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**NAIC**  
*Research Quarterly*

**Property & Casualty RBC Industry  
Results for 1999**

*by NAIC Staff*

**HMDI RBC Industry Results for 1999**

*by NAIC Staff*

**Life RBC Industry Results for 1999**

*by NAIC Staff*

**HMO RBC Industry Results for 1999**

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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 views of the NAIC members, individually or collectively.**

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### A Note From the Editor,

You may recall that the December 1999 issue of the *Research Quarterly* consisted of four articles on Risk-Based Capital Industry Results for the following lines of business: Life Insurance; Property/Casualty Insurance; Hospital, Medical and Dental Indemnity (HMDI) Insurers; and Health Maintenance Organizations (HMOs). The issue was so popular that we decided to repeat it this year with 1999 results.

In order to preserve this *RQ* winter issue tradition, we are postponing our feature on new statistical data issues for regulatory consideration and the update on the Statement of Intent Working Groups' activities until 2001. The upside of this decision is that these subjects are bound to interact in the next few years, perhaps to a greater extent than we fully recognize this early in the evolution of insurance regulation. As they move toward that intersection, it seems logical to examine the issues together.

Several NAIC groups are considering the impact of changes in the insurance marketplace on insurance regulators' need for insurance data. In 2001, NAIC committee charges will likely be drafted that will lead to discussions and initiate studies involving data issues. GLB provisions, rate and form filing changes for large commercial risks, speed-to-market initiatives, market conduct examination requirements and technology all have implications for reviewing the types and amounts of data required and methods of data reporting and collection.

The Statistical Handbook Working Group of the Statistical Information Task Force of the Property and Casualty (C) Committee is in the final stages of developing a Data Quality standards section of the *Statistical Handbook of Information for Insurance Regulators*. The Working Group is also updating several chapters of the handbook on personal auto insurance, homeowners insurance and special

data calls such as the type initiated after a catastrophic event occurs.

### Upcoming Features

The spring issue of *RQ* will be out in February 2001. It will be the first of what's to be an annual review of NAIC insurance statistical reports. We will highlight 1998-99 reports developed by the Research Dept. staff including: the *Insurance Department Resources Report*; *Property/Casualty, Life/Fraternal and Accident/Health Market Share Reports* by state; *Life and Property/Casualty Statistical Compilations of Annual Statement Information*; the *Home Insurance Average Premium Report*; and the new *Auto Insurance Database Report* that will be released later this month.

The database report features more than 30 tables of insurance data and statistics, by state, on the cost of personal automobile insurance and factors related to that cost such as traffic conditions, medical data, crime, auto repair costs, economic/demographic data and state laws. The insurance data include information on average premiums and expenditures, claim severity and loss ratios for private passenger auto liability (including no-fault), collision and comprehensive coverages.

### Talk to Us

As always we want to hear from our readers. Even more we want our readers to submit articles for publication. Let us know what you think about the articles we feature and what regulatory issues you are interested in knowing more about. Please e-mail your articles, suggestions for articles, comments, questions, surveys and survey results, highlights of department research projects and activities, and any other type of insurance and regulatory research information you want to share to my attention at [nhughes.naic.org](mailto:nhughes.naic.org).

The *RQ* is a global forum with subscribers in 17 countries. Subscribe today to the *RQ* for the only insurance research information written by and for insurance regulatory professionals.

Natalai Webster Hughes,  
Editor, *Research Quarterly*

**A message to our readers:**

Traditionally the *RQ* has served as a vehicle to showcase insurance department and NAIC research projects and studies, to share regulator viewpoints and to present insurance topics of global, national and local interest to our readers. Its role is that of “little sibling” to the *Journal of Insurance Regulation* and as such we are seeking to increase its circulation among regulators and other insurance professionals. In this issue, as in the past, the majority of articles were written by NAIC staff members in response to questions that come directly from our regulator members and others who attend NAIC meetings and use NAIC publications, products and services.

NAIC staff researchers and writers intend to keep you informed through the *RQ*. We will continue to tell you about projects, programs and products developed by NAIC committees and working groups, and we will still inundate you with pages and pages of statistical and financial information from the world’s most comprehensive database. But, we want the *RQ* to evolve. We want it to become a professional journal for our members. We want regulators to use the *RQ* as a forum to advocate regulatory viewpoints, share regulatory theories and promote regulatory ideas and innovations. Okay, we want you to write more articles.

Beginning with the 2001 volume, we will schedule the release of the *RQ* approximately

one month before each national meeting as follows: Spring—February; Summer—May; Fall—September and Winter—November. This is intended to associate the distribution of each *RQ* issue with the NAIC quarterly national meetings, which are also designated by season.

Copies of each new issue, as well as back issue information and subscription forms, will be available at the NAIC Publications display booth set up at each quarterly meeting site. Contributing writers can submit articles and other information for publication with the expectation that each *RQ* issue will be exposed to more than 1,000 meeting attendees.

If you would like to contribute an article(s) of interest on an insurance issue, share a department project or idea, provide written commentary in response to someone else’s project or ideas, advertise an event or special activity or just plain get your name in print, PLEASE contact:

Natalai Hughes, [nhughes@naic.org](mailto:nhughes@naic.org) or  
Teresa Bozeman Smith, [tsmith@naic.org](mailto:tsmith@naic.org) for  
information on getting your article published.

An annual subscription to the *Research Quarterly* is \$100; individual copies are \$25. Contact the NAIC Publications Department for order information.

# Property & Casualty RBC Industry Results for 1999

by NAIC Staff

As of October 4, 2000, more than 2,300 Property & Casualty Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 1999. This article summarizes the industry results and discusses some of the trends noted in the 1999 filings.

The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are five levels of action that a company can trigger under the formula. The base action level is the Authorized Control Level. If a company's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the company under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that a company's total adjusted capital (TAC) is at least twice its ACL;
- 2) Company Action Level (CAL), which means that a company's TAC is at least 1.5 times its ACL but less than twice its ACL;
- 3) Regulatory Action Level (RAL), which means that the company's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that a company's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level (MCL), which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the company is in strong financial condition. It simply means that the company has not triggered one of the regulatory intervention levels. A company can be in weak condition and still pass the RBC test.

## **Distribution of Companies by Action Level**

As can be seen in Table I, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 97 percent of all P&C insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the six years that the NAIC's Property & Casualty RBC system has been in place.

Table II shows the disposition of insurers filing in data years 1998 and/or 1999. There is an increase of 138 new filers in 1999, which is offset by a decrease of 219 companies that filed in 1998 but did not file in 1999. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 2,228 companies that filed in both 1998 and in 1999, 54 companies triggered one of the action levels in 1998. About one-third of those companies that triggered an action level in 1998 were able to move to the "No Action" level in 1999, while the other two-thirds (35 of 54 companies) remain in one of the action levels.

### **Aggregate Industry Results**

The RBC ratio is the ratio of a company's TAC to its ACL RBC. Table III shows the median RBC ratio by asset size for data years 1995 through 1999. As has been shown previously, the "average" RBC ratio is a function of size. Larger insurers tend to operate with lower capital margins (the ratio of capital to assets). The RBC ratios reflect this difference and once again emphasize the inappropriateness of comparing RBC ratios between insurers. Although larger insurers tend to have lower RBC ratios, on average, the larger insurers also tend to have more stability in their operating results.

Another word of caution is in order with respect to time series analysis of RBC ratios. The ratio for 1995 is not exactly comparable to the ratios for later years because of phase-in aspects of the RBC formula. In 1994, the ACL RBC was set at 0.40 times the Risk-Based Capital After Covariance. In 1995, ACL RBC was 0.45 times Risk-Based Capital After Covariance. Beginning in 1996, the ACL RBC is equal to half of the Risk-Based Capital After Covariance. Since the Company Action Level RBC is equal to twice the ACL RBC, beginning in 1996 and thereafter the Risk-Based Capital After Covariance and the CAL RBC are equivalent.

In addition to the changes in the calculation of ACL RBC, there were phase-ins to the calculation of TAC. Companies were allowed to count 80 percent of reserve discounts as part

of TAC in 1994, 60 percent in 1995, 40 percent in 1996, and 20 percent in 1997. In 1998, all reserve discounts were phased out of the calculation of TAC. Relatively few companies employ reserve discounting, so fewer companies are affected by this phase-in provision.

