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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 and encourage readers to contribute to its content.

NAIC staff researchers and writers intend to keep you informed through the *RQ*. We will tell you about projects, programs and products developed by NAIC committees and working groups, and we will inundate you with pages and pages of statistical and financial information from the world's most comprehensive databases. 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.

The release of each *RQ* is scheduled approximately one month before each national meeting: 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.

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, contact Natalai Hughes, *nhughes@naic*. org, or Teresa Smith, *tsmith@naic.org* for information on getting your article published.

An annual subscription to the *Research Quarterly* is $100; individual copies are $25. Regulators may obtain copies at no charge. Contact the NAIC Insurance Products & Services Division at *prodserv@naic.org* for order information.

Research Quarterly

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A Note from the Editor

The "RBC Issue" is a Winter *RQ* tradition. Here, for your reading pleasure, are the 2002 Risk Based Capital Industry results for the following lines of business: Life Insurance, Property/Casualty Insurance, Health, Medical, and Dental Indemnity (HMDI) companies, and Health Maintenance Organizations (HMOs).

Upcoming Features

In 2004, we will delve into the murky area of homeowners insurance. Premium levels rose sharply in the past year, largely due to the combination of lower investment returns and high losses in 2002. Availability became a significant issue as companies temporarily restricted new business then imposed stricter underwriting practices when new applications were accepted again. And speaking of stricter underwriting practices, our Fall issue on the use of credit scoring in determining insurance rates/eligibility for personal lines business has sparked an interest among our readers in more coverage on that debate.

The *NAIC Medical Malpractice Report* is in the final stages of development and we plan to highlight its findings upon completion. We are also going to focus on risk retention groups as there is serious talk of expanding the Federal Risk Retention Act, currently applicable to liability coverage only, to include property insurance and possibly personal lines coverages. The subject is important enough to have its own NAIC working group assigned to study the issues involved and promises to be an major attention-getter in the coming year.

The regulation of insurance internationally is an area we have been asked to cover as regulators from other countries look to us in the development of their own regulatory standards and practices and we work together for globalization of the business. Also regulatory progress on Speed to Market initiatives will be covered as the NAIC's "Reinforced Commitment to the Insurance Regulatory Modernization Action Plan" continues to make state regulation more effective and efficient.

Statistical reports annually developed by the Research Department staff have been released with 2002 results including: the *Insurance Department Resources Report*, the *Life, Health* and *Property Market Share Reports* and *Statistical Compilations of Annual Statement Information*, and the *Profitability Report*. Committee projects and activities completed this year or beginning next year will also be highlighted as well as articles on high-interest topics such as market conduct regulation, anti-fraud efforts, and securing coverage for catastrophes—including terrorism.

So goodbye 2003; hello 2004. Here's to a year of continued change for the better in the intriguing world of insurance regulation!

Talk to Us

We want to hear from our readers. Please e-mail your articles, suggestions, comments, questions, or any insurance regulatory information you want to share to my attention at nhughes@naic.org.

The *RQ* is a global forum for insurance regulators with subscribers in 17 countries. Subscribe today.

Natalai Webster Hughes
Editor, *Research Quarterly*

Life RBC Industry Results for 2002

by NAIC Staff

As of October 1, 2003, more than 1,100 Life Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2002. This article summarizes the industry results and discusses some of the trends noted in the 2002 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, 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, 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, which means that the company's TAC is less than 0.70 times its Authorized Control Level RBC.

The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action.

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 1A, 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 nine years that the NAIC's Life RBC system has been in place. Table 1B shows the 2001-2002 industry results for the Tax Sensitivity Test action levels.

