the appointed actuary decides to use.
Florida
Maine
North Carolina
New Jersey
North Dakota
South Carolina

5. If none of the above descriptions describe your state’s position, please briefly describe it here.

Connecticut—When an inverted yield curve occurs, the seven scenarios must be tested both with and without normalization. If a reasonable “normalization” is done, then these seven scenarios may be considered the basic scenarios. In any case, we require extensive testing (i.e. 14 scenarios) whenever a clearly inverted yield curve exists on year-end. Our state requires “normalization” in testing the seven scenarios in years we examine the company.

Illinois. Our state encourages normalization when appropriate.

6. If your state does allow “normalization” of the seven required scenarios, does your state have explicit standards that are used to determine if the yield curve has been appropriately “normalized?”
Yes
No
California
Connecticut; will look at how it is done. May develop in the autumn.
Illinois
Louisiana
New York

**LOUISIANA DEPARTMENT OF INSURANCE
FINANCIAL SOLVENCY**

MEMORANDUM

DATE: January 22, 1997

TO: Mark Peavy

FROM: Rod Friedy

SUBJECT: NORMALIZATION OF ACTUARIAL ASSUMPTIONS

To the best of my knowledge, Louisiana does not mandate the normalization of the AORM testing scenarios.

In this regard, I spoke with a representative from a large Louisiana domiciled multi-state company, who informed me that they use the established normalization process of one of the large consulting companies. I also spoke with an actuarial consultant who has done AORM's for a Louisiana company as well as auditing some AORM's that were filed with us. He was not aware of the normalization process.

In summary then, it does not appear that we mandate the normalization process, but it may be being done implicitly in some situations without us being totally aware of it.

Please keep me posted as to the developments on this issue, as we want to do things correctly.

Aggregate Balance Sheet and Income Statement for HMOs Filing With the NAIC in 1996

Compiled by NAIC Staff

Beginning with the 1996 annual statement, the NAIC began including financial data for health maintenance organizations (HMOs) on its extensive database. While HMOs have for years filed annual statements with state insurance departments or other state agencies, this is the first year that they have been asked to file with the NAIC. The vast majority of HMOs on the NAIC database (more than 80 percent) are single-state entities, licensed in only one state and doing business locally. Another 15 percent are licensed in two states, usually doing cross-border business in a local area (e.g., a Kansas City-based HMO doing business in both Kansas and Missouri).

Through April, nearly 350 HMOs—about half of the industry—have filed with the NAIC. Some state insurance regulators made filing with the NAIC mandatory while others left it to the discretion of the HMO. Also, in some states, the insurance department is not the primary regulator for the HMO industry. Therefore, the number of HMOs filing with the NAIC falls well short of the industry total. However, the HMOs that did file with the NAIC represent approximately two-thirds of the premium volume for all HMOs.

Aggregate industry data for those HMOs on the NAIC database is contained in the following pages.

Table 1 is an aggregate of the assets page, Table 2 is an aggregate of the liabilities page, and Table 3 is an aggregate income statement. Table 4 shows the number of HMOs filing with the NAIC along with an estimated number of HMOs domiciled in each of the NAIC's member states and territories.

The HMO filings with the NAIC will serve as a testing base for the emerging managed care organizations RBC formula in coming months. Already, the HMO data has provided the NAIC's Health Organizations RBC Working Group with valuable insights into baseline reinsurance arrangements, premium and loss summaries, asset mix and quality and intercompany relationships. Regulators are also able to use the HMO statements filed with other state regulators to establish normative guidelines for the HMOs in their own states.

The aggregate balance sheet for the HMOs is indicative of the quick cycle of health insurance premiums. Money coming into the organization in the form of premiums is quickly turned into claims payments and administrative expense payments. Therefore, the majority of the assets of these HMOs are in cash, short-term investments and government bonds. The bulk of the liabilities are claims payable with a relatively quick turnaround. For the majority of HMOs, then, liquidity is a very big concern as the cash flow in these types of organizations has a very swift current. There is also evidence of a relatively high degree of leverage, with the aggregate premium to surplus ratio topping 9.00 in 1996 on premiums of nearly \$40 billion. Premium volume is increasing, especially in the Medicare/Medicaid lines as HMOs aggressively compete for the opportunity to provide managed care services to those customers.

Table 1
Aggregate Assets Page For 347 HMOs

Description	Assets	Not Admitted Assets	Net Admitted Assets	Prior Year Net Admitted Assets
CURRENT ASSETS:				
Cash and Short-term Investment	3,366,139,551	12,316,526	3,353,823,024	3,755,481,603
Premiums Receivable	1,497,623,742	107,369,771	1,390,253,972	1,224,223,357
Investment Income Receivable	86,394,634	1,348,715	85,045,919	102,523,390
Health Care Receivable	306,922,926	52,349,619	254,573,308	193,680,800
Amounts Due from Affiliates	894,890,145	82,132,992	812,757,153	678,652,394
Aggregate Write-ins for Current Assets	675,381,365	190,003,955	485,377,409	407,589,609
TOTAL CURRENT ASSETS	6,827,352,365	445,521,578	6,381,830,790	6,362,151,149
OTHER ASSETS:				
Restricted Cash and Other Assets	448,608,847	5,518,281	443,090,566	404,451,044
Bonds	3,567,509,145	15,874,009	3,551,635,136	2,850,111,085
Preferred Stocks	94,952,146	-2,726,200	97,678,346	84,017,764
Common Stocks	299,661,375	14,727,370	284,934,005	198,606,168
Other Long-Term Invested Assets	541,091,840	28,479,267	512,612,573	551,973,041
Amounts Due from Affiliates	74,977,402	-13,505,581	88,482,983	74,261,949
Aggregate Write-ins for Other Assets	510,909,570	406,033,768	104,875,802	73,021,383
TOTAL OTHER ASSETS	5,537,710,326	454,400,914	5,083,309,411	4,236,442,434
PROPERTY AND EQUIPMENT				
Land, Buildings and Improvements	1,111,965,877	51,211,876	1,060,754,002	1,058,742,724
Furniture and Equipment	542,976,965	124,120,580	418,856,385	427,930,653
Leasehold Improvements	104,214,843	35,651,774	68,563,069	78,104,575
Aggr. Write-ins for Other Prop. & Equip.	94,031,352	30,464,828	63,566,524	49,074,878
TOTAL PROPERTY AND EQUIPMENT	1,853,189,036	241,449,057	1,611,739,979	1,613,852,831
TOTAL ASSETS	14,218,251,727	1,141,371,552	13,076,880,178	12,212,446,415

Table 2
Aggregate Liabilities Page For 347 HMOs

Description	Current Year			Prior Year
	Covered	Uncovered	Total	
CURRENT LIABILITIES:				
Accounts Payable	388,501,920	19,590,687	408,092,607	384,669,495
Claims Payable	4,698,046,711	187,395,372	4,885,442,083	4,138,355,989
Accrued Medical Incentive Pool	211,582,313	0	211,582,313	239,612,554
Unearned Premiums	758,859,310	37,966,806	796,826,116	618,782,079
Loans and Notes Payable	14,901,058	962,600	15,863,658	21,401,704
Amounts Due to Affiliates	611,750,586	67,528,338	679,278,924	590,660,556
Aggregate Write-ins for Current Liabilities	1,030,684,205	96,488,891	1,127,173,096	980,253,604
TOTAL CURRENT LIABILITIES	7,714,326,099	409,932,694	8,124,258,794	6,973,735,984
OTHER LIABILITIES:				
Loans and Notes Payable	205,967,480	288,871	206,256,351	225,166,059
Amounts Due to Affiliates	85,519,499	2,242,699	87,762,198	85,537,312
Aggregate WIs for Other Liabilities	296,785,170	29,159,397	325,944,567	302,506,467
TOTAL OTHER LIABILITIES	588,272,149	31,690,967	619,963,116	613,209,838
TOTAL LIABILITIES	8,302,598,247	441,623,661	8,744,221,909	7,586,945,822
NET WORTH				
Common Stock	XXX	XXX	240,031,714	181,391,109
Preferred Stock	XXX	XXX	28,611,121	25,756,926
Paid in Surplus	XXX	XXX	2,116,068,350	1,730,787,253
Contributed Capital	XXX	XXX	412,276,165	296,624,810
Surplus Notes	XXX	XXX	726,268,272	625,065,028
Contingency Reserves	XXX	XXX	227,756,920	199,248,048
Retained Earnings/Fund Balance	XXX	XXX	754,004,258	1,699,796,337
Aggregate WIs for Other Net Worth Items	XXX	XXX	-172,017,720	-91,250,197
TOTAL NET WORTH	XXX	XXX	4,332,999,080	4,667,419,316
TOTAL LIABILITIES AND NET WORTH	7,608,969,012	366,889,949	13,077,220,990	12,254,365,138