Table IV shows the relative risk factors by year for the two major underwriting risk components: reserve risk and premium risk. Although the total amount of RBC attributable to premiums and reserves would be expected to grow over time simply because of inflation, Table IV shows that the effective rate has tended to increase over time for both of these risk components.

Table V shows the aggregate RBC by major covariance elements for 1995 through 1999. During this time the most dramatic change in the aggregate results is the increase in the R2 component, which is equity assets risk. The bulk of R2 risk is the risk charge for unaffiliated common stocks. Over this period, the aggregate amount of RBC attributable to unaffiliated common stocks has more than doubled. The growth in the other components of RBC has been much lower. The fixed income assets component (R1) has grown by 18 percent, and the written premium component (R5) has grown by 10 percent. Interestingly, the R4 component, which is reserve risk, has been relatively flat throughout this period. Favorable reserve development in recent years is a major factor in this trend.

Overall, aggregate TAC is growing at a faster rate than RBC. TAC has grown by 39 percent while aggregate RBC has increased by only 17 percent. Much of that growth in aggregate industry TAC is of course fueled by the increase in asset values, especially unaffiliated common stock. Since the RBC factor for unaffiliated common stock is 15 percent of statement value, large increases in the value of common stock holdings will increase TAC at a much faster rate than RBC.

**Table I**  
**Industry Results By Action Level, 1995-1999**

	1995	1996	1997	1998	1999
No Action	2,346	2,358	2,400	2,383	2,296
Company Action Level	33	40	36	20	25
Regulatory Action Level	15	19	11	14	13
Authorized Control Level	6	8	6	6	7
Mandatory Control Level	22	28	21	24	25
<b>Total</b>	<b>2,422</b>	<b>2,453</b>	<b>2,474</b>	<b>2,447</b>	<b>2,366</b>
Percent At 'No Action' Level	96.9%	96.1%	97.0%	97.4%	97.0%

**Table II**  
**1999 Disposition of 1998 RBC Filers By Action Level**

		1999 Action					
		No Action	Company Action Level	Regul. Action Level	Author. Control Level	Mandatory Control Level	Not On Database
<b>1998 Action</b>	No Action	2,146	13	4	1	10	209
	Company Action Level	9	4	2	1	2	2
	Regulatory Action Level	4	3	4	1	0	2
	Authorized Control Level	2	0	0	1	3	0
	Mandatory Control Level	4	0	2	3	9	6
	Not On Database	131	5	1	0	1	N/A

**Table III**  
**Median RBC Ratios By Asset Size**  
**1995-1999**

Asset Size	1999 Surplus to Asset Ratio	1995	1996	1997	1998	1999
Less than \$10 Million	0.759	1792%	1679%	1943%	1779%	1912%
\$10 million to \$25 million	0.547	982%	970%	963%	1125%	1200%
\$25 million to \$100 million	0.431	671%	712%	758%	799%	819%
\$100 million to \$250 million	0.369	620%	601%	664%	710%	734%
\$250 million to \$500 million	0.355	601%	605%	661%	682%	695%
\$500 million to \$1 billion	0.321	533%	563%	587%	621%	569%
\$1 billion to \$10 billion	0.338	455%	482%	551%	571%	573%
More than \$10 billion	0.326	457%	481%	503%	456%	452%
All Companies	0.475	731%	738%	788%	841%	858%

**Table IV**  
**Average Underwriting Risk Factors, 1995-1999**

Year	Aggregate Reserve Base (000s)	Aggregate Reserve Base RBC (000s)	Average Effective Factor	Aggregate Premium Base (000s)	Aggregate Premium Base RBC (000s)	Average Effective Factor
1995	366,514,206	53,660,555	0.146	257,462,700	32,972,960	0.128
1996	374,367,795	55,832,620	0.149	266,392,000	36,474,146	0.137
1997	364,493,520	56,529,709	0.155	271,226,600	37,801,692	0.139
1998	339,871,108	57,117,402	0.168	268,880,606	39,410,281	0.147
1999	286,392,812	52,888,823	0.185	260,209,441	36,748,334	0.141

**Table V**  
**P&C RBC By Components, 1995-1999**

	Aggregates for 2422 Companies (000) 1995	Aggregates for 2453 Companies (000) 1996	Aggregates for 2419 Companies (000) 1997	Aggregates for 2447 Companies (000) 1998	Aggregates for 2366 Companies (000) 1999
<b>R0 - Asset Risk - Affiliates</b>					
Direct P&C Insurers	17,543,744	15,962,917	18,514,187	19,405,366	18,754,780
Indirect P&C Insurers	1,296,598	1,716,847	2,176,660	2,412,008	3,129,485
Direct Life Insurers	5,580,797	2,675,915	2,949,581	3,272,478	3,545,805
Indirect Life Insurers	1,284,953	1,752,163	1,661,919	1,846,351	1,785,204
Affiliated Alien Insurers	1,597,845	1,594,302	1,955,582	1,986,471	1,681,215
Non-controlled Assets	128,191	63,447	114,833	119,551	117,316
Guarantees for Affiliates	50,239	23,124	45,854	31,040	33,753
Contingent Liabilities	145,019	174,915	146,407	175,974	167,910
Total R0	27,627,386	23,963,629	27,565,023	29,249,242	29,215,468
<b>R1 - Asset Risk - Fixed Income</b>					
Government Agency Bonds	157,505	169,520	123,255	112,719	105,063
Unaffiliated Bonds	1,418,323	1,565,026	1,789,215	1,979,187	1,903,740
Bond Size Factor	698,321	715,184	810,879	905,487	872,837
Bonds - Affiliated Investment Subs.	-	-	-	200	-
Bonds - Holding Company	3,500	-	-	1	11,150
Bonds - Parents	20,946	39,660	17,698	35,224	22,922
Bonds - Other Affiliates	126,260	200,310	146,674	155,763	99,149
Mortgage Loans	141,453	126,604	113,416	102,519	98,584
Collateral Loans	38,860	4,228	2,888	-	2,725
Cash	17,250	17,172	15,793	17,809	16,519
Short-Term Investments	6,919	7,274	6,999	6,837	7,615
Asset Concentration (Fixed)	231,042	238,587	242,149	247,474	243,553
Total R1	2,860,379	3,083,565	3,268,967	3,563,220	3,383,856
<b>R2 - Asset Risk - Equity</b>					
Common - Affiliated Investment Subs.	38,562	24,327	75,499	96,308	16,276
Common - Holding Company	284,415	611,211	463,892	844,430	1,048,448
Common - Parents	89,154	27,870	32,097	64,494	56,099
Common - Other Affiliates	2,029,809	2,135,587	2,060,459	2,352,393	2,423,198
Preferred - Affiliated Investment Subs.	-	-	-	-	-
Preferred - Holding Company	4,981	655	696	452	22,983
Preferred - Parents	61,414	61,067	7,822	9,197	2,337
Preferred - Other Affiliates	166,466	139,995	131,197	84,314	37,487
Unaffiliated Common	13,232,548	15,430,299	20,032,074	21,645,094	22,644,769
Unaffiliated Preferred	332,060	400,520	413,888	438,507	297,502
Real Estate	959,151	990,627	974,946	921,922	910,858
Schedule BA Assets	2,066,321	2,623,843	2,943,647	3,520,062	5,676,313
Aggregate Write-ins for Invested Assets	65,393	122,081	180,636	196,065	203,092
Asset Concentration Equity	6,387,523	7,844,378	10,391,210	11,755,826	12,858,633
Total R2	25,717,799	30,412,460	37,708,064	41,929,062	46,197,994
<b>R3 - Asset Risk - Credit</b>					
Total R3	6,398,060	6,648,614	6,631,231	9,000,863	10,777,541
<b>R4 - Underwriting Risk - Reserves</b>					
Half of Credit RBC	6,398,060	6,648,614	6,631,231	5,909,680	5,038,914
LLAE Reserve RBC	53,660,555	55,832,620	56,529,709	57,117,402	52,890,386
Excess Growth - Reserves	2,138,005	1,882,574	1,547,608	959,743	1,095,913
A&H Claims Reserves	92,895	88,681	92,152	115,506	141,137
Total R4	62,289,515	64,452,490	64,800,700	64,102,331	59,166,350
<b>R5 - Underwriting Risk - Written Premiums</b>					
NWP RBC	32,972,960	36,474,146	37,801,692	39,410,281	36,748,334
Excess Growth - Premiums	966,039	934,645	789,633	588,279	554,851
A&H Earned Premium	470,391	402,510	379,513	572,208	699,890
Total R5	34,409,390	37,811,301	38,970,838	40,570,767	38,003,076
<b>Total RBC</b>	159,303,930	166,372,058	178,944,822	188,415,485	186,744,285
RBC After Covariance	114,413,982	117,895,743	127,669,725	134,700,232	134,846,013
<b>Total Adjusted Capital</b>	281,575,010	306,138,768	374,645,061	406,649,466	392,748,827