Table 2A shows the disposition of insurers filing in data years 2001 and/or 2002. There is an increase of 41 new filers in 2002, which is offset

Table 1A
Industry Results By Action Level, 1998-2002

	1998	1999	2000	2001*	2002
No Action	1,312	1,157	1,183	1,132	1,085
Company Action Level	11	14	13	12	18
Regulatory Action Level	4	5	6	7	5
Authorized Control Level	3	1	2	0	2
Mandatory Control Level	4	1	2	2	4
Total	1,334	1,178	1,206	1,153	1,114
Percent At 'No Action' Level	98.4%	98.2%	98.1%	98.2%	97.4%

*Revised as of October 2003

Table 1B
Industry Results By Tax Sensitivity Test Action Level, 2001-2002

	2001*	2002
No Action	1,114	1,062
Company Action Level	22	25
Regulatory Action Level	13	14
Authorized Control Level	2	7
Mandatory Control Level	2	6
Total	1,153	1,114
Percent At 'No Action' Level	96.6%	95.5%

*Revised as of October 2003

by a decrease of 80 companies that filed in 2001 but did not file in 2002. 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 1,073 companies that filed in both 2001 and in 2002, eighteen companies triggered one of the action levels in 2001. Over two-fifths of those companies that triggered an action level in 2001 were able to move to the "No Action" level in 2002, while the rest (10 of 18 companies) remain in one of the action levels. Table 2B shows the disposition of insurers using the Tax Sensitivity Test action levels.

Aggregate Industry Results

The RBC ratio is the ratio of a company's TAC to its ACL RBC. Table 3A shows the median RBC ratio by asset size for data years 1998 through 2002. 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 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. Table

Table 2A
2002 Disposition of 2001 RBC Filers By Action Level

		2002 Action					
		No Action	Company Action Level	Regulatory Action Level	Authorized Control Level	Mandatory Control Level	Not On Database
2001 Action	No Action	1038	11	1	2	3	77
	Company Action Level	5	4	2	0	0	1
	Regulatory Action Level	2	1	2	0	1	1
	Authorized Control Level	0	0	0	0	0	0
	Mandatory Control Level	1	0	0	0	0	1
	Not On Database	39	2	0	0	0	N/A

Table 2B
2002 Disposition of 2001 RBC Filers By Tax Sensitivity Test Action Level

		2002 Action					
		No Action	Company Action Level	Regulatory Action Level	Authorized Control Level	Mandatory Control Level	Not On Database
2001 Action	No Action	1007	17	9	2	5	74
	Company Action Level	11	5	0	3	0	3
	Regulatory Action Level	4	0	4	2	1	2
	Authorized Control Level	1	0	1	0	0	0
	Mandatory Control Level	1	0	0	0	0	1
	Not On Database	38	3	0	0	0	N/A

Table 3A
Median RBC Ratios By Asset Size
1998-2002

Asset Size	2002 Surplus to Asset Ratio	1998	1999	2000	2001	2002
Less than $10 Million	0.816	2736%	3010%	2993%	3647%	4981%
$10 million to $25 million	0.499	1309%	1275%	1433%	1596%	1575%
$25 million to $100 million	0.324	948%	962%	982%	1019%	1014%
$100 million to $250 million	0.219	701%	679%	724%	791%	843%
$250 million to $500 million	0.130	755%	778%	732%	828%	683%
$500 million to $1 billion	0.136	670%	712%	683%	746%	768%
$1 billion to $10 billion	0.079	594%	581%	586%	676%	614%
More than $10 billion	0.053	549%	544%	568%	676%	611%
All Companies	0.265	858%	850%	868%	932%	882%

Table 3B
Median Tax Sensitivity Test RBC Ratios By Asset Size
2001-2002

Asset Size	2002 Surplus to Asset Ratio	2001	2002
Less than $10 Million	0.816	2578%	3650%
$10 million to $25 million	0.499	1161%	1110%
$25 million to $100 million	0.324	739%	697%
$100 million to $250 million	0.219	567%	558%
$250 million to $500 million	0.130	547%	448%
$500 million to $1 billion	0.136	526%	530%
$1 billion to $10 billion	0.079	452%	414%
More than $10 billion	0.053	447%	397%
All Companies	0.265	655%	611%

3B shows median Tax Sensitivity Test RBC ratios for 2001-2002.