Table 3
Aggregate Income Statement for 347 HMOs

Description	Uncovered	Total	Prior Year
MEMBER MONTHS	XXX	310,112,191	264,267,371
REVENUES:			
Premium	XXX	29,594,821,098	27,048,778,274
Free-For-Service	XXX	867,003,150	686,406,739
Title XVIII-Medicare	XXX	6,886,844,200	4,340,515,979
Title XIX-Medicaid	XXX	3,130,365,336	2,488,801,473
Investment	XXX	490,842,189	454,235,627
Aggregate Write-ins for Other Revenues	XXX	607,319,788	558,634,956
TOTAL REVENUES	XXX	41,577,195,762	35,577,373,046
EXPENSES			
Medical and Hospital:			
Physician Services	239,628,426	13,158,916,435	11,075,356,450
Other Professional Services	59,918,678	4,508,249,646	3,523,905,494
Outside Referrals	246,005,530	1,738,389,532	1,396,445,603
Emergency Room and Out-of-Area	96,692,213	940,689,408	778,768,693
Occupancy, Depreciation and Amortization	0	315,299,490	299,078,602
Inpatient	291,991,040	9,932,474,186	8,112,081,773
Incentive Pool and Withhold Adjustments	-476,147	123,525,562	212,252,241
Aggr Wis for Other Med & Hosp Exp	128,924,037	6,077,911,343	4,924,749,160
Subtotal	1,062,683,775	36,795,455,607	30,322,638,015
Reinsurance Expenses Net of Recoveries	2,821,129	12,804,800	25,411,322
LESS:			
Copayments	1,546,527	289,040,915	253,379,759
COB and Subrogation	1,116,787	395,507,770	387,299,188
Subtotal	2,663,314	684,548,684	640,678,947
TOTAL MEDICAL AND HOSPITAL	1,062,841,589	36,123,711,720	29,707,370,389
Administration:			
Compensation	237,853,906	1,795,542,844	1,631,119,662
Interest Expense	4,939,035	35,459,057	33,825,841
Occupancy, Depreciation and Amortization	56,136,294	406,719,223	358,956,842
Marketing	163,891,404	1,116,970,167	923,470,116
Aggregate Write-ins for Other Administration	199,655,302	2,238,641,298	1,735,748,309
Expenses			
TOTAL ADMINISTRATION	662,475,941	5,593,332,588	4,683,120,769
TOTAL EXPENSES	1,725,317,531	41,717,044,309	34,390,491,157
INCOME (LOSS)	XXX	-139,848,546	1,186,881,888
Extraordinary Item	0	2,914,393	399,392
Provision for Federal Income Taxes	XXX	50,221,899	399,170,432
NEXT INCOME (LOSS)	XXX	-192,984,838	787,312,066

Table 4 - Number of Non-Life Insurer Health Organizations By State of Domicile

State Name	Blue Cross Blue Shield Plans	Limited Health Service Organization	Hospital, Medical or Dental Indemnity	Health Maintenance Organization*	HMOs on NAIC Active List**	HMOs Filings With NAIC thru April 1997**
Alaska	0	0	1	0		
Alabama	1	8	1	11	9	3
Arkansas	1	0	1	9	6	3
American Samoa						
Arizona	0	5	3	9	17	2
California	0	0	0	0	1	
Colorado	1	7	4	16	13	9
Connecticut	1	0	1	13	15	10
Dist. of Columbia	1	0	0	0		
Delaware	1	3	3	7	4	3
Florida	1	0	0	37	37	6
Georgia	1	1	0	15	16	12
Guam	0	0	0	0		
Hawaii	1	0	4	0		
Iowa	0	0	1	3	2	2
Idaho	2	0	2	3	3	
Illinois	0	6	13	18	19	13
Indiana	1	0	0	24	15	3
Kansas	0	0	1	9	7	3
Kentucky	0	12	1	12	15	8
Louisiana	1	0	0	18	17	11
Massachusetts	1	2	0	15	8	3
Maryland	1	11	8	13	15	9
Maine	1	2	0	3	2	
Michigan	1	22	2	18	18	9
Minnesota	1	0	2	10	1	
Missouri	2	0	18	35	26	15
Mississippi	1	0	0	14	8	2
Montana	1	0	1	2	1	
North Carolina	1	0	1	19	24	21
North Dakota	1	1	2	2	1	
Nebraska	1	7	0	5	6	4
New Hampshire	1	0	2	5	5	
New Jersey	1	0	3	26	17	8
New Mexico	1	5	0	6	2	1
Nevada					11	3
New York	6	0	11	34	27	16
Ohio	2	6	4	38	37	13
Oklahoma	1	0	0	8	5	3
Oregon	1	0	12	10	10	9
Pennsylvania	5	4	0	24	33	24
Puerto Rico						
Rhode Island	1	1	1	3	4	3
South Carolina	1	0	0	5	9	9
South Dakota	1	0	1	2	2	2
Tennessee	2	14	2	20	7	3
Texas	2	0	0	43	64	45
Utah	1	3	0	13	14	13
Virginia	1	3	0	16	17	16
U.S. Virgin Islands	0	0	0	0		
Vermont	1	1	0	0		
Washington	24	1	0	10	10	8
Wisconsin	2	0	15	25	28	18
West Virginia	1	1	0	4	3	1
Wyoming	1	0	0	0	1	1
TOTAL	81	126	121	632	612	347

* From 1995 Insurance Department Resources Report

** From NAIC database

Nationally Significant P&C Companies

by Steve Lamberty (NAIC/SSO)

In 1990 the NAIC membership agreed to establish criteria enabling them to designate certain insurance companies as "nationally significant" to facilitate peer review of solvency monitoring. The objective of the NAIC's peer review process, as exercised through its Financial Analysis Working Group, is to ensure that domiciliary regulators are taking effective action with respect to nationally significant insurers that are in financial difficulty. Nationally significant insurers are deemed to be those companies that write business in 17 or more states and have gross premiums (direct plus assumed) written in excess of \$50 million for life/health insurers companies and \$30 million for property/casualty insurers. In 1995, 430 of 1,650 life/health and 667 of 2,696 property/casualty insurers reporting to the NAIC met these criteria and were considered nationally significant.

The nationally significant designation criteria have been debated periodically over the years, but have never undergone a formal review for suitability. However, among the 1997 charges to the NAIC's Examination Oversight (EX4) Task Force is a requirement to "Review criteria for selecting insurers to be reviewed by the NAIC Financial Analysis Division and make recommendations if changes to the criteria are needed by the 1997 Summer National Meeting." The NAIC's Financial Analysis Division requested input from the Research Division in 1996. The Research Division was asked to both (1) summarize the appropriate statistics on nationally significant

companies to determine coverage of premiums, assets, liabilities, etc. and (2) provide pertinent comments on the current definitions that the Examination Oversight Task Force may wish to consider.

The following materials are excerpted from the preliminary report to the Financial Analysis Division. These pages contain tables and charts showing the relative number, volume of business written and size of nationally significant property/casualty companies. Table 1 gives the total number of p/c companies domiciled in each state or territory along with the number of domiciliary companies designated nationally significant.

Table 2 gives aggregate direct premiums written and net premiums written obtained from the annual statement Underwriting and Investment Exhibit. These data are allocated by the companies state of domicile and nationally significant status.

Table 3 shows comparative aggregate asset data, including the percentages of the total for each asset type held by nationally significant companies. Figure 1 graphically depicts the percentage of p/c companies filing in 1995 that were designated as nationally significant, while Figure 2 shows the percentage of 1995 total net premiums written that were written by nationally significant companies.

The allocation of nationally significant companies is mostly in line with the allocation of all companies among states. That is, the states with the largest number of insurers tend to be the states with the largest number of nationally significant insurers. However, there are exceptions. Eight of the states that are in the top 10 with respect to number of domiciliary companies are also in the top 10 with respect to number of nationally significant domiciliary companies. Although they represent only one-quarter of the p/c insurers on the NAIC database, the nationally significant companies represent more than 80 percent of premiums and nearly 80 percent of total assets and total invested assets.