**Table V (Continued)**  
**P&C RBC By Components, 1995-1999**

	Percent of Total RBC				
	1995	1996	1997	1998	1999
<b>R0 - Asset Risk - Affiliates</b>					
Direct P&C Insurers	11.0%	9.6%	10.3%	10.3%	10.0%
Indirect P&C Insurers	0.8%	1.0%	1.2%	1.3%	1.7%
Direct Life Insurers	3.5%	1.6%	1.6%	1.7%	1.9%
Indirect Life Insurers	0.8%	1.1%	0.9%	1.0%	1.0%
Affiliated Alien Insurers	1.0%	1.0%	1.1%	1.1%	0.9%
Non-controlled Assets	0.1%	0.0%	0.1%	0.1%	0.1%
Guarantees for Affiliates	0.0%	0.0%	0.0%	0.0%	0.0%
Contingent Liabilities	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total R0</b>	<b>17.3%</b>	<b>14.4%</b>	<b>15.4%</b>	<b>15.5%</b>	<b>15.6%</b>
<b>R1 - Asset Risk - Fixed Income</b>					
Government Agency Bonds	0.1%	0.1%	0.1%	0.1%	0.1%
Unaffiliated Bonds	0.9%	0.9%	1.0%	1.1%	1.0%
Bond Size Factor	0.4%	0.4%	0.5%	0.5%	0.5%
Bonds - Affiliated Investment Subs.	0.0%	0.0%	0.0%	0.0%	0.0%
Bonds - Holding Company	0.0%	0.0%	0.0%	0.0%	0.0%
Bonds - Parents	0.0%	0.0%	0.0%	0.0%	0.0%
Bonds - Other Affiliates	0.1%	0.1%	0.1%	0.1%	0.1%
Mortgage Loans	0.1%	0.1%	0.1%	0.1%	0.1%
Collateral Loans	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Short-Term Investments	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Concentration (Fixed)	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total R1</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.8%</b>
<b>R2 - Asset Risk - Equity</b>					
Common - Affiliated Investment Subs.	0.0%	0.0%	0.0%	0.1%	0.0%
Common - Holding Company	0.2%	0.4%	0.3%	0.4%	0.6%
Common - Parents	0.1%	0.0%	0.0%	0.0%	0.0%
Common - Other Affiliates	1.3%	1.3%	1.2%	1.2%	1.3%
Preferred - Affiliated Investment Subs.	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred - Holding Company	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred - Parents	0.0%	0.0%	0.0%	0.0%	0.0%
Preferred - Other Affiliates	0.1%	0.1%	0.1%	0.0%	0.0%
Unaffiliated Common	8.3%	9.3%	11.2%	11.5%	12.1%
Unaffiliated Preferred	0.2%	0.2%	0.2%	0.2%	0.2%
Real Estate	0.6%	0.6%	0.5%	0.5%	0.5%
Schedule BA Assets	1.3%	1.6%	1.6%	1.9%	3.0%
Aggregate Write-ins for Invested Assets	0.0%	0.1%	0.1%	0.1%	0.1%
Asset Concentration Equity	4.0%	4.7%	5.8%	6.2%	6.9%
<b>Total R2</b>	<b>16.1%</b>	<b>18.3%</b>	<b>21.1%</b>	<b>22.3%</b>	<b>24.7%</b>
<b>R3 - Asset Risk - Credit</b>					
<b>Total R3</b>	<b>4.0%</b>	<b>4.0%</b>	<b>3.7%</b>	<b>4.8%</b>	<b>5.8%</b>
<b>R4 - Underwriting Risk - Reserves</b>					
Half of Credit RBC	4.0%	4.0%	3.7%	3.1%	2.7%
LLAE Reserve RBC	33.7%	33.6%	31.6%	30.3%	28.3%
Excess Growth - Reserves	1.3%	1.1%	0.9%	0.5%	0.6%
A&H Claims Reserves	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Total R4</b>	<b>39.1%</b>	<b>38.7%</b>	<b>36.2%</b>	<b>34.0%</b>	<b>31.7%</b>
<b>R5 - Underwriting Risk - Written Premiums</b>					
NWP RBC	20.7%	21.9%	21.1%	20.9%	19.7%
Excess Growth - Premiums	0.6%	0.6%	0.4%	0.3%	0.3%
A&H Earned Premium	0.3%	0.2%	0.2%	0.3%	0.4%
<b>Total R5</b>	<b>21.6%</b>	<b>22.7%</b>	<b>21.8%</b>	<b>21.5%</b>	<b>20.4%</b>
<b>Total RBC</b>					
<b>Total RBC</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
RBC After Covariance	71.8%	70.9%	71.3%	71.5%	72.2%
<b>Total Adjusted Capital</b>					
<b>Total Adjusted Capital</b>	<b>176.8%</b>	<b>184.0%</b>	<b>209.4%</b>	<b>215.8%</b>	<b>210.3%</b>

# HMDI RBC Industry Results for 1999

by NAIC Staff

As of October 4, 2000, more than 120 HMDI Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 1999. This article summarizes the industry results and discusses some of the trends noted in the 1999 filings.

The RBC test is one of many different tests used by regulators to help ensure that insurance companies remain solvent. The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are five levels of action that a company can trigger under the formula. The base action level is the Authorized Control Level. If a company's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the company under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that a company's total adjusted capital (TAC) is at least twice its ACL;
- 2) Company Action Level (CAL), which means that a company's TAC is at least 1.5 times its ACL but less than twice its ACL;
- 3) Regulatory Action Level (RAL), which means that the company's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that a company's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level (MCL), which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the company is in strong financial condition. It simply means that the company has not triggered one of the regulatory intervention levels. A company can be in weak condition and still pass the RBC test.

## Distribution of Companies by Action Level

As can be seen in Table I, approximately three quarters of the managed care organizations that made an RBC filing for either 1998 or 1999 did not trigger one of the regulatory intervention levels.

Table II shows the disposition of insurers filing in data years 1998 and/or 1999. There is an increase of 20 new filers in 1999, which is offset by a decrease of 15 companies that filed in 1998 but did not file in 1999. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 102 companies that filed in both 1998 and in 1999, three companies triggered one of the action levels in 1998. Two of those

companies were able to move to the "No Action" level in 1999, while the other one remains in an action level.

### **Aggregate Industry Results**

The Managed Care Discount Factor determines the percentage of underwriting risk RBC that is carried down in the RBC calculation. It is based upon the type of managed care arrangement a company has with its providers. The median discount factors for 1998 and 1999 are broken out by company asset size in Table III. It should be noted that there is considerable variation in the discount factor within each asset category because of the different types of arrangements possible between company and provider.

Table III also shows the median RBC ratio by asset size for 1998 and 1999. The RBC ratio is the ratio of a company's TAC to its ACL RBC. Though median RBC ratio is a function of size, with larger insurers tending to have lower ratios, the opposite appears to be occurring in 1999 for all but the lowest asset range.

A word of caution is in order with respect to time series analysis of RBC ratios. The ratios for 1998 and 1999 are not exactly comparable to each other because of phase-in aspects of the RBC formula. For 1998 the ACL RBC was set at 0.40 times the Risk-Based Capital After Covariance. For 1999, ACL RBC is 0.45 times the Risk-Based Capital After Covariance. Beginning in 2000, the ACL RBC will be equal to half of the Risk-Based Capital After

Covariance. Since the Company Action Level RBC is equal to twice the ACL RBC, beginning in 2000 and thereafter the Risk-Based Capital After Covariance and the CAL RBC will be equivalent.

Figure I shows the percentage breakdown of the aggregate RBC by component for 1999. H2 - Underwriting Risk constitutes most of the aggregate RBC, as expected, with Asset Risk (H0 and H1) becoming more prominent as the asset size increases. For example, Underwriting Risk is 68 percent of the total RBC for companies with less than \$10 million in total admitted assets, while Asset Risk contributes less than 3 percent. Companies with more than \$250 million in assets have only 45 percent of their RBC coming from Underwriting Risk, while 41 percent of the RBC is contributed by Asset Risk.