Figure 1A shows the percentage breakdown of the aggregate RBC by component for 2002. The C1 (other asset risk) and C2 (insurance risk) components constitute the bulk of the aggregate RBC, with the C2 component being more prominent in the smaller companies and the C1 component being more influential in the larger companies. For example, C2 is 57 percent of the total RBC for companies with between $10 and $25 million in total admitted assets, while C1 contributes 22 percent. On the other hand, companies with more that $10 billion in assets have only 12 percent of their RBC coming from C2 and 57 percent of the RBC is contributed by C1. Figure 1B shows the same breakdown using pre-tax RBC amounts.

Figure 1A

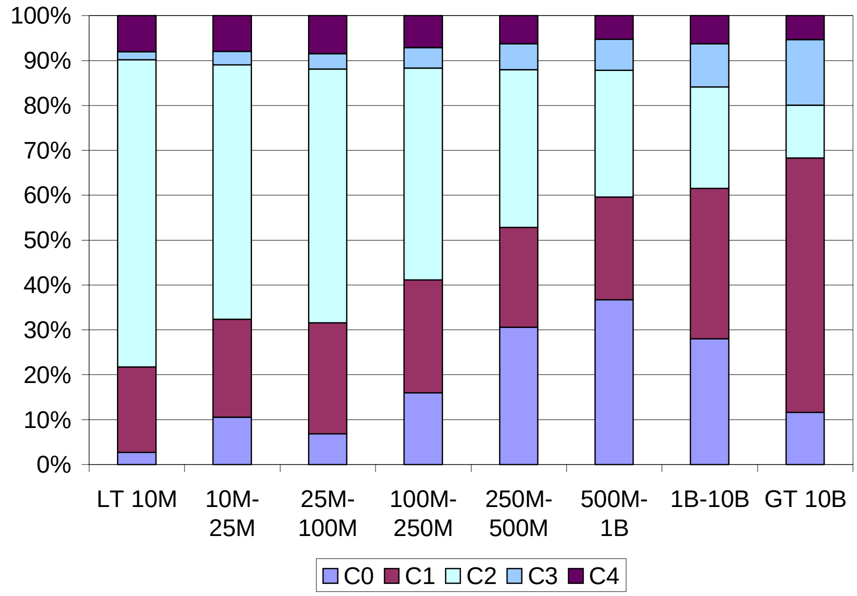


Figure 1B

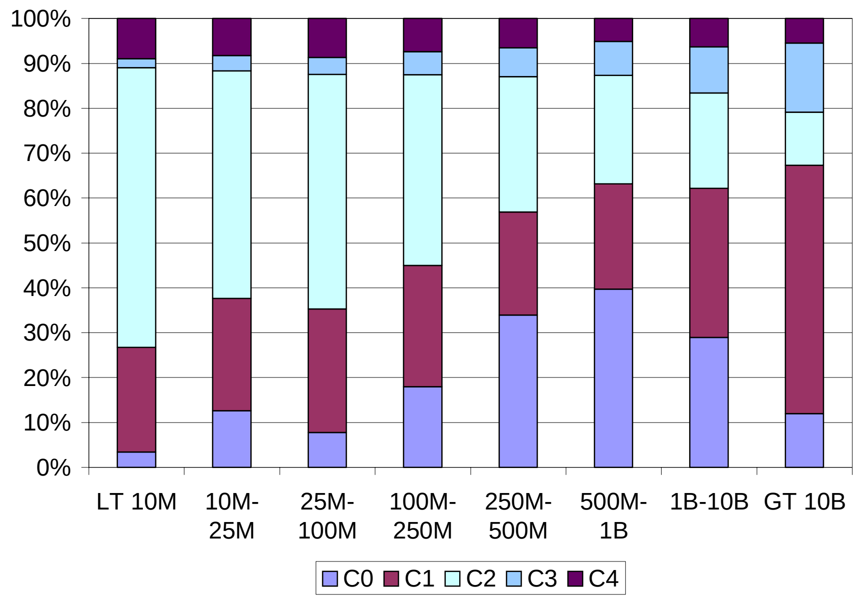


Table 4 shows the industry aggregate Total Adjusted Capital and its breakdown into basic elements for 1998 through 2002. Tax Sensitivity Test TAC is also included for 2001 and 2002.