Table 1
Number of Property/Casualty Companies
By State of Domicile and Nationally Significant Status
1995 NAIC Filings

State of Domicile	Companies		State of Domicile	Companies	
	Total	Nationally Significant		Total	Nationally Significant
Alabama	34	4	Montana	5	0
Alaska	6	2	Nebraska	45	15
American Samoa	0	0	Nevada	6	0
Arizona	44	10	New Hampshire	33	14
Arkansas	13	0	New Jersey	69	10
California	162	45	New Mexico	9	0
Colorado	25	3	New York	220	72
Connecticut	72	40	North Carolina	48	12
Delaware	77	36	North Dakota	19	0
Dist. of Columbia	7	0	Ohio	116	47
Florida	96	9	Oklahoma	51	6
Georgia	43	4	Oregon	14	0
Guam	4	0	Pennsylvania	209	43
Hawaii	18	0	Puerto Rico	22	0
Idaho	13	0	Rhode Island	22	11
Illinois	170	69	South Carolina	18	4
Indiana	78	32	South Dakota	13	2
Iowa	54	23	Tennessee	34	3
Kansas	27	7	Texas	215	20
Kentucky	13	1	U.S. Virgin Isl.	3	0
Louisiana	30	2	Utah	13	0
Maine	14	0	Vermont	46	4
Maryland	53	10	Virginia	19	1
Massachusetts	58	15	Washington	28	7
Michigan	62	15	West Virginia	7	0
Minnesota	61	13	Wisconsin	91	27
Mississippi	15	0	Wyoming	1	0
Missouri	71	29			
			Countrywide	2,696	667

Table 2
1995 Direct Business and Net Premiums Written - Property/Casualty Insurers
By Nationally Significant Status

State of Domicile	All Companies		Nationally Significant Companies	
	Direct Business Written	Net Premiums Written	Direct Business Written	Net Premiums Written
Alabama	889,854,491	1,295,723,713	185,334,548	557,963,195
Alaska	917,692,023	188,641,958	869,031,297	166,818,255
American Samoa	0	0	0	0
Arizona	2,096,525,093	1,270,095,791	1,035,366,351	667,603,994
Arkansas	119,249,788	132,602,385	0	0
California	22,142,145,320	21,469,958,194	13,280,826,472	13,277,728,595
Colorado	1,251,718,601	1,188,089,763	673,923,903	699,187,081
Connecticut	12,327,762,205	15,681,195,709	12,046,777,556	15,306,151,410
Delaware	4,832,530,538	8,783,349,535	4,409,538,555	8,211,989,663
Dist. of Columbia	36,056,962	26,698,149	0	0
Florida	5,743,213,319	4,363,836,575	3,064,763,431	2,254,881,943
Georgia	1,407,740,900	968,537,621	440,716,159	234,280,851
Guam	41,436,109	17,456,671	0	0
Hawaii	504,232,642	250,987,070	0	0
Idaho	290,193,590	217,044,400	0	0
Illinois	69,788,759,518	67,694,397,435	65,816,678,530	63,934,782,726
Indiana	13,207,066,386	10,232,003,121	11,917,592,103	9,068,413,338
Iowa	3,881,129,303	3,131,216,453	3,206,966,736	2,355,877,836
Kansas	1,393,672,477	477,441,983	418,887,498	197,392,590
Kentucky	544,529,883	522,423,321	41,169,811	51,040,731
Louisiana	941,525,969	581,399,232	82,918,418	65,638,608
Maine	395,044,835	286,986,664	0	0
Maryland	5,476,291,843	7,119,586,864	5,075,453,407	6,754,058,208
Massachusetts	10,802,986,870	9,981,443,617	7,726,596,412	7,557,323,101
Michigan	7,340,143,936	6,173,134,046	4,475,652,635	3,680,970,198
Minnesota	5,029,422,107	5,259,986,854	4,158,974,462	4,559,099,938
Mississippi	842,464,287	925,645,359	0	0
Missouri	4,471,825,099	5,459,631,644	4,003,019,440	4,996,929,729
Montana	30,776,839	16,379,419	0	0
Nebraska	2,436,447,017	2,709,299,331	2,091,288,315	2,431,564,550
Nevada	28,799,816	23,769,823	0	0
New Hampshire	4,493,467,979	3,529,641,441	4,179,984,675	3,126,408,703
New Jersey	5,477,944,320	4,558,642,799	1,463,414,461	1,498,789,598
New Mexico	128,216,084	77,253,047	0	0
New York	19,182,238,848	21,478,204,468	14,278,495,400	16,957,517,871
North Carolina	2,671,616,985	2,323,711,149	1,847,832,513	1,592,426,503
North Dakota	229,121,250	150,065,786	0	0
Ohio	16,012,038,607	17,221,200,728	12,688,408,089	14,028,960,645
Oklahoma	873,903,217	737,472,848	319,952,853	289,178,001
Oregon	1,058,881,834	1,460,562,602	0	0
Pennsylvania	17,763,038,494	13,194,462,009	14,496,123,696	10,076,985,442
Puerto Rico	933,763,459	635,441,943	0	0
Rhode Island	3,255,496,097	2,970,216,529	3,042,929,228	2,757,635,685
South Carolina	1,460,728,627	989,838,185	537,424,631	436,145,245
South Dakota	211,559,331	187,261,206	129,098,709	135,718,749
Tennessee	1,037,277,008	874,840,141	250,596,756	219,024,628
Texas	11,209,063,224	6,436,563,245	4,580,568,121	4,546,153,150
U.S. Virgin Isl.	10,571,355	7,727,160	0	0
Utah	259,927,076	227,035,405	0	0
Vermont	1,066,825,075	628,209,351	645,939,645	352,173,211
Virginia	307,676,893	261,377,120	39,228,455	32,175,533
Washington	3,611,553,107	3,437,707,742	2,472,335,261	2,592,761,885
West Virginia	52,897,537	31,180,577	0	0
Wisconsin	10,447,711,454	9,331,644,809	6,393,436,737	5,579,872,943
Wyoming	43,774,192	45,242,388	0	0
Countrywide	281,010,529,819	267,244,465,378	212,387,245,269	211,251,624,332

Table 3
Aggregate Assets of Property/Casualty Insurers
Percentage Held by Nationally Significant Companies
1995 NAIC Filings

Description	All Companies	Nationally Significant Companies	Percent Held by Nationally Significant Companies
Bonds	489,047,190,848	373,524,231,745	76%
Preferred stocks	11,888,097,717	9,346,062,729	79%
Common stocks	174,181,191,356	138,730,043,782	80%
Mortgage loans on R/E	2,857,714,436	2,480,198,570	87%
R/E: Occupied by Company	7,590,686,336	5,821,918,828	77%
R/E: Other	1,692,748,359	1,515,364,774	90%
Collateral loans	792,960,797	44,556,764	6%
Cash	5,487,101,886	2,901,411,141	53%
Short-term investments	38,808,595,474	28,977,087,947	75%
Other invested assets	10,631,582,679	9,549,561,260	90%
Agg write-ins for invested assets	603,779,893	146,535,696	24%
Subtotal: Cash & invested assets	743,581,649,746	573,036,973,221	77%
Premiums and agent balances in course of collection	16,986,097,595	13,799,729,664	81%
Premiums, agent balances and installments booked, not deferred and not yet due	33,075,884,305	28,396,323,882	86%
Accrued retrospective premiums	6,315,885,071	5,983,074,987	95%
Funds held by or deposited with reinsured companies	3,908,158,852	2,699,751,574	69%
Bills receivable, taken for premiums	960,177,407	842,311,177	88%
Reinsurance recoverables on loss and LAE payments	10,719,883,560	8,659,514,027	81%
Federal income tax recoverable	1,423,295,326	1,079,571,965	76%
Electronoic data processing equipment	2,228,505,327	1,870,451,282	84%
Interest, dividends and R/E income due and accrued	9,066,136,997	7,019,540,184	77%
Receivables from parent, subsidiaries and affiliates	7,952,998,723	6,892,889,853	87%
Equities and deposits in pools and associations	2,577,503,814	2,364,721,656	92%
Amounts receivable relating to uninsured accident and health plans	68,009,136	7,208,217	11%
Agg write-ins for other than invested assets	40,730,353,730	37,803,959,563	93%
Total	879,594,539,615	690,456,021,259	78%

Figure 1
Percentage of Total Companies That Are Classified As Nationally Significant

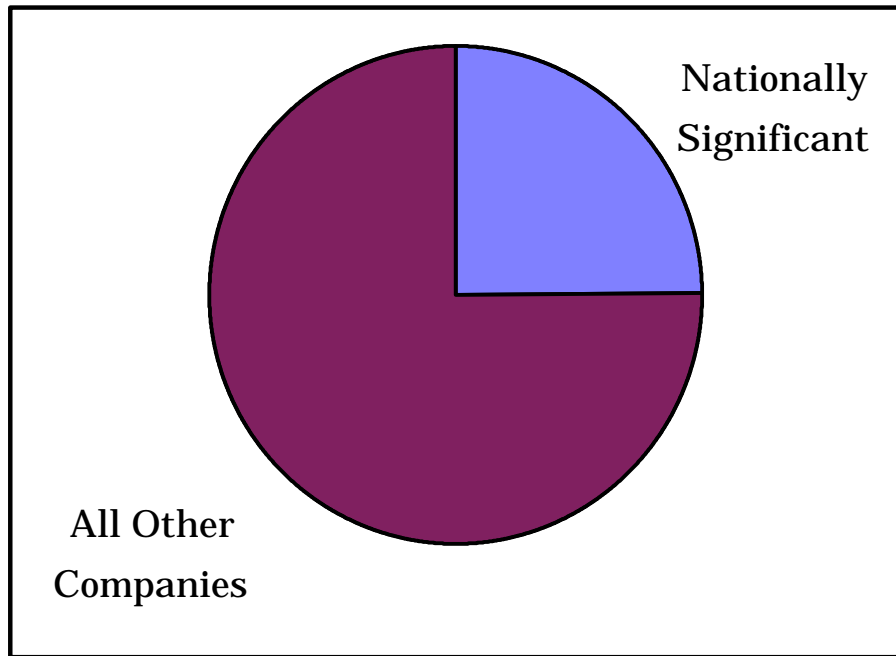
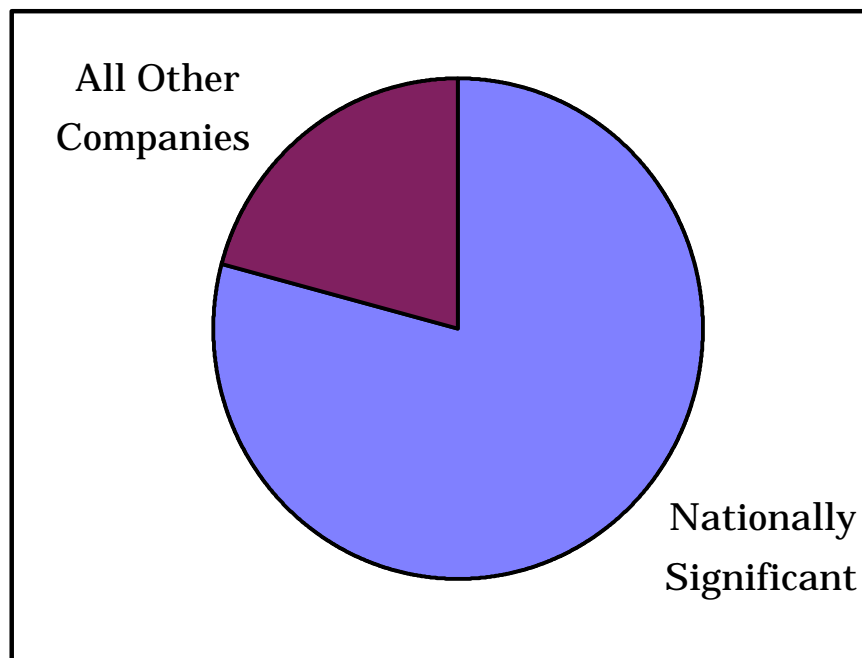