The aggregate RBC by major covariance elements for 1998 and 1999 is shown in Table IV. As might be expected, the greatest portion (around half) of RBC comes directly from net underwriting risk. The next greatest portion (more than 35 percent) is because of asset risk, of which 15 percent is asset risk for affiliates and over 20 percent is other asset risk.

The excessive growth risk under H4 - Business Risk is determined through a process that compares the current year's data to that of the previous year. As 1998 was the first year for the RBC calculation, the excessive growth risk could not be calculated for that year and is thus recorded as zero.

**Table I  
Industry Results By Action Level, 1998-1999**

	1998	1999
No Action	111	118
Company Action Level	1	1
Regulatory Action Level	1	1
Authorized Control Level	1	1
Mandatory Control Level	3	1
Total	117	122
Percent At 'No Action' Level	94.9%	96.7%

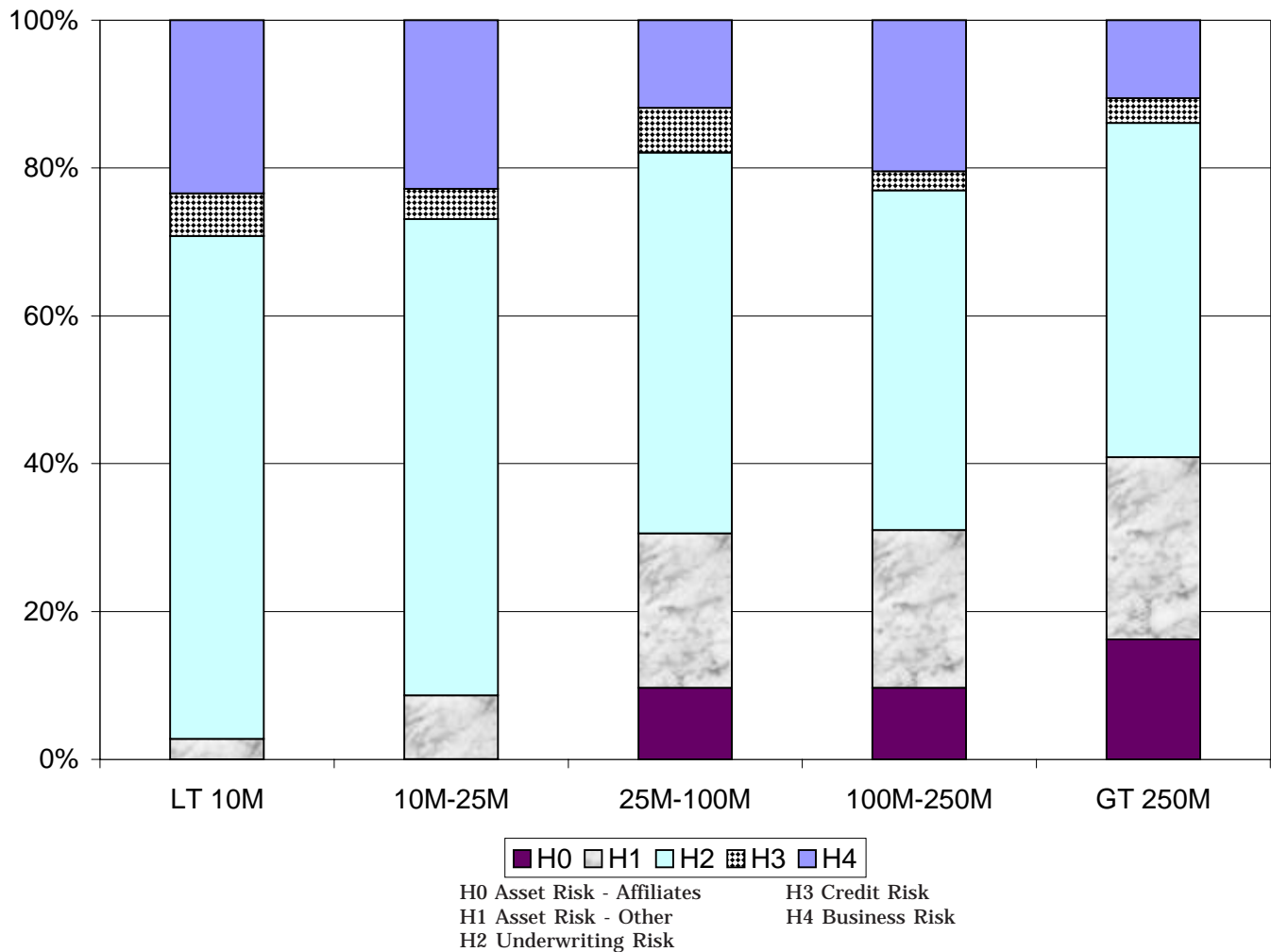
**Table II  
1999 Disposition of 1998 RBC Filers By Action Level**

		1999 Action					
		No Action	Company Action Level	Regul. Action Level	Author. Control Level	Mandatory Control Level	Not On Database
<b>1998 Action</b>	No Action	97	1	0	0	1	12
	Company Action Level	0	0	0	0	0	1
	Regulatory Action Level	1	0	0	0	0	0
	Authorized Control Level	0	0	0	1	0	0
	Mandatory Control Level	1	0	0	0	0	2
	Not On Database	19	0	1	0	0	N/A

**Table III**  
**Median RBC Ratios By Asset Size**  
**1998-1999**

Asset Size	1999 Median Managed Care Discount Factor	1998	1999
Less than \$10 Million	0.850	872%	897%
\$10 million to \$25 million	0.850	528%	516%
\$25 million to \$100 million	0.853	702%	584%
\$100 million to \$250 million	0.850	508%	638%
More than \$250 million	0.860	738%	803%
All Companies	0.850	727%	722%

**Figure I**  
**Percentage Breakdown of the Aggregate RBC by Component for 1999**



**Table IV**  
**HMDI RBC By Components, 1998-1999**

	Aggregates for 117 Companies 1998	Aggregates for 122 Companies 1999	Percent of Total RBC 1998	Percent of Total RBC 1999
<b>H0 - Asset Risk - Affiliates</b>				
Off-Balance Sheet	10,458,731	12,969,092	0.22%	0.29%
Direct Insurers	206,995,183	104,802,077	4.40%	2.36%
Indirect Insurers	230,077,369	146,307,858	4.89%	3.29%
Direct MCOs	193,267,639	257,681,465	4.10%	5.79%
Indirect MCOs	81,703,706	132,534,809	1.73%	2.98%
Direct Alien Insurers	0	0	0.00%	0.00%
Indirect Alien Insurers	0	0	0.00%	0.00%
Total H0	722,502,628	654,295,301	15.34%	14.71%
<b>H1 - Asset Risk - Other</b>				
Investment Subsidiary	116,104	371,907	0.00%	0.01%
Holding Company Excess of Subs	62,928,750	47,833,777	1.34%	1.08%
Investment in Parent	19,498,240	7,559,483	0.41%	0.17%
Other Affiliates	70,640,938	59,242,955	1.50%	1.33%
Fixed Income Assets	54,665,547	120,392,020	1.16%	2.71%
Unaffiliated Preferred Stock	1,647,039	1,586,616	0.03%	0.04%
Unaffiliated Common Stock	472,642,371	498,369,425	10.04%	11.20%
Property & Equipment	148,283,306	117,196,538	3.15%	2.63%
Asset Concentration	163,991,552	182,258,101	3.48%	4.10%
Total H1	994,413,847	1,034,810,822	21.12%	23.26%
<b>H2 - Underwriting Risk</b>				
Net Underwriting Risk	2,639,972,906	2,176,289,458	56.06%	48.92%
Rate Guaranty - 15-36 Months	21,251,250	9,237,695	0.45%	0.21%
Rate Guaranty - Over 36 Months	215,348	5,030,143	0.00%	0.11%
Assessment Risk (Non-Guaranty Fund)	62,387,737	80,636,801	1.32%	1.81%
Stop Loss	N/A	29,412,598	N/A	0.66%
Disability Income	N/A	0	N/A	0.00%
Long-Term Care	N/A	18,220	N/A	0.00%
Limited Benefit Plans	N/A	304,500	N/A	0.01%
Premium Stabilization Reserve	-178,935,236	-232,562,813	-3.80%	-5.23%
Total H2	2,544,892,005	2,068,366,612	54.04%	46.50%
<b>H3 - Credit Risk</b>				
Total Reinsurance	146,805	195,836	0.00%	0.00%
Intermediaries Credit Risk	27,641,132	43,383,624	0.59%	0.98%
Total Other Receivables	15,970,451	108,763,916	0.34%	2.45%
Total H3	43,758,388	152,343,376	0.93%	3.42%
<b>H4 - Business Risk</b>				
Administrative Expenses Base	178,003,467	156,295,879	3.78%	3.51%
Non-Underwritten & Limited Risk Business	211,831,680	261,317,278	4.50%	5.87%
Premiums Subject to Guaranty Fund Assessment	13,876,265	40,968,809	0.29%	0.92%
Excessive Growth Risk	0	79,841,782	0.00%	1.79%
Total H4	403,711,412	538,423,748	8.57%	12.10%
<b>Total RBC</b>	4,709,278,280	4,448,239,859	100.00%	100.00%
RBC After Covariance	3,661,594,430	3,195,723,137	77.75%	71.84%
<b>Total Adjusted Capital</b>	10,455,724,619	10,290,187,666	222.02%	231.33%