Tables 5 and 5a show the aggregate RBC by major covariance elements for 1998 through 2002. The RBC after covariance for each year is calculated using that year's respective covariance formula. While RBC was calculated on a pre-tax basis for years prior to 2001, the 2000 RBC factors are similar to the 2001 post-tax factors as opposed to the pre-tax factors. For this reason, amounts for 1998-2000 are listed in the post-tax columns.

Overall, TAC has grown eight percent in the past five years, total RBC has grown four percent and RBC after covariance has decreased five percent. Pre-tax RBC increased five percent from 2001 to 2002.

Table 4
Industry Aggregate Total Adjusted Capital, 1997-2001

Total Adjusted Capital Elements	1998 (000)	1999 (000)	2000 (000)	2001* (000)	2002 (000)
Capital and Surplus	202,281,962	186,071,801	223,092,959	228,517,493	236,839,755
AVR	36,389,611	31,462,776	35,689,682	29,859,992	22,723,857
Dividend Liability	8,170,525	6,498,550	8,946,212	9,136,370	9,108,169
Life Subsidiaries' AVR	4,827,691	5,696,753	5,611,627	3,956,463	2,277,860
Life Sub's Dividend Liability	114,128	274,442	374,324	384,187	162,257
P/C Subs' Non-Tab Discount	10,279	2,516	8,029	9,939	25
Total Adjusted Capital (TAC)	251,777,940	230,002,372	274,511,774	271,844,567	271,612,175
Tax Sensitivity Test TAC	--	--	--	261,877,071	256,500,207

*Revised as of October 2003

Table 5
Life RBC By Components, 1998-2002*
(000)

	1998	1999	2000	2001	2002
Total Number Companies (actual count)	1,334	1,178	1,206	1,153	1,114
C0 - Asset Risk - Affiliates					
Direct P&C Insurers	684,804	465,712	262,991	1,196,172	1,003,382
Direct Life Insurers	12,976,224	14,138,351	16,219,896	21,151,413	21,434,771
Direct & Indirect Health Insurers	--	--	--	--	671,741
Indirect P&C Insurers	1,120,698	484,606	1,224,923	510,100	676,106
Indirect Life Insurers	1,314,184	1,152,332	1,786,005	1,815,593	2,049,736
Affiliated Alien Insurers-Canadian	250,558	409,137	184,837	50,993	46,679
Affiliated Alien Insurers-All Other	1,300,900	1,816,634	1,681,419	1,013,252	956,871
Off-Balance Sheet Items	477,444	406,342	630,879	880,014	1,043,722
Total C0 – Pre-Tax	--	--	--	26,617,538	27,883,006
Net C0 – Post-Tax	18,124,812	18,873,113	21,990,948	17,964,043	18,550,194
C1cs - Asset Risk - Unaffil. Common Stock & Affil. Non-Ins. Stock					
Schedule D Unaffiliated Common Stock	--	--	--	8,778,979	7,297,725
Schedule BA Unaffiliated Common Stock	--	--	--	3,727,577	4,124,815
Schedule BA Affiliated Common Stock	--	--	--	--	768,423
Common Stock Concentration Factor	--	--	--	2,619,934	2,391,363
Affil Com/Pref'd Stock - Holding Co.	920,783	659,184	815,828	297,088	235,680
Affil Com/Pref'd Stock - All Other	3,515,695	3,099,105	3,718,959	4,239,528	3,651,188
Total C1cs – Pre-Tax	--	--	--	19,663,106	18,469,194
Net C1cs – Post-Tax	--	--	--	12,781,636	12,004,987

*Revised as of October 2003. 1998 Covariance Formula used for 1998-2000 data, 2001 Covariance Formula used for 2001 data, 2002 Covariance Formula used for 2002 data

Table 5 (cont.) (000)