Figure 2
Percentage of Net Written Premiums for Nationally Significant Companies



Life Risk-Based Capital Results for 1996

Compiled by NAIC Staff

Table 1 shows the historic RBC results for life/health carriers through the four-year history of the life risk-based capital formula. The vast majority of companies continue to exceed the RBC requirements by a wide margin, and less than 2.5 percent of companies trigger any of the four RBC threshold levels.

The RBC system provides a spectrum of increasingly stringent regulatory responses for companies that trigger one of the RBC action levels. At the Company Action Level, which 21 companies triggered in 1996, the insurer must submit to the insurance commissioner a comprehensive financial plan that identifies the conditions contributing to the company's financial condition, contains proposals to correct the company's financial problems and provides projections of the company's financial condition, both with and without the proposed corrections. At the Regulatory Action Level, triggered by four life/health insurers in 1996, in addition to requiring the insurer to submit a comprehensive

financial plan, the insurance commissioner performs any examinations or analysis of the insurer's business and operations that are deemed necessary and issues any appropriate corrective orders to address the company's financial problems. At the Authorized Control Level, in addition to those actions available to the insurance commissioner for less serious financial problems, the commissioner may place the insurer under regulatory control. Three companies triggered this level of action in 1996. At the Mandatory Control Level Risk-Based Capital, the insurance commissioner is required to place the insurer under regulatory control. Six life/health insurers triggered this level in 1996.

Results for individual companies are reported in the Five Year History Exhibit of the annual statement, but individual company results should be viewed with caution. As in the past, this year's RBC filings contain a number of errors that may have a material effect on a company's calculated RBC. It is common for companies to report the Authorized Control Level RBC instead of the Company Action Level RBC for affiliated companies, which results in a material misstatement of RBC to the parent. Additionally, there are other discrepancies and anomalies between the numbers reported in the annual statement and the numbers reported in the RBC filings.

In 1996, life/health insurers began using a new covariance calculation in the Life RBC formula. Life/health insurer subsidiaries, property/casualty

Table 1
Distribution of Life Companies By RBC Action Level, 1993-1996

Action Level	Number of Companies				Percentage of Total			
	1993	1994	1995	1996	1993	1994	1995	1996
No Action	1,532	1,515	1,494	1,429	98.3%	98.2%	98.7%	97.7%
Company Action Level	9	16	12	21	0.6%	1.0%	0.8%	1.4%
Regulatory Action Level	8	2	5	4	0.5%	0.1%	0.3%	0.3%
Authorized Control Level	1	3	3	3	0.1%	0.2%	0.2%	0.2%
Mandatory Control Level	9	7	3	6	0.6%	0.5%	0.2%	0.4%
Total	1,559	1,543	1,513	1,463	100.0%	100.0%	100.0%	100.0%

insurers and alien insurers are now grouped together into a C0 component in the RBC formula. The C0 component, along with the C4 component, is not subject to the covariance adjustment but rather is added directly to the square root of the sum of (C1+C3) squared and C2 squared. In prior years, those companies were included in the C1 (Asset Risk) component.

The industry aggregates developed in Tables 2 through 5 have been computed both ways. Table 2 presents the actual 1996 results, using the C0 covariance approach and restates data from 1993-1995 using the 1996 formula. Table 3 provides statistics on the percentage of RBC in each of the categories. Table 4 presents the actual results for data years 1993-1995 and restates 1996 using the old covariance formula, with the C0 elements being included in C1. Table 5 shows the makeup of total adjusted capital by category.

As with prior years, the bulk of the total industry aggregate RBC falls into the C0/C1 category. However, those results are strongly influenced by the largest life insurers. For the majority of insurers, C2 (underwriting risk) plays the dominant role

in the makeup of total RBC.

Figure 1 illustrates the percentage breakdowns of aggregate RBC into the C0-C4 components according to asset size. For example, for insurers with less than \$10 million in total admitted assets, the C2 component makes up about 75 percent of total RBC. For insurers in the \$100-\$250 million range, C2 makes up about 50 percent of total RBC. For the largest insurers, (more than \$10 billion in assets) asset risk (C1) is the dominant risk, making up about 60 percent of total RBC.

These differences in the makeup of RBC by asset size once again reinforce the difficulty of making meaningful comparisons between an individual insurer's RBC results and those of the industry. The NAIC's RBC system is simply unsuitable for making quality comparisons. Its purpose is to identify undercapitalized companies, which are relatively few in number (refer to Table 1 for an idea of how few). Analysts who wish to evaluate the quality of an insurer's capital position should look to the materials published by the recognized industry rating agencies if they wish to make comparisons.