N/A - Not Available

# Life RBC Industry Results for 1999

by NAIC Staff

As of October 4, 2000, more than 1,100 Life Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 1999. This article summarizes the industry results and discusses some of the trends noted in the 1999 filings.

The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are five levels of action that a company can trigger under the formula. The base action level is the Authorized Control Level. If a company's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the company under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that a company's total adjusted capital (TAC) is at least twice its ACL;
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- 3) Regulatory Action Level (RAL), which means that the company's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that a company's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level (MCL), which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the company is in strong financial condition. It simply means that the company has not triggered one of the regulatory intervention levels. A company can be in weak condition and still pass the RBC test.

## Distribution of Companies by Action Level

As can be seen in Table I, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 98 percent of all life insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the seven years that the NAIC's Life RBC system has been in place.

Table II shows the disposition of insurers filing in data years 1998 and/or 1999. There is an increase of 74 new filers in 1999, which is offset by a decrease of 229 companies that filed in 1998 but did not file in 1999. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 1,105 companies that filed in both 1998 and in 1999, 17 companies triggered one of the action levels in 1998. More than half of those companies that triggered an action level in 1998 were able to move to the "No Action" level in 1999, while the rest (7 of 17 companies) remain in one of the action levels.

**Aggregate Industry Results**

Table III shows the industry aggregate Total Adjusted Capital and its breakdown into basic elements for 1995 through 1999. One thing to note is that starting in 1997, voluntary investment reserves are no longer included in the TAC.

Figure I shows the percentage breakdown of the aggregate RBC by component for 1999. The C1 and C2 components constitute the bulk of the aggregate RBC, with the C2 component (insurance risk) being more prominent in the smaller companies and the C1 component

(other asset risk) being more influential in the larger companies. For example, C2 is more than 60 percent of the total RBC for companies with between \$10 and \$25 million in total admitted assets, while C1 contributes around 18 percent. On the other hand, companies with more than \$10 billion in assets have only 12 percent of their RBC coming from C2, and nearly 60 percent of the RBC is contributed by C1.

Table IV shows the aggregate RBC by major covariance elements for 1995 through 1999. The 1996 covariance formula is used for the covariance calculation for data years 1995 through 1997. In 1998, the covariance formula was changed, with the C3 and C4 components each being split into two parts. The 1998 and 1999 data are reported using the 1998 covariance formula.

Overall, TAC has grown 15 percent in the past five years, while RBC has grown by 2 percent.

**Table I  
Industry Results By Action Level, 1995-1999**

	1995	1996	1997	1998	1999
No Action	1,494	1,429	1,339	1,312	1,158
Company Action Level	12	21	19	11	14
Regulatory Action Level	5	4	3	4	5
Authorized Control Level	3	3	2	3	1
Mandatory Control Level	3	6	6	4	1
Total	1,513	1,463	1,369	1,334	1,179
Percent At 'No Action' Level	98.7%	97.7%	97.8%	98.4%	98.2%

**Table II**  
**1999 Disposition of 1998 RBC Filers By Action Level**

		1999 Action					
		No Action	Company Action Level	Regul. Action Level	Author. Control Level	Mandatory Control Level	Not On Database
<b>1998 Action</b>	No Action	1,076	8	2	1	1	224
	Company Action Level	6	3	1	0	0	1
	Regulatory Action Level	2	1	1	0	0	0
	Authorized Control Level	1	1	0	0	0	1
	Mandatory Control Level	1	0	0	0	0	3
	Not On Database	72	1	1	0	0	N/A

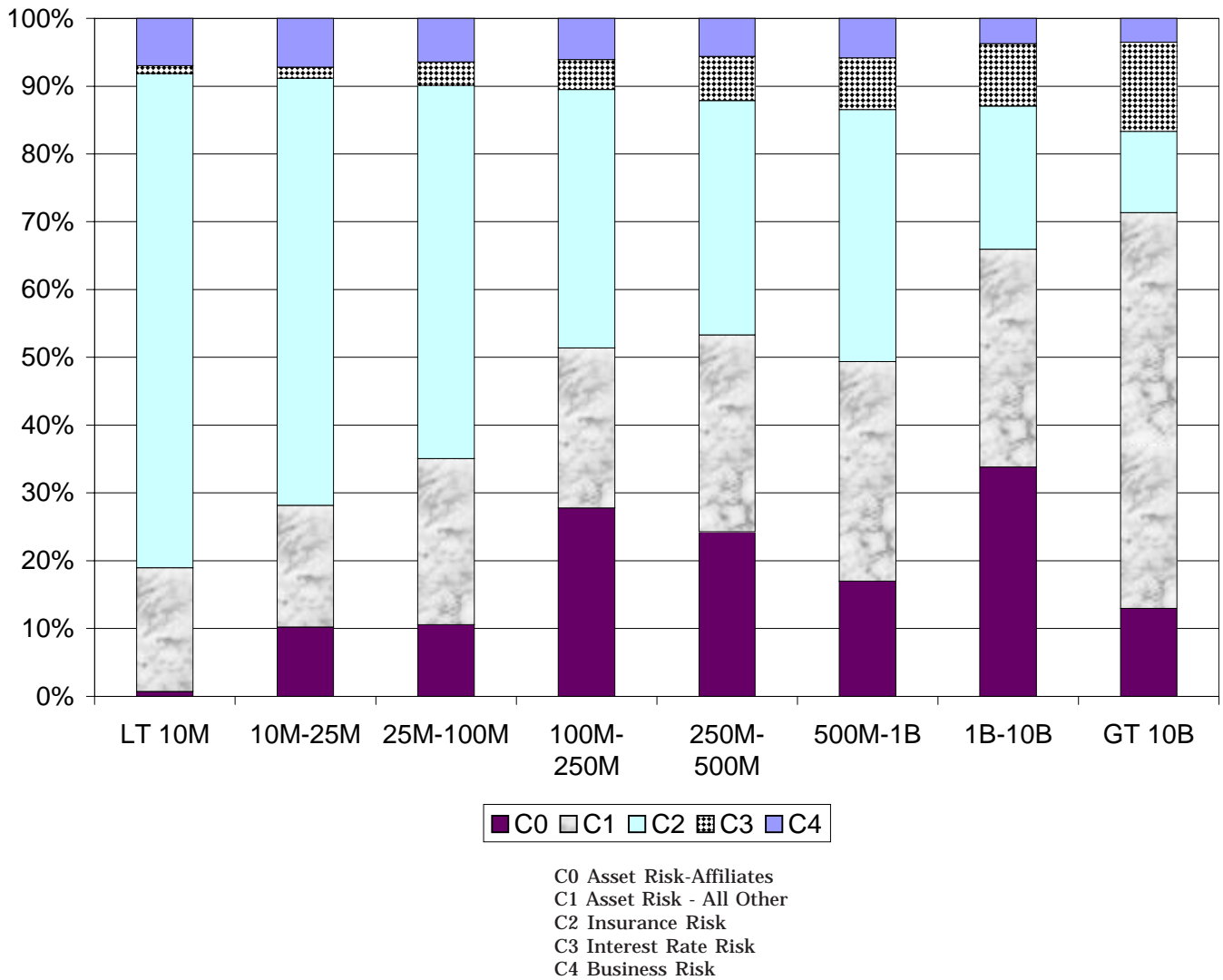
**Table III**  
**Industry Aggregate Total Adjusted Capital, 1995-1999**