	1998	1999	2000	2001	2002
Total Number Companies (actual count)	1,334	1,178	1,206	1,153	1,114
C1o - Asset Risk - All Other					
Bonds After Size Factor	13,593,281	12,651,554	15,492,835	20,960,149	25,090,254
Mortgages	5,068,440	3,246,622	4,621,126	5,628,197	6,206,319
Unaffiliated Common/Prefd Stock	10,410,234	10,648,464	9,590,343	--	--
Unaffiliated Preferred Stock	--	--	--	858,213	672,673
Affil Com/Prefd Stock-Invest Subs	665,459	257,104	603,262	713,114	1,086,111
Affil Com/Prefd Stock-Parent	524,983	464,974	516,334	492,340	1,064,785
Affil Com/Prefd Stock-PC not Subj.	322	1,171	1,352	1,399	994
Affil Com/Prefd Stock-Life not Subj.	106,750	2,550	3,068	2,806	41,274
Affil Com/Prefd Stock-Pub Traded Ins	--	--	85,898	59,933	0
Separate Accounts with Guarantees	487,477	335,287	687,794	708,073	1,097,374
Synthetic GIC's	82	1,988	1,796	1,722	1,730
Surplus in Non-Guaranteed Sep. Accts	782,883	757,417	1,038,550	1,264,598	1,282,163
Real Estate (gross of encumbrances)	3,010,348	1,833,947	2,383,717	3,230,302	3,402,900
Schedule BA Real Estate	1,545,454	1,188,428	1,601,112	2,829,024	2,289,483
Other Long-Term Assets	4,206,618	4,692,223	7,401,730	3,484,406	2,886,677
Schedule BA Mortgages	11,839	10,403	33,236	56,043	58,163
Concentration Factor	1,878,281	1,381,016	1,752,728	2,769,895	2,900,900
Miscellaneous Assets	234,716	194,499	277,222	770,005	655,870
Replication Trans &Manditorily Convertible Sec.	--	0	11,940	4,158	34,444
Reinsurance	434,723	407,546	522,094	951,942	1,117,702
Total C1o – Pre-tax	--	--	--	44,786,318	49,889,818
Net C1o – Post-Tax	--	--	--	31,841,030	35,723,670
Total C1 - Post-Tax	47,398,368	41,833,482	51,160,922	44,622,666	47,728,657
C2 - Insurance Risk					
Individual & Industrial Life Insurance	5,338,467	5,181,453	6,041,538	8,857,549	8,551,292
Group & Credit Life Insurance	3,402,062	2,639,531	3,652,765	5,930,202	5,970,740
Total Health Insurance	11,536,777	10,452,719	12,102,474	12,282,989	13,007,454
Prem Stabilization Reserve Credit	-2,333,864	-1,968,421	-2,693,996	-2,941,481	-2,991,882
Total C2 – Pre-Tax	--	--	--	24,129,259	24,537,603
Net C2 – Post-Tax	17,943,442	16,305,282	19,102,782	17,643,776	17,831,198
C3a - Interest Rate Risk					
Total C3a – Pre-Tax	--	--	--	17,493,123	19,410,117
Net C3a – Post-Tax	11,130,949	9,986,933	10,780,244	11,370,530	12,616,651
C3b – Health Credit Risk					
Total C3b – Pre-Tax	--	--	--	25,847	25,000
Net C3b – Post-Tax	24,040	27,049	31,395	25,847	25,000
C4a - Business Risk					
Premium Component	2,901,347	2,521,941	3,173,544	6,566,701	7,317,830
Liability Component	449,277	458,892	548,121	829,585	739,890
Subtotal Business Risk(C4a)–PreTax	--	--	--	7,396,286	8,057,719
Net C4a – Post-Tax	3,350,624	2,980,833	3,721,666	4,807,586	5,237,518
C4b - Business Risk					
Health Adm Exp Component PreTax	--	--	--	517,824	573,392
Net C4b – Post-Tax	464,787	484,351	534,546	517,824	573,392
Total RBC					
Total RBC – Pre-Tax	--	--	--	140,629,301	148,845,849
Net RBC – Post-Tax	98,437,022	90,491,043	107,322,503	96,952,272	102,562,610
Total RBC After Covariance	87,755,200	80,796,678	95,925,678	78,127,496	83,610,789
Tax Sensitivity–Tot RBC aft Covariance	--	--	--	112,797,308	120,696,098
Total Adjusted Capital	251,776,333	230,002,552	274,530,027	271,844,650	271,612,185

Table 5a
Life RBC By Components, 1998-2002*
(000)