Figure 1
Percentage of Total RBC By Covariance Component

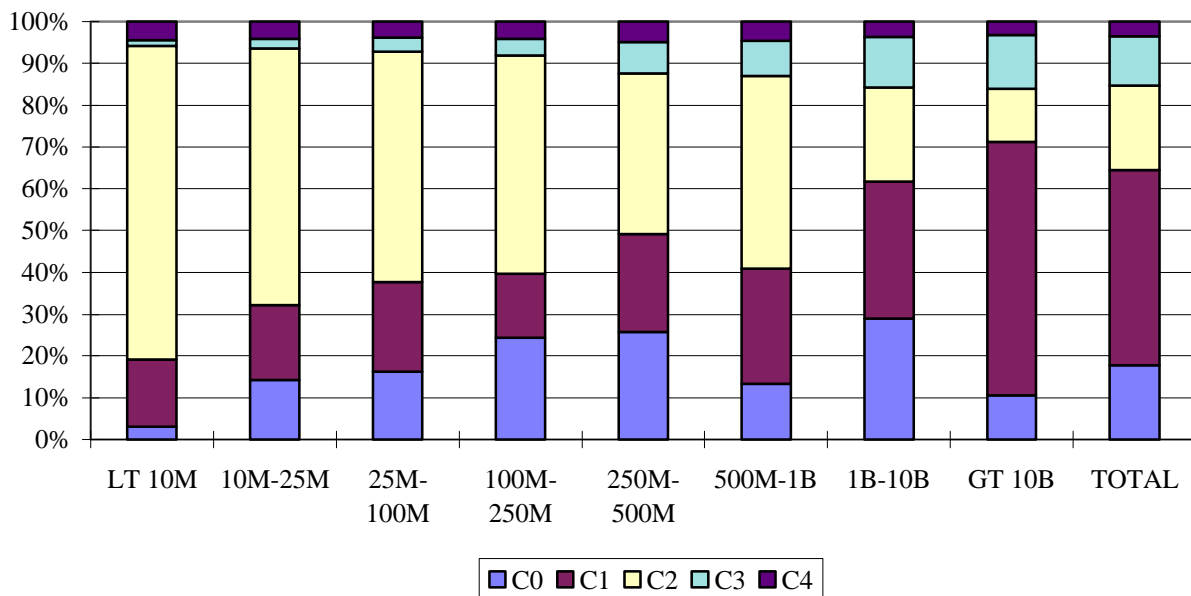


Table 2
Aggregate Results, 1993-1996, Using 1996 Covariance Formula

Covariance Elements	1993 RBC for 1,559 Life Companies	1994 RBC for 1,543 Life Companies	1995 RBC for 1,475 Life Companies	1996 RBC for 1,463 Life Companies
Affil US P&C Ins Directly Owned	784,518,602	429,843,761	548,463,290	423,852,092
Affil US Life Insurers Directly Owned	9,817,658,480	10,552,094,994	11,100,355,143	12,067,428,698
Affil US P&C Ins Indirectly Owned	1,245,146,847	1,156,856,059	1,081,328,034	1,161,782,010
Affil US Life Insurers Indirectly Owned	1,044,024,980	690,135,986	1,197,261,797	780,805,736
Affil Alien Life Insurers - Canadian	222,922,102	227,307,458	254,107,710	305,842,587
Affil Alien Life Insurers - All Others	1,247,955,400	1,088,522,911	809,733,060	892,619,061
Off-Balance Sheet Items	371,563,173	349,384,134	457,825,745	314,301,020
Total C-0 Risk	14,733,789,584	14,494,145,303	15,449,074,779	15,946,631,204
Bonds After Size Factor	10,228,144,962	10,340,515,606	10,269,478,169	10,578,273,507
Mortgages	7,172,306,724	6,979,951,189	6,711,532,408	6,424,898,095
Unaffiliated Pref'd Stock and Common Stock	6,125,818,261	6,028,981,989	7,296,919,274	8,006,948,060
Affil Common/Pref'd Stock - Invest Subs	739,970,207	710,787,350	924,911,457	583,269,017
Affil Common/Pref'd Stock - Holding Company	625,404,020	880,583,956	490,081,360	1,187,329,931
Affil Common/Pref'd Stock - Parent	340,339,056	421,558,162	631,490,335	323,729,798
Affil Com/Pref Stock-P/C Ins Subs not subject to RBC	not avail	not avail	75,000	377,634
Affil Com/Pref Stock-Life Ins Subs not subject to RBC	not avail	not avail	92,509	2,985,055
Affil Common/Pref'd Stock - Other Affiliates	2,125,436,403	2,013,349,545	3,083,538,222	2,618,294,043
Separate Accounts w/Guarantees	644,384,726	431,511,615	513,676,326	417,679,829
Surplus in Non-Guaranteed Separate Accounts	261,278,755	285,448,881	372,801,554	557,280,717
Real Estate (gross of encumbrances)	5,009,004,330	4,966,504,421	4,715,380,827	4,256,724,302
Schedule BA Assets	4,463,097,747	4,851,795,090	4,658,802,098	4,478,994,970
Asset Concentration Factor	2,020,494,934	1,890,699,456	1,794,815,639	1,805,801,422
Miscellaneous Assets	139,965,662	157,682,642	199,330,267	142,049,411
Reinsurance	286,410,866	217,075,948	277,220,424	316,781,874
Total C-1 Risk	40,182,056,653	40,176,445,850	41,940,145,869	41,701,417,665
Individual & Industrial Life Insurance	4,272,499,447	4,712,011,054	4,945,790,243	5,170,291,353
Group & Credit Life Insurance	2,715,729,377	2,931,600,246	3,008,801,050	3,139,414,612
Individual Health Insurance	3,401,331,196	3,691,504,629	3,903,230,925	4,032,247,406
Group & Credit Health Insurance	7,214,124,288	7,523,929,204	8,042,749,772	8,078,724,996
Premium Stabilization Credit	-2,940,943,766	-3,027,570,347	-2,472,573,254	-2,320,845,603
Total C-2 Risk	14,662,740,674	15,831,474,775	17,427,998,736	18,099,832,764
Interest Rate Risk - Low	3,319,254,288	3,652,240,658	3,678,947,384	3,711,486,183
Interest Rate Risk - Medium	2,154,248,214	2,170,264,110	2,332,403,734	2,300,114,814
Interest Rate Risk - High	3,632,416,313	4,156,865,345	4,379,306,435	4,533,831,610
Total C-3 Risk	9,105,919,713	9,979,370,063	10,390,657,553	10,545,432,787
Total C-4 Risk	2,795,692,433	3,003,654,854	3,184,928,566	3,209,542,043
Total RBC	81,480,199,057	83,485,090,845	88,392,805,503	89,502,856,463
RBC After Covariance	72,895,489,313	75,358,333,568	78,549,923,328	79,618,539,828

Table 3
Percent of Total RBC By Category, 1996 Covariance Formula

Covariance Elements	1993 RBC for 1,559 Life Companies	1994 RBC for 1,543 Life Companies	1995 RBC for 1,475 Life Companies	1996 RBC for 1,463 Life Companies
Affil US P&C Ins Directly Owned	0.96%	0.51%	0.62%	0.47%
Affil US Life Insurers Directly Owned	12.05%	12.64%	12.56%	13.48%
Affil US P&C Ins Indirectly Owned	1.53%	1.39%	1.22%	1.30%
Affil US Life Insurers Indirectly Owned	1.28%	0.83%	1.35%	0.87%
Affil Alien Life Insurers - Canadian	0.27%	0.27%	0.29%	0.34%
Affil Alien Life Insurers - All Others	1.53%	1.30%	0.92%	1.00%
Off-Balance Sheet Items	0.46%	0.42%	0.52%	0.35%
Total C-0 Risk	18.08%	17.36%	17.48%	17.82%
Bonds After Size Factor	12.55%	12.39%	11.62%	11.82%
Mortgages	8.80%	8.36%	7.59%	7.18%
Unaffil Pref'd Stock & Common Stock	7.52%	7.22%	8.26%	8.95%
Affil Common/Pref'd Stock - Invest Subs	0.91%	0.85%	1.05%	0.65%
Affil Common/Pref'd Stock - Holding Co.	0.77%	1.05%	0.55%	1.33%
Affil Common/Pref'd Stock - Parent	0.42%	0.50%	0.71%	0.36%
Affil Common/Pref'd Stock - P/C Ins Subs not subject to RBC			0.00%	0.00%
Affil Common/Pref'd Stock - Life Ins Subs not subject to RBC			0.00%	0.00%
Affil Common/Pref'd Stock - Oth Affiliates	2.61%	2.41%	3.49%	2.93%
Separate Accounts w/Guarantees	0.79%	0.52%	0.58%	0.47%
Surplus in Non-Guaranteed Separate Accts	0.32%	0.34%	0.42%	0.62%
Real Estate (gross of encumbrances)	6.15%	5.95%	5.33%	4.76%
Schedule BA Assets	5.48%	5.81%	5.27%	5.00%
Asset Concentration Factor	2.48%	2.26%	2.03%	2.02%
Miscellaneous Assets	0.17%	0.19%	0.23%	0.16%
Reinsurance	0.35%	0.26%	0.31%	0.35%
Total C-1 Risk	49.32%	48.12%	47.45%	46.59%
Individual & Industrial Life Insurance	5.24%	5.64%	5.60%	5.78%
Group & Credit Life Insurance	3.33%	3.51%	3.40%	3.51%
Individual Health Insurance	4.17%	4.42%	4.42%	4.51%
Group & Credit Health Insurance	8.85%	9.01%	9.10%	9.03%
Premium Stabilization Credit	-3.61%	-3.63%	-2.80%	-2.59%
Total C-2 Risk	18.00%	18.96%	19.72%	20.22%
Interest Rate Risk - Low	4.07%	4.37%	4.16%	4.15%
Interest Rate Risk - Medium	2.64%	2.60%	2.64%	2.57%
Interest Rate Risk - High	4.46%	4.98%	4.95%	5.07%
Total C-3 Risk	11.18%	11.95%	11.76%	11.78%
Total C-4 Risk	3.43%	3.60%	3.60%	3.59%
Total RBC	100.00%	100.00%	100.00%	100.00%
RBC After Covariance	89.46%	90.27%	88.86%	88.96%

Table 4
Aggregate Industry RBC Results 1993-1996, Using Pre-1996 Covariance Formula