Total Adjusted Capital Elements	1995 (000)	1996 (000)	1997 (000)	1998* (000)	1999 (000)
Capital and Surplus	156,785,109	172,714,193	196,346,643	202,281,962	186,072,027
AVR	30,168,998	32,177,276	35,230,285	36,389,611	31,462,806
Voluntary Investment Reserves	1,000,509	531,531	N/A	N/A	N/A
Dividend Liability	6,781,976	7,101,349	7,836,925	8,170,525	6,498,550
Life Subsidiaries' AVR	4,344,198	4,939,658	4,765,829	4,827,691	5,696,753
Life Subs. Vol. Invest. Reserves	93,034	18,115	N/A	N/A	N/A
Life Subs. Dividend Liability	144,375	251,142	285,437	114,128	274,442
P/C Subs. Non-Tab Discount	29	3,312	11,011	10,279	2,516
<b>Total Adjusted Capital (TAC)</b>	<b>199,318,228</b>	<b>217,729,952</b>	<b>244,501,604</b>	<b>251,777,940</b>	<b>230,002,628</b>

\*Revised as of October 2000

N/A - Not Available

**Figure I**  
**Percentage Breakdown of the Aggregate RBC by Component for 1999**



**Table IV**  
**Life RBC By Components, 1995-1999**

	Aggregates for 1475 Companies (000) 1995	Aggregates for 1463 Companies (000) 1996	Aggregates for 1369 Companies (000) 1997	Aggregates for 1334 Companies (000) 1998	Aggregates for 1179 Companies (000) 1999
<b>C0 - Asset Risk - Affiliates</b>					
Direct P&C Insurers	548,463	423,852	450,033	684,804	465,712
Direct Life Insurers	11,100,355	12,067,429	13,127,332	12,976,224	14,138,351
Indirect P&C Insurers	1,081,328	1,161,782	1,122,536	1,120,698	484,606
Indirect Life Insurers	1,197,262	780,806	943,259	1,314,184	1,152,332
Affiliated Alien Insurers - Canadian	254,108	305,843	287,366	250,558	409,137
Affiliated Alien Insurers - All Other	809,733	892,619	1,065,099	1,300,900	1,816,634
Off-Balance Sheet Items	457,826	314,301	434,895	477,444	406,342
<b>Total C0</b>	<b>15,449,075</b>	<b>15,946,631</b>	<b>17,430,519</b>	<b>18,124,812</b>	<b>18,873,113</b>
<b>C1 - Asset Risk - All Other</b>					
Bonds After Size Factor	10,269,478	10,578,274	12,005,564	13,593,281	12,651,552
Mortgages	6,711,532	6,424,898	4,930,051	5,068,440	3,246,622
Unaffiliated Common/Pref'd Stock	7,296,919	8,006,948	10,273,871	10,410,234	10,648,953
Affil Com/Pref'd Stock - Invest Subs	924,911	583,269	368,580	665,459	257,104
Affil Com/Pref'd Stock - Holding Co.	490,081	1,187,330	681,659	920,783	659,184
Affil Com/Pref'd Stock - Parent	631,490	323,730	494,818	524,983	464,974
Affil Com/Pref'd Stock - P/C not Subj.	75	378	1,243	322	1,171
Affil Com/Pref'd Stock - Life not Subj.	93	2,985	76	106,750	2,550
Affil Com/Pref'd Stock - All Other	3,083,538	2,618,294	3,193,466	3,515,695	3,099,105
Separate Accounts with Guarantees	513,676	417,680	360,644	487,477	335,287
Synthetic GIC's	N/A	N/A	2,473	82	1,988
Surplus in Non-Guaranteed Sep. Accts	372,802	557,281	639,060	782,883	757,417
Real Estate (gross of encumbrances)	4,715,381	4,256,724	3,713,591	3,010,348	1,833,947
Schedule BA Assets	4,658,802	4,478,995	1,651,131	1,557,293	1,198,831
Other Long-Term Assets	N/A	N/A	3,201,357	4,206,618	4,692,223
<i>Asset Concentration Factor</i>	1,794,816	1,805,801	1,850,172	1,878,281	1,381,016
Miscellaneous Assets	199,330	142,049	233,969	234,716	194,498
Reinsurance	277,220	316,782	345,385	434,723	407,563
<b>Total C1</b>	<b>41,940,146</b>	<b>41,701,418</b>	<b>43,947,108</b>	<b>47,398,368</b>	<b>41,833,985</b>
<b>C2 - Insurance Risk</b>					
Individual & Industrial Life Insurance	4,945,790	5,170,291	5,405,899	5,338,467	5,181,453
Group & Credit Life Insurance	3,008,801	3,139,415	3,480,090	3,402,062	2,639,573
Total Health Insurance	11,945,981	12,110,972	12,607,303	11,536,777	10,452,955
Premium Stabilization Reserve Credit	-2,472,573	-2,320,846	-2,537,396	-2,333,864	-1,968,421
<b>Total C2</b>	<b>17,427,999</b>	<b>18,099,833</b>	<b>18,955,895</b>	<b>17,943,442</b>	<b>16,305,560</b>
<b>C3a - Interest Rate Risk</b>					
Interest Rate Risk - Low	3,678,947	3,711,486	3,836,916	3,964,732	3,533,821
Interest Rate Risk - Medium	2,332,404	2,300,115	2,237,858	2,181,362	2,073,195
Interest Rate Risk - High	4,379,306	4,533,832	4,727,467	4,982,599	4,379,365
Synthetic GIC's	N/A	N/A	879	2,256	577
<b>Total C3a</b>	<b>10,390,658</b>	<b>10,545,433</b>	<b>10,803,119</b>	<b>11,130,949</b>	<b>9,986,958</b>
<b>C3b - Health Credit Risk</b>					
<b>Total C3b</b>	N/A	N/A	N/A	24,040	27,049
<b>C4 - Business Risk</b>					
Subtotal C4a Business Risk	N/A	N/A	N/A	3,350,624	2,980,833
Subtotal C4b Health Admin. Expense	N/A	N/A	N/A	464,787	484,352
<b>Total R4</b>	<b>3,184,929</b>	<b>3,209,542</b>	<b>3,386,324</b>	<b>3,815,411</b>	<b>3,465,185</b>
<b>Total RBC</b>	<b>88,392,806</b>	<b>89,502,856</b>	<b>94,522,967</b>	<b>98,437,022</b>	<b>90,491,851</b>
RBC After Covariance*	78,549,923	79,618,540	84,387,071	87,755,200	80,797,382
<b>Total Adjusted Capital</b>	<b>199,318,228</b>	<b>217,729,952</b>	<b>244,501,604</b>	<b>251,776,333</b>	<b>230,002,628</b>

\*1996 Covariance Formula used for 1995-1997 data, 1998 Covariance Formula used for 1998-1999 data.