	Percent of Total RBC			Post-Tax		Pre-Tax	
	1998	1999	2000	2001	2002	2001	2002
Total Number Companies (actual count)							
C0 - Asset Risk - Affiliates							
Direct P&C Insurers	0.70%	0.51%	0.25%	1.23%	0.98%	0.85%	0.67%
Direct Life Insurers	13.18%	15.62%	15.11%	21.82%	20.90%	15.04%	14.40%
Direct & Indirect Health Insurers	--	--	--	--	0.65%	--	0.45%
Indirect P&C Insurers	1.14%	0.54%	1.14%	0.53%	0.66%	0.36%	0.45%
Indirect Life Insurers	1.34%	1.27%	1.66%	1.87%	2.00%	1.29%	1.38%
Affiliated Alien Insurers-Canadian	0.25%	0.45%	0.17%	0.05%	0.05%	0.04%	0.03%
Affiliated Alien Insurers-All Other	1.32%	2.01%	1.57%	1.05%	0.93%	0.72%	0.64%
Off-Balance Sheet Items	0.49%	0.45%	0.59%	0.91%	1.02%	0.63%	0.70%
Total C0 – Pre-Tax	--	--	--	27.45%	27.19%	18.93%	18.73%
Net C0 – Post-Tax	18.41%	20.86%	20.49%	18.53%	18.09%	12.77%	12.46%
C1cs - Asset Risk - Unaffil. Common Stock & Affil. Non-Ins. Stock							
Schedule D Unaffiliated Common Stock	--	--	--	9.05%	7.12%	6.24%	4.90%
Schedule BA Unaffiliated Common Stock	--	--	--	3.84%	4.02%	2.65%	2.77%
Schedule BA Affiliated Common Stock	--	--	--	--	0.75%	--	0.52%
Common Stock Concentration Factor	--	--	--	2.70%	2.33%	1.86%	1.61%
Affil Com/Pref'd Stock - Holding Co.	0.94%	0.73%	0.76%	0.31%	0.23%	0.21%	0.16%
Affil Com/Pref'd Stock - All Other	3.57%	3.42%	3.47%	4.37%	3.56%	3.01%	2.45%
Total C1cs – Pre-Tax	--	--	--	20.28%	18.01%	13.98%	12.41%
Net C1cs – Post-Tax	--	--	--	13.18%	11.71%	9.09%	8.07%
C1o - Asset Risk - All Other							
Bonds After Size Factor	13.81%	13.98%	14.44%	21.62%	24.46%	14.90%	16.86%
Mortgages	5.15%	3.59%	4.31%	5.81%	6.05%	4.00%	4.17%
Unaffiliated Common/Prefd Stock	10.58%	11.77%	8.94%	--	--	--	--
Unaffiliated Preferred Stock	--	--	--	0.89%	0.66%	0.61%	0.45%
Affil Com/Prefd Stock-Invest Subs	0.68%	0.28%	0.56%	0.74%	1.06%	0.51%	0.73%
Affil Com/Prefd Stock-Parent	0.53%	0.51%	0.48%	0.51%	1.04%	0.35%	0.72%
Affil Com/Prefd Stock-PC not Subj.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affil Com/Prefd Stock-Life not Subj.	0.11%	0.00%	0.00%	0.00%	0.04%	0.00%	0.03%
Affil Com/Prefd Stock-Pub Traded Ins	--	--	0.08%	0.06%	0.00%	0.04%	0.00%
Separate Accounts with Guarantees	0.50%	0.37%	0.64%	0.73%	1.07%	0.50%	0.74%
Synthetic GIC's	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Surplus in Non-Guaranteed Sep. Accts	0.80%	0.84%	0.97%	1.30%	1.25%	0.90%	0.86%
Real Estate (gross of encumbrances)	3.06%	2.03%	2.22%	3.33%	3.32%	2.30%	2.29%
Schedule BA Real Estate	1.57%	1.31%	1.49%	2.92%	2.23%	2.01%	1.54%
Other Long-Term Assets	4.27%	5.19%	6.90%	3.59%	2.81%	2.48%	1.94%
Schedule BA Mortgages	0.01%	0.01%	0.03%	0.06%	0.06%	0.04%	0.04%
Concentration Factor	1.91%	1.53%	1.63%	2.86%	2.83%	1.97%	1.95%
Miscellaneous Assets	0.24%	0.21%	0.26%	0.79%	0.64%	0.55%	0.44%
Replication Trans &Manditorily Convertible Sec.	--	0.00%	0.01%	0.00%	0.03%	0.00%	0.02%
Reinsurance	0.44%	0.45%	0.49%	0.98%	1.09%	0.68%	0.75%
Total C1o – Pre-tax	--	--	--	46.19%	48.64%	31.85%	33.52%
Net C1o – Post-Tax	--	--	--	32.84%	34.83%	22.64%	24.00%
Total C1 - Post-Tax	48.15%	46.23%	47.67%	46.03%	46.54%	31.73%	32.07%