Covariance Elements	1993 RBC for 1,559 Life Companies	1994 RBC for 1,543 Life Companies	1995 RBC for 1,475 Life Companies	1996 RBC for 1,463 Life Companies
Bonds After Size Factor	10,228,144,962	10,340,515,606	10,269,478,169	10,578,273,507
Mortgages	7,172,306,724	6,979,951,189	6,711,532,408	6,424,898,095
Preferred/Common Stock	24,320,793,061	25,190,683,486	27,414,441,801	28,355,263,722
Separate Accts w/Guarantees	644,384,726	431,511,615	513,676,326	417,679,829
Surplus in Non-Guaranteed Separate Accts.	261,278,755	285,448,881	372,801,554	557,280,717
Real Estate	5,009,004,330	4,966,504,421	4,715,380,827	4,256,724,302
Schedule BA Assets	4,463,097,747	4,851,795,090	4,658,802,098	4,478,994,970
Asset Concentration Factor	2,020,494,934	1,890,699,456	1,794,815,639	1,805,801,422
Miscellaneous Assets	139,965,662	157,682,642	199,330,267	142,049,411
Reinsurance	286,410,866	217,075,948	277,220,424	316,781,874
Off-Balance Sheet Items	371,563,173	349,384,134	457,825,745	314,301,020
Total C-1 Risk	54,915,846,237	55,661,252,465	57,385,305,258	57,648,048,869
Individual & Industrial Life Insurance	4,272,499,447	4,712,011,054	4,945,790,243	5,170,291,353
Group & Credit Life Insurance	2,715,729,377	2,931,600,246	3,008,801,050	3,139,414,612
Individual Health Insurance	3,401,331,196	3,691,504,629	3,903,230,925	4,032,247,406
Group & Credit Health Insurance	7,214,124,288	7,523,929,204	8,042,749,772	8,078,724,996
Premium Stabilization Credit	-2,940,943,766	-3,027,570,347	-2,472,573,254	-2,320,845,603
Total C-2 Risk	14,662,740,674	15,831,474,775	17,427,998,736	18,099,832,764
Interest Rate Risk - Low	3,319,254,288	3,652,240,658	3,678,947,384	3,711,486,183
Interest Rate Risk - Medium	2,154,248,214	2,170,264,110	2,332,403,734	2,300,114,814
Interest Rate Risk - High	3,632,416,313	4,156,865,345	4,379,306,435	4,533,831,610
Total C-3 Risk	9,105,919,713	9,979,370,063	10,390,657,553	10,545,432,787
Total C-4 Risk	2,795,692,433	3,003,654,854	3,184,928,566	3,209,542,043
Total RBC	81,480,199,057	84,475,752,157	88,388,890,113	89,502,856,463
RBC After Covariance	72,177,603,242	74,625,046,668	77,808,189,984	78,755,213,169

Table 5
Industry Aggregate Total Adjusted Capital, 1993-1996

Total Adjusted Capital Elements	1993 TAC for 1,559 Life Companies	1994 TAC for 1,543 Life Companies	1995 TAC for 1,475 Life Companies	1996 TAC for 1,463 Life Companies
Capital and Surplus	131,296,375,540	142,103,987,578	156,785,108,616	172,714,193,094
AVR	25,329,509,323	25,195,066,060	30,168,998,450	32,177,275,708
Voluntary Investment Reserves	1,950,986,061	1,331,452,005	1,000,509,258	531,530,999
Dividend Liability	6,330,731,148	6,517,794,478	6,781,975,771	7,101,349,308
Life Subsidiaries' AVR	3,024,626,382	3,444,091,339	4,344,198,497	4,939,658,051
Life Subsidiaries' Volun Invest Reserves	168,473,081	187,275,605	93,033,834	18,114,910
Life Subsidiaries' Dividend Liability	65,250,167	87,091,340	144,374,508	251,142,118
P-C Subsidiaries' Non-Tabular Discount	Not Used	1,355,153	29,200	3,311,795
Total Adjusted Capital (TAC)	168,165,951,702	178,868,113,558	199,318,228,134	217,729,952,393

P&C Risk-Based Capital Results for 1996

by Mike Barth (NAIC/SSO)

So far in 1996, more than 2,400 property/casualty insurers have filed RBC reports with the NAIC. The vast majority of companies fall into the "No Action" category, which means that the company's Total Adjusted Capital (TAC) is 200 percent or more of its Authorized Control Level RBC as computed under the RBC formula. Table 1 lists the number of companies that fell into each of the RBC action levels in 1994, 1995 and 1996.

The four RBC action levels trigger an increasingly stringent level of regulatory response for those companies that pierce that action level. At the Company Action Level (TAC is between 150 percent and 200 percent of the Authorized Control Level RBC), the insurer must submit to the insurance commissioner a comprehensive financial plan that identifies the conditions contributing to the company's financial condition, contains proposals to correct the company's financial problems and provides projections of the company's financial condition, both with and without the proposed corrections. At the Regulatory Action

Level (TAC is between 100 percent and 150 percent of the Authorized Control Level RBC), in addition to requiring the insurer to submit a comprehensive financial plan, the insurance commissioner performs any examinations or analysis of the insurer's business and operations that are deemed necessary and issues any appropriate corrective orders to address the company's financial problems. At the Authorized Control Level (TAC is between 70 percent and 100 percent of the Authorized Control Level RBC), in addition to those actions available to the insurance commissioner for less serious financial problems, the commissioner may place the insurer under regulatory control. At the Mandatory Control Level Risk-Based Capital (TAC less than 70 percent of the Authorized Control Level RBC), the insurance commissioner is required to place the insurer under regulatory control.

A Comparison of RBC Action Levels From 1995 to 1996

RBC results are not strictly comparable between statement years 1994, 1995 and 1996 because of formula phase-ins that affect the computation of both TAC and ACL RBC. TAC is overstated for those companies that are allowed by state regulators to discount loss reserves. Although relatively few companies use reserve discounting, it does create an uneven playing field with respect to the RBC formula when companies do employ reserve discounting. When the P&C RBC formula was adopted in 1993, the NAIC agreed to allow a phase-in period of five years, over which companies would have to gradually exclude the amount of the reserve discount from surplus. In 1994, 20 percent of the discount amount was excluded from TAC; in 1995, 40 percent was excluded; in 1996, 60 percent is excluded; in 1997, 80 percent is excluded; and for 1998 and beyond, the full amount of the reserve discount is excluded from TAC.

Table 1
Property/Casualty Industry RBC Results, 1994-1996

Action Level	1994	1995	1996	1994	1995	1996
No Action	2,348	2,346	2,321	97.3%	96.9%	96.3%
Company Action Level	20	33	40	0.8%	1.4%	1.7%
Regulatory Action Level	13	15	16	0.5%	0.6%	0.7%
Authorized Control Level	5	6	8	0.2%	0.2%	0.3%
Mandatory Control Level	27	22	25	1.1%	0.9%	1.0%
Total	2,413	2,422	2,410	100.0%	100.0%	100.0%

Table 2
1996 Disposition of 1995 RBC Filers By Action Level

	1996 Action						TOTAL, 1996
	NO ACTION	CAL	RAL	ACL	MCL	NO FILING	
1995 Action							
NO ACTION	2,218	28	7	4	5	84	2,346
CAL	11	8	3	1	3	7	33
RAL	7	4	1	0	1	2	15
ACL	3	0	1	1	0	1	6
MCL	2	0	2	1	13	4	22
TOTAL, 1995	2,241	40	14	7	22	98	2,422

A short phase-in period was also adopted for the computation of ACL RBC. In 1994, ACL RBC was defined as 40 percent of the "RBC After Covariance." In 1995, that amount increased to 45 percent, and in 1996 and beyond, the ACL RBC is defined as 50 percent of the RBC After Covariance. While the phase-in for removing reserve discounts from TAC affects relatively few companies, the phase-in of the factor for computing ACL RBC affects all companies. This means that even if a company has absolutely no change in its balance sheet or income statement from 1994 to 1995 or from 1995 to 1996, its RBC position relative to TAC will decline. Therefore, caution should be exercised when evaluating trends in final RBC results from 1993 to 1996.

Table 2 shows the RBC action level for those companies that filed in 1995 and the subsequent RBC action level for those same companies in 1996. Of the 2,422 companies that filed in 1995, 2,218 reported "No Action" in both 1995 and 1996. However, 28 of the "No Action" companies slipped to the Company Action Level (CAL) in 1996, seven dropped to the Regulatory Action Level (RAL), four dropped to the Authorized Control Level (ACL) and five dropped to the Mandatory Control Level (MCL). Of the 33 companies that triggered the CAL in 1995, 11 have returned to the "No Action" level, eight are still at the CAL, three have dropped to the RAL, one has dropped to the ACL and three have triggered the MCL. Seven of the 33 have not appeared on the NAIC database for 1996.

A number of companies that filed in 1995 but have not yet appeared on the 1996 NAIC RBC database. There are a number of reasons that an organization would file in 1995 but not in 1996. The company may have been granted an exemption from its state of domicile, or it may have merged with another company and is no longer reporting, or it may simply be late. There may be some technical error with its filing that precludes loading it on the database, or it may have become insolvent and not be required to file. Eighty-four of the 2,218 "No Action" companies are missing in 1996, as are 14 of the 76 companies that triggered one of the action levels in 1995.

There are also a number of companies that filed in 1996 but did not file in 1995. The majority of those organizations (80 of 86) were in the "No Action" category, but two were at the RAL, one was at the ACL, and the other three were at the MCL.

Historical RBC Results for Companies Triggering Regulatory Attention in 1996

Tables 3 through 6 give the historical RBC ratios and action levels for those companies triggering one of the four RBC action levels in 1996. The results in the table are based on the historical filings made with the NAIC, which are confidential. Therefore, the companies' identities are not divulged. Public data on RBC results are available in the Five Year History Exhibit of the annual statement, but the numbers reported in the annual statement do not always match the numbers in the

official RBC filings. Again, caution should be exercised when viewing the trend in RBC results from one year to the next because of the phase-in of the TAC and ACL RBC factors discussed earlier.