N/A - Not Available

**Table IV (Continued)**  
**Life RBC By Components, 1995-1999**

	Percent of Total RBC				
	1995	1996	1997	1998	1999
<b>C0 - Asset Risk - Affiliates</b>					
Direct P&C Insurers	0.62%	0.47%	0.48%	0.70%	0.51%
Direct Life Insurers	12.56%	13.48%	13.89%	13.18%	15.62%
Indirect P&C Insurers	1.22%	1.30%	1.19%	1.14%	0.54%
Indirect Life Insurers	1.35%	0.87%	1.00%	1.34%	1.27%
Affiliated Alien Insurers - Canadian	0.29%	0.34%	0.30%	0.25%	0.45%
Affiliated Alien Insurers - All Other	0.92%	1.00%	1.13%	1.32%	2.01%
Off-Balance Sheet Items	0.52%	0.35%	0.46%	0.49%	0.45%
<b>Total C0</b>	<b>17.48%</b>	<b>17.82%</b>	<b>18.44%</b>	<b>18.41%</b>	<b>20.86%</b>
<b>C1 - Asset Risk - All Other</b>					
Bonds After Size Factor	11.62%	11.82%	12.70%	13.81%	13.98%
Mortgages	7.59%	7.18%	5.22%	5.15%	3.59%
Unaffiliated Common/Pref'd Stock	8.26%	8.95%	10.87%	10.58%	11.77%
Affil Com/Pref'd Stock - Invest Subs	1.05%	0.65%	0.39%	0.68%	0.28%
Affil Com/Pref'd Stock - holding Co.	0.55%	1.33%	0.72%	0.94%	0.73%
Affil Com/Pref'd Stock - Parent	0.71%	0.36%	0.52%	0.53%	0.51%
Affil Com/Pref'd Stock - P/C not Subj.	0.00%	0.00%	0.00%	0.00%	0.00%
Affil Com/Pref'd Stock - Life not Subj.	0.00%	0.00%	0.00%	0.11%	0.00%
Affil Com/Pref'd Stock - All Other	3.49%	2.93%	3.38%	3.57%	3.42%
Separate Accounts with Guarantees	0.58%	0.47%	0.38%	0.50%	0.37%
Synthetic GIC's	N/A	N/A	0.00%	0.00%	0.00%
Surplus in non-Guaranteed Sep. Accts	0.42%	0.62%	0.68%	0.80%	0.84%
Real Estate (gross of encumbrances)	5.33%	4.76%	3.93%	3.06%	2.03%
Schedule BA Assets	5.27%	5.00%	1.75%	1.58%	1.32%
Other Long-Term Assets	N/A	N/A	3.39%	4.27%	5.19%
Asset Concentration Factor	2.03%	2.02%	1.96%	1.91%	1.53%
Miscellaneous Assets	0.23%	0.16%	0.25%	0.24%	0.21%
Reinsurance	0.31%	0.35%	0.37%	0.44%	0.45%
<b>Total C1</b>	<b>47.45%</b>	<b>46.59%</b>	<b>46.49%</b>	<b>48.15%</b>	<b>46.23%</b>
<b>C2 - Insurance Risk</b>					
Individual & Industrial Life Insurance	5.60%	5.78%	5.72%	5.42%	5.73%
Group & Credit Life Insurance	3.40%	3.51%	3.68%	3.46%	2.92%
<b>Total Health Insurance</b>	<b>13.51%</b>	<b>13.53%</b>	<b>13.34%</b>	<b>11.72%</b>	<b>11.55%</b>
Premium Stabilization Reserve Credit	-2.80%	-2.59%	-2.68%	-2.37%	-2.18%
<b>Total C2</b>	<b>19.72%</b>	<b>20.22%</b>	<b>20.05%</b>	<b>18.23%</b>	<b>18.02%</b>
<b>C3a - Interest Rate Risk</b>					
Interest Rate Risk - Low	4.16%	4.15%	4.06%	4.03%	3.91%
Interest Rate Risk - Medium	2.64%	2.57%	2.37%	2.22%	2.29%
Interest Rate Risk - High	4.95%	5.07%	5.00%	5.06%	4.84%
Synthetic GIC's	N/A	N/A	0.00%	0.00%	0.00%
<b>Total C3a</b>	<b>11.76%</b>	<b>11.78%</b>	<b>11.43%</b>	<b>11.31%</b>	<b>11.04%</b>
<b>C3b - Health Credit Risk</b>					
<b>Total C3b</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>0.02%</b>	<b>0.03%</b>
<b>C4 - Business Risk</b>					
Subtotal C4a Business Risk	N/A	N/A	N/A	3.40%	3.29%
Subtotal C4b Health Admin. Expense	N/A	N/A	N/A	0.47%	0.54%
<b>Total R4</b>	<b>3.60%</b>	<b>3.59%</b>	<b>3.58%</b>	<b>3.88%</b>	<b>3.83%</b>
<b>Total RBC</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>RBC After Covariance*</b>	<b>88.86%</b>	<b>88.96%</b>	<b>89.28%</b>	<b>89.15%</b>	<b>89.29%</b>
<b>Total Adjusted Capital</b>	<b>225.49%</b>	<b>243.27%</b>	<b>258.67%</b>	<b>255.77%</b>	<b>254.17%</b>

\*1996 Covariance Formula used for 1995-1997 data, 1998 Covariance Formula used for 1998-1999 data.

N/A - Not Available

# HMO RBC Industry Results for 1999

by NAIC Staff

As of October 4, 2000, more than 420 HMO Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 1999. This article summarizes the industry results and discusses some of the trends noted in the 1999 filings.

The RBC test is one of many different tests used by regulators to help ensure that insurance companies remain solvent. The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are five levels of action that a company can trigger under the formula. The base action level is the Authorized Control Level. If a company's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the company under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that a company's total adjusted capital (TAC) is at least twice its ACL;
- 2) Company Action Level (CAL), which means that a company's TAC is at least 1.5 times its ACL but less than twice its ACL;
- 3) Regulatory Action Level (RAL), which means that the company's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that a company's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level (MCL), which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the company is in strong financial condition. It simply means that the company has not triggered one of the regulatory intervention levels. A company can be in weak condition and still pass the RBC test.

## Distribution of Companies by Action Level

As can be seen in Table I, approximately three quarters of the managed care organizations that made an RBC filing for either 1998 or 1999 did not trigger one of the regulatory intervention levels.

Table II shows the disposition of insurers filing in data years 1998 and/or 1999. There is an increase of 72 new filers in 1999, which is offset by a decrease of 96 companies that filed in 1998 but did not file in 1999. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 350 companies that filed in both 1998 and in 1999, 86 companies triggered one of the action levels in 1998. About one-third of those

companies that triggered an action level in 1998 were able to move to the "No Action" level in 1999, while the other two-thirds (53 of 86 companies) remain in one of the action levels.

### **Aggregate Industry Results**

The Managed Care Discount Factor determines the percentage of underwriting risk RBC that is carried down in the RBC calculation. It is based upon the type of managed care arrangement a company has with its providers. The median discount factors for 1998 and 1999 are broken out by company asset size in Table III. It should be noted that there is considerable variation in the discount factor within each asset category because of the different types of arrangements possible between company and provider.

Table III also shows the median RBC ratio by asset size for 1998 and 1999. The RBC ratio is the ratio of a company's TAC to its ACL RBC. Though median RBC ratio is a function of size, with larger insurers tending to have lower ratios, asset size does not appear to greatly influence the median RBC ratio for companies in all but the lowest asset range.

A word of caution is in order with respect to time series analysis of RBC ratios. The ratios for 1998 and 1999 are not exactly comparable to each other because of phase-in aspects of the RBC formula. For 1998 the ACL RBC was set at 0.40 times the Risk-Based Capital After Covariance. For 1999, ACL RBC is 0.45 times the Risk-Based Capital After Covariance. Beginning in 2000, the ACL RBC will be equal to half of the Risk-Based Capital After Covariance. Since the Company Action Level RBC is equal to twice the ACL RBC, beginning

in 2000 and thereafter the Risk-Based Capital After Covariance and the CAL RBC will be equivalent.

Figure I shows the percentage breakdown of the aggregate RBC by component for 1999. H2 - Underwriting Risk constitutes most of the aggregate RBC, as expected. Asset Risk (H0 and H1) becomes more prominent as the asset size increases and Business Risk (H4) becomes less prominent. For example, Business Risk is 22 percent of the total RBC for companies with less than \$10 million in total admitted assets, while Asset Risk contributes only 2 percent. Companies with between \$25 and \$100 million in assets have 12 percent of their RBC coming from Business Risk and 5 percent from Asset Risk. Companies with more than \$250 million in assets have only 8 percent of their RBC coming from Business Risk, while 14 percent of the RBC is contributed by Asset Risk.

The aggregate RBC by major covariance elements for 1998 and 1999 is shown in Table IV. As might be expected, the greatest portion (more than 70 percent) of RBC comes directly from net underwriting risk. The next greatest portion for 1999 is due to business risk and weighs in at 11 percent. The excessive growth risk under H4 - Business Risk is determined through a process that compares the current year's data to that of the previous year. As 1998 was the first year for the RBC calculation, the excessive growth risk could not be calculated for that year and is thus recorded as zero.

Overall, aggregate TAC is growing at a faster rate than RBC. TAC grew by 17 percent during the past year, while aggregate RBC has increased by 11 percent.