Table 3 shows the three yearly RBC ratios (Total Adjusted Capital divided by Authorized Control Level RBC) for the 40 companies that triggered the Company Action Level in 1996. The majority of these companies are relatively small:

Table 3
Historical RBC Results for Companies Triggering Company Action Level in 1996

Company	1994	1995	1996	1994	1995	1996
CAL #1	673.0%	404.8%	151.6%	NONE	NONE	CAL
CAL #2	2457.8%	227.8%	151.9%	NONE	NONE	CAL
CAL #3	38365.7%	310.0%	152.6%	NONE	NONE	CAL
CAL #4	279.7%	235.0%	154.1%	NONE	NONE	CAL
CAL #5	601.4%	315.8%	155.1%	NONE	NONE	CAL
CAL #6	379.5%	413.9%	159.2%	NONE	NONE	CAL
CAL #7	200.0%	266.7%	159.9%	NONE	NONE	CAL
CAL #8	525.4%	296.5%	160.7%	NONE	NONE	CAL
CAL #9	129.0%	138.8%	161.5%	RAL	RAL	CAL
CAL #10		2524.0%	163.9%	N/A	NONE	CAL
CAL #11		525.9%	166.1%	N/A	NONE	CAL
CAL #12	479.9%	468.9%	166.5%	NONE	NONE	CAL
CAL #13	791.4%	602.7%	168.4%	NONE	NONE	CAL
CAL #14	268.2%	147.5%	169.7%	NONE	RAL	CAL
CAL #15	421.0%	282.7%	170.4%	NONE	NONE	CAL
CAL #16	203.8%	200.3%	170.5%	NONE	NONE	CAL
CAL #17	435.8%	172.6%	171.0%	NONE	CAL	CAL
CAL #18	306.2%	232.7%	171.6%	NONE	NONE	CAL
CAL #19	367.7%	241.6%	172.0%	NONE	NONE	CAL
CAL #20	352.2%	169.7%	173.1%	NONE	CAL	CAL
CAL #21		303.5%	173.5%	N/A	NONE	CAL
CAL #22	96.2%	187.7%	174.0%	ACL	CAL	CAL
CAL #23	635.5%	502.2%	175.5%	NONE	NONE	CAL
CAL #24	202.0%	204.8%	175.9%	NONE	NONE	CAL
CAL #25		151.0%	176.8%	N/A	CAL	CAL
CAL #26	257.6%	241.2%	178.7%	NONE	NONE	CAL
CAL #27	267.4%	273.8%	179.4%	NONE	NONE	CAL
CAL #28	349.7%	191.9%	180.7%	NONE	CAL	CAL
CAL #29	262.4%	239.9%	181.0%	NONE	NONE	CAL
CAL #30	988.1%	329.0%	183.5%	NONE	NONE	CAL
CAL #31	304.5%	304.7%	184.8%	NONE	NONE	CAL
CAL #32	332.9%	172.3%	186.6%	NONE	CAL	CAL
CAL #33	282.0%	154.6%	187.0%	NONE	CAL	CAL
CAL #34	436.1%	237.0%	192.5%	NONE	NONE	CAL
CAL #35	289.4%	254.9%	195.8%	NONE	NONE	CAL
CAL #36	4003.5%	193.9%	197.9%	NONE	CAL	CAL
CAL #37	391.0%	208.7%	199.3%	NONE	NONE	CAL
CAL #38	649.9%	114.8%	199.6%	NONE	RAL	CAL
CAL #39	433.0%	449.2%	199.8%	NONE	NONE	CAL
CAL #40	164.5%	133.3%	199.9%	CAL	RAL	CAL

Table 4
Historical RBC Results for Companies Triggering Regulatory Action Level in 1996

Company	1994	1995	1996	1994	1995	1996
RAL #1	344%	308%	111%	NONE	NONE	RAL
RAL #2	457%	309%	115%	NONE	NONE	RAL
RAL #3		145%	115%	N/A	RAL	RAL
RAL #4		60%	116%	N/A	MCL	RAL
RAL #5	197%	150%	117%	CAL	CAL	RAL
RAL #6			118%	N/A	N/A	RAL
RAL #7	594%	89%	118%	NONE	ACL	RAL
RAL #8	117%	345%	120%	RAL	NONE	RAL
RAL #9	109%	66%	120%	RAL	MCL	RAL
RAL #10	338%	256%	122%	NONE	NONE	RAL
RAL #11	194208%	159%	122%	NONE	CAL	RAL
RAL #12	279%	215%	124%	NONE	NONE	RAL
RAL #13	672%	664%	133%	NONE	NONE	RAL
RAL #14	256%	163%	142%	NONE	CAL	RAL
RAL #15	539%	264%	147%	NONE	NONE	RAL
RAL #16			147%	N/A	N/A	RAL

Table 5
Historical RBC Results for Companies Triggering Authorized Control Level Level

Company	1994	1995	1996	1994	1995	1996
ACL #1	289%	354%	72%	NONE	NONE	ACL
ACL #2	171%	183%	73%	CAL	CAL	ACL
ACL #3	525%	475%	75%	NONE	NONE	ACL
ACL #4	43%	50%	77%	MCL	MCL	ACL
ACL #5	347%	80%	77%	NONE	ACL	ACL
ACL #6	496%		79%	NONE	N/A	ACL
ACL #7	333%	249%	83%	NONE	NONE	ACL
ACL #8	581%	205%	88%	NONE	NONE	ACL

half of them generated less than \$2.5 million in ACLRBC, and only six of the 40 had ACLRBC of \$10 million or more. These companies also tend to have relatively low levels of surplus, and for most of these companies, a decline in surplus contributed more to triggering the CAL than a growth in RBC.

Table 4 shows the historical ratios for the 16 companies that triggered the Regulatory Action Level in 1996. As with the CAL companies, the declines in surplus were greater than the increases in RBC in most cases. Also, the majority of the

companies triggering the RAL were relatively small.

Table 5 shows the historical ratios for the eight companies that triggered the Authorized Control Level in 1996. Half of these companies were already under an RBC action level in 1995, but the other went straight to the ACL.

Table 6 shows the historical ratios for the 25 companies at the Mandatory Control Level in 1996. Two-thirds of these organizations were either at the

Table 6
Historical RBC Results for Companies Triggering Mandatory Control Level in 1996

Company	1994	1995	1996	1994	1995	1996
MCL #1	-487%	-476%	-662%	MCL	MCL	MCL
MCL #2			-412%	N/A	N/A	MCL
MCL #3	795%	1156%	-221%	NONE	NONE	MCL
MCL #4	304%	711%	-200%	NONE	NONE	MCL
MCL #5	-10%	-62%	-147%	MCL	MCL	MCL
MCL #6	-57%	-177%	-117%	MCL	MCL	MCL
MCL #7		-2784%	-98%	N/A	MCL	MCL
MCL #8		-49%	-84%	N/A	MCL	MCL
MCL #9	214%		-70%	NONE	N/A	MCL
MCL #10	125%	-2%	-44%	RAL	MCL	MCL
MCL #11	675%	377%	-34%	NONE	NONE	MCL
MCL #12	327%	160%	-28%	NONE	CAL	MCL
MCL #13	6%	-1%	-27%	MCL	MCL	MCL
MCL #14	1377%	1687%	0%	NONE	NONE	MCL
MCL #15		149%	5%	N/A	RAL	MCL
MCL #16	42%	54%	9%	MCL	MCL	MCL
MCL #17	8%	29%	21%	MCL	MCL	MCL
MCL #18	15%	40%	25%	MCL	MCL	MCL
MCL #19	7%	54%	27%	MCL	MCL	MCL
MCL #20	579%	68%	32%	NONE	MCL	MCL
MCL #21			36%	N/A	N/A	MCL
MCL #22	1509%	281%	41%	NONE	NONE	MCL
MCL #23	190%	187%	41%	CAL	CAL	MCL
MCL #24	160%	163%	65%	CAL	CAL	MCL
MCL #25		66%	69%	N/A	MCL	MCL

MCL or did not file with the NAIC in 1995. Of the remaining nine organizations, five went from the "No Action" level directly to the MCL in 1996 and four were at some level of action in 1995. Eight of these 25 companies reported zero or negative policyholders surplus in 1996, which meant that they would have been insolvent regardless of the results of the RBC formula.

Industry Aggregate RBC and TAC

Total Adjusted Capital continues to grow at a faster pace than RBC. TAC increased by 19 percent in 1995 and by 8 percent in 1996, compared to growth in RBC After Covariance of 6 percent and 2 percent for each of those years. In fact, after controlling for the phase-in of the ACL RBC factor, RBC results are improving at all levels.

Table 7 shows the median RBC ratio for companies in different size levels for 1994, 1995 and 1996. The RBC ratios have been adjusted to remove the effects of the ACL RBC factor phase-in. The table also shows that the "normal" RBC ratio is very much a factor of size, with the larger companies (in terms of asset size) having relatively smaller RBC ratios. That does not mean that larger companies are more risky than smaller companies—if anything, the opposite is true. However, it does underscore the pitfall of making comparisons between two companies RBC results. The NAIC's RBC formula is inappropriate for use as a comparative tool, other than in identifying companies that have triggered regulatory attention under a state's risk-based capital law.

Table 8 presents the aggregate industry RBC and TAC by the major subcomponents of the P&C

RBC formula. Comparative amounts are included for 1994 and 1995 as well.

The effect of the runup in the stock market is evident in the increase in the R2 portion of RBC (equity assets), which has grown by nearly \$10 billion over the last two years. The R2 component has increased from 14 percent of aggregate RBC in 1994 to more than 18 percent in 1996.

However, the underwriting risk portions continue to dominate the industry aggregate RBC. Reserve risk RBC (R4) and written premium risk RBC (R5) still make up more than 60 percent of total RBC. Additionally, the lion's share of the R0 component is comprised of underwriting risk for downstream subsidiaries, so a conservative estimate of the total underwriting-related risk is about two-thirds of total RBC.

Table 7
Median RBC Ratios* By Asset Size
1994-1996

Asset Size	1996 Surplus to Assets Ratio	Median RBC Ratio		
		1994	1995	1996
Less than \$10 million	0.728	1881%	1792%	1693%
\$10 million to \$25 million	0.507	1108%	982%	938%
\$25 million to \$100 million	0.381	624%	671%	704%
\$100 million to \$250 million	0.335	604%	620%	612%
\$250 million to \$500 million	0.331	561%	601%	606%
\$500 million to \$1 billion	0.306	500%	533%	563%
\$1 billion to \$10 billion	0.291	439%	455%	469%
Over \$10 billion	0.323	350%	457%	481%
All Companies	0.427	702%	731%	736%

* RBC Ratio is Total Adjusted Capital/Authorized Control Level RBC. Ratios for 1994 and 1995 have been adjusted to restate ACL RBC as 50 percent of RBC After Covariance.

Table 8
P&C RBC By Components, 1994-1996

	Aggregate for	Aggregate for	Aggregate for	Percent of		
	2,413 Companies 1994	2,422 Companies 1995	2,410 Companies 1996	Total RBC		
	1994	1995	1996	1994	1995	1996
R0 - Asset Risk - Affiliates						
Direct P&C Insurers	15,431,819,961	17,543,743,588	15,942,393,968	10.2%	11.0%	9.6%
Indirect P&C Insurers	1,134,449,238	1,296,597,841	1,716,620,907	0.8%	0.8%	1.0%
Direct Life Insurers	6,186,040,081	5,580,796,595	2,676,511,201	4.1%	3.5%	1.6%
Indirect Life Insurers	815,882,719	1,284,952,996	1,752,163,110	0.5%	0.8%	1.1%
Affiliated Alien Insurers	1,211,715,232	1,597,845,311	1,594,301,520	0.8%	1.0%	1.0%
Non-controlled Assets	102,453,932	128,190,984	63,433,637	0.0%	0.0%	0.0%
Guarantees for Affiliates	54,684,474	50,239,140	23,124,071	0.0%	0.0%	0.0%
Contingent Liabilities	117,499,037	145,019,218	174,819,536	0.0%	0.0%	0.1%
Total R0	25,054,544,674	27,627,385,673	23,943,367,950	16.6%	17.3%	14.5%
R1 - Asset Risk - Fixed Income						
Government Agency Bonds	202,269,971	157,505,478	169,240,171	0.1%	0.0%	0.1%
Unaffiliated Bonds	1,269,144,316	1,418,327,789	1,556,976,623	0.8%	0.9%	0.9%
Bond Size Factor	575,135,479	698,328,492	708,980,469	0.4%	0.4%	0.4%
Bonds - Affiliated Investment Subs.	0	0	0	0.0%	0.0%	0.0%
Bonds - Holding Company	10,317,727	3,499,579	0	0.0%	0.0%	0.0%
Bonds - Parents	121,509,760	20,946,097	38,287,126	0.0%	0.0%	0.0%
Bonds - Other Affiliates	146,947,714	126,260,093	200,310,474	0.0%	0.0%	0.1%
Mortgage Loans	190,395,038	141,452,953	126,557,630	0.1%	0.0%	0.0%
Collateral Loans	20,465,224	38,859,691	4,075,007	0.0%	0.0%	0.0%
Cash	17,438,223	17,250,401	16,893,253	0.0%	0.0%	0.0%
Short-Term Investments	23,837,628	6,918,917	7,068,733	0.0%	0.0%	0.0%
Asset Concentration (Fixed)	224,651,888	231,042,452	237,950,585	0.1%	0.1%	0.1%
Total R1	2,802,112,968	2,860,391,942	3,066,340,071	1.9%	1.8%	1.9%
R2 - Asset Risk - Equity						
Common - Affiliated Investment Subs.	154,651,415	38,562,493	24,326,677	0.1%	0.0%	0.0%
Common - Holding Company	318,742,388	284,414,981	606,638,306	0.2%	0.2%	0.4%
Common - Parents	41,831,931	89,154,071	27,870,063	0.0%	0.0%	0.0%
Common - Other Affiliates	1,792,768,383	2,029,809,496	2,162,912,462	1.2%	1.3%	1.3%
Preferred - Affiliated Investment Subs.	0	0	0	0.0%	0.0%	0.0%
Preferred - Holding Company	467,753	4,981,329	655,402	0.0%	0.0%	0.0%
Preferred - Parents	60,657,833	61,414,062	61,067,471	0.0%	0.0%	0.0%
Preferred - Other Affiliates	94,125,232	166,465,761	139,660,870	0.0%	0.1%	0.0%
Unaffiliated Common	10,411,417,751	13,232,548,281	15,378,601,321	6.9%	8.3%	9.3%
Unaffiliated Preferred	336,279,904	332,060,401	388,694,384	0.2%	0.2%	0.2%
Real Estate	986,183,849	959,150,995	990,181,924	0.7%	0.6%	0.6%
Schedule BA Assets	1,912,983,074	2,066,321,377	2,609,212,628	1.3%	1.3%	1.6%
Aggregate Write-ins for Invested Assets	61,809,135	65,393,495	121,785,440	0.0%	0.0%	0.0%
Asset Concentration - Equity	4,902,238,885	6,387,522,537	7,807,815,942	3.2%	4.0%	4.7%
Total R2	21,074,157,533	25,717,799,279	30,319,422,890	14.0%	16.1%	18.4%
R3 - Asset Risk - Credit						
Total R3	6,236,510,999	6,398,195,072	6,496,094,366	4.1%	4.0%	3.9%

Table 8 (continued)
P&C RBC By Components, 1994-1996

	Aggregate for	Aggregate for	Aggregate for	Percent of		
	2,413 Companies 1994	2,422 Companies 1995	2,410 Companies 1996	Total RBC		
	1994	1995	1996	1994	1995	1996
R4 - Underwriting Risk - Reserves						
Half of Credit RBC	6,236,510,999	6,398,195,075	6,496,094,366	4.1%	4.0%	3.9%
LLAE Reserve RBC	54,248,575,032	53,660,748,704	55,502,318,023	35.9%	33.7%	33.6%
Excess Growth - Reserves	1,775,704,753	2,138,243,096	1,702,762,361	1.2%	1.3%	1.0%
A&H Claims Reserves	82,434,814	92,895,337	88,681,278	0.0%	0.0%	0.0%
Total R4	62,343,225,598	62,290,082,212	63,789,856,028	41.3%	39.1%	38.6%
R5 - Underwriting Risk - Written Premiums						
NWP RBC	32,261,985,565	32,973,374,221	36,315,231,962	21.4%	20.7%	22.0%
Excess Growth - Premiums	830,963,151	966,310,467	904,159,142	0.6%	0.6%	0.5%
A&H Earned Premium	407,094,395	470,391,478	393,915,642	0.3%	0.3%	0.2%
Total R5	33,500,043,111	34,410,076,166	37,613,306,746	22.2%	21.6%	22.8%
Total RBC	151,010,594,883	159,303,930,344	165,228,388,051	100.0%	100.0%	100.0%
RBC After Covariance	108,247,131,841	114,413,981,897	117,124,976,415	71.7%	71.8%	70.9%
	Aggregate for	Aggregate for	Aggregate for	Percent of		
	2,413 Companies 1994	2,422 Companies 1995	2,410 Companies 1996	Total RBC		
	1994	1995	1996	1994	1995	1996
Total Adjusted Capital						
Capital and Surplus	233,334,861,964	279,284,951,260	305,316,314,430	98.6%	99.2%	100.2%
Non-tabular discounts	-824,027,084	-1,828,868,000	-3,237,943,200	-0.3%	-0.6%	-1.1%
Subsidiaries' Non-tabular discounts	-8,389,431	-33,265,362	-132,917,400	-0.0%	-0.0%	-0.0%
AVR - Life Subs	3,002,365,844	3,158,758,792	2,361,093,385	1.3%	1.1%	0.8%
Voluntary Invest Res - Life Subs	861,755,184	590,776,902	35,603,334	0.4%	0.2%	0.0%
Dividend Liability - Life Subs	366,975,817	402,656,757	406,932,093	0.2%	0.1%	0.1%
Total Adjusted Capital	236,733,542,289	281,575,010,349	304,749,082,642	100.0%	100.0%	100.0%