**Table I**  
**Industry Results By Action Level, 1998-1999**

	1998*	1999
No Action	335	304
Company Action Level	35	41
Regulatory Action Level	28	45
Authorized Control Level	21	14
Mandatory Control Level	27	18
Total	446	422
Percent At 'No Action' Level	75.1%	72.0%

\*Revised as of October 2000

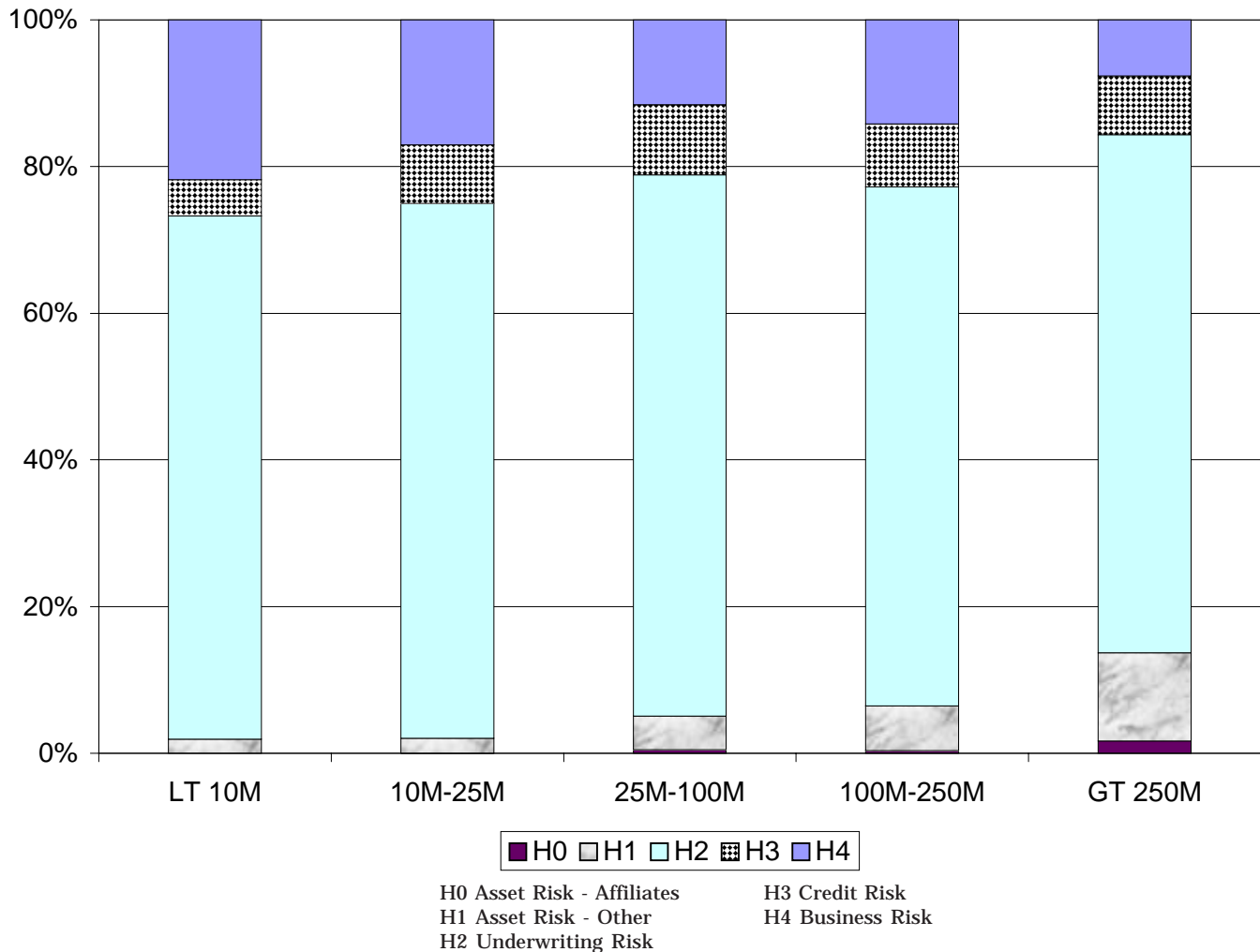
**Table II**  
**1999 Disposition Of 1998 RBC Filers By Action Level**

		1999 Action					
		No Action	Company Action Level	Regul. Action Level	Author. Control Level	Mandatory Control Level	Not On Database
1998 Action	No Action	216	18	19	6	5	71
	Company Action Level	14	8	3	2	0	8
	Regulatory Action Level	10	4	6	2	2	4
	Authorized Control Level	2	4	5	2	3	5
	Mandatory Control Level	7	2	6	1	3	8
	Not On Database	55	5	6	1	5	N/A

**Table III  
Median RBC Ratios By Asset Size  
1998-1999**

Asset Size	1999 Median Managed Care Discount Factor	1998	1999
Less than \$10 Million	0.817	573%	511%
\$10 million to \$25 million	0.781	288%	255%
\$25 million to \$100 million	0.775	322%	245%
\$100 million to \$250 million	0.764	289%	269%
More than \$250 million	0.765	276%	263%
All Companies	0.780	341%	296%

**Figure I  
Percentage Breakdown of the Aggregate RBC by Component for 1999**



**Table IV**  
**HMO RBC By Components, 1998-1999**

	Aggregates for 446 Companies 1998	Aggregates for 422 Companies 1999	Percent of Total RBC 1998	Percent of Total RBC 1999
<b>H0 - Asset Risk - Affiliates</b>				
Off-Balance Sheet	1,840,504	1,879,364	0.03%	0.03%
Direct Insurers	5,050,686	22,675,698	0.08%	0.33%
Indirect Insurers	0	0	0.00%	0.00%
Direct MCOs	244,650,462	30,952,505	3.95%	0.45%
Indirect MCOs	1,980,302	2,148,210	0.03%	0.03%
Direct Alien Insurers	0	2,156,327	0.00%	0.03%
Indirect Alien Insurers	0	0	0.00%	0.00%
Total H0	253,521,954	59,812,104	4.09%	0.87%
<b>H1 - Asset Risk - Other</b>				
Investment Subsidiary	18,620,923	119,839,133	0.30%	1.74%
Holding Company Excess of Subs	714,320	186,948	0.01%	0.00%
Investment in Parent	0	1,482,565	0.00%	0.02%
Other Affiliates	13,051,786	10,092,421	0.21%	0.15%
Fixed Income Assets	44,515,204	79,404,805	0.72%	1.15%
Unaffiliated Preferred Stock	2,014,753	1,810,132	0.03%	0.03%
Unaffiliated Common Stock	55,767,135	65,827,757	0.90%	0.95%
Property & Equipment	208,947,880	158,024,963	3.37%	2.29%
Asset Concentration	49,350,933	57,717,339	0.80%	0.84%
Total H1	392,982,934	494,386,063	6.34%	7.17%
<b>H2 - Underwriting Risk</b>				
Net Underwriting Risk	4,450,986,238	4,889,925,920	71.83%	70.87%
Rate Guaranty - 15-36 Months	37,128,659	29,641,058	0.60%	0.43%
Rate Guaranty - Over 36 Months	9,166,700	3,776,520	0.15%	0.05%
Assessment Risk (Non-Guaranty Fund)	52,236,284	52,723,689	0.84%	0.76%
Stop Loss	N/A	870,241	N/A	0.01%
Disability Income	N/A	0	N/A	0.00%
Long-Term Care	N/A	0	N/A	0.00%
Limited Benefit Plans	N/A	0	N/A	0.00%
Premium Stabilization Reserve	-4,378,723	-1,498,118	-0.07%	-0.02%
Total H2	4,545,139,158	4,975,439,310	73.35%	72.11%
<b>H3 - Credit Risk</b>				
Total Reinsurance	784,239	1,182,550	0.01%	0.02%
Intermediaries Credit Risk	409,276,161	405,567,776	6.61%	5.88%
Total Other Receivables	125,949,145	173,884,159	2.03%	2.52%
Total H3	536,009,545	580,634,485	8.65%	8.42%
<b>H4 - Business Risk</b>				
Administrative Expenses Base	415,028,456	428,750,633	6.70%	6.21%
Non-Underwritten & Limited Risk Business	16,318,081	21,469,573	0.26%	0.31%
Premiums Subject to Guaranty Fund Assessment	37,312,795	27,921,087	0.60%	0.40%
Excessive Growth Risk	0	311,392,838	0.00%	4.51%
Total H4	468,659,332	789,534,131	7.56%	11.44%
<b>Total RBC</b>	<b>6,196,312,923</b>	<b>6,899,806,093</b>	<b>100.0%</b>	<b>100.0%</b>
RBC After Covariance	5,173,962,893	5,419,645,249	83.50%	78.55%
<b>Total Adjusted Capital</b>	<b>6,283,065,736</b>	<b>7,339,919,888</b>	<b>101.40%</b>	<b>106.38%</b>

N/A - Not Available

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