Table 5a (cont.)
Life RBC By Components, 1998-2002*
(000)

	Percent of Total RBC			Post-Tax		Pre-Tax	
	1998	1999	2000	2001	2002	2001	2002
Total Number Companies (actual count)							
C2 - Insurance Risk							
Individual & Industrial Life Insurance	5.42%	5.73%	5.63%	9.14%	8.34%	6.30%	5.75%
Group & Credit Life Insurance	3.46%	2.92%	3.40%	6.12%	5.82%	4.22%	4.01%
Total Health Insurance	11.72%	11.55%	11.28%	12.67%	12.68%	8.73%	8.74%
Prem Stabilization Reserve Credit	-2.37%	-2.18%	-2.51%	-3.03%	-2.92%	-2.09%	-2.01%
Total C2 – Pre-Tax	--	--	--	24.89%	23.92%	17.16%	16.49%
Net C2 – Post-Tax	18.23%	18.02%	17.80%	18.20%	17.39%	12.55%	11.98%
C3a - Interest Rate Risk							
Total C3a – Pre-Tax	--	--	--	18.04%	18.93%	12.44%	13.04%
Net C3a – Post-Tax	11.31%	11.04%	10.04%	11.73%	12.30%	8.09%	8.48%
C3b – Health Credit Risk							
Total C3b – Pre-Tax	--	--	--	0.03%	0.02%	0.02%	0.02%
Net C3b – Post-Tax	0.02%	0.03%	0.03%	0.03%	0.02%	0.02%	0.02%
C4a - Business Risk							
Premium Component	2.95%	2.79%	2.96%	6.77%	7.13%	4.67%	4.92%
Liability Component	0.46%	0.51%	0.51%	0.86%	0.72%	0.59%	0.50%
Subtotal Business Risk(C4a)–PreTax	--	--	--	7.63%	7.86%	5.26%	5.41%
Net C4a – Post-Tax	3.40%	3.29%	3.47%	4.96%	5.11%	3.42%	3.52%
C4b - Business Risk							
Health Adm Exp Component PreTax	--	--	--	0.53%	0.56%	0.37%	0.39%
Net C4b – Post-Tax	0.47%	0.54%	0.50%	0.53%	0.56%	0.37%	0.39%
Total RBC							
Total RBC – Pre-Tax	--	--	--	145.05%	145.13%	100.00%	100.00%
Net RBC – Post-Tax	100.00%	100.00%	100.00%	100.00%	100.00%	68.94%	68.91%
Total RBC After Covariance	89.15%	89.29%	89.38%	80.58%	81.52%	55.56%	56.17%
Tax Sensitivity–Tot RBC aft Covariance	--	--	--	116.34%	117.68%	80.21%	81.09%
Total Adjusted Capital	255.77%	254.17%	255.80%	280.39%	264.83%	193.31%	182.48%
Tax Sensitivity – Total Adjusted Capital	--	--	--	270.11%	250.09%	186.22%	172.33%

*Revised as of October 2003. 1998 Covariance Formula used for 1998-2000 data, 2001 Covariance Formula used for 2001 data, 2002 Covariance Formula used for 2002 data.

Quarterly Notes

Csiszar, Poolman and Ario Elected NAIC Officers for 2004

During its Winter National Meeting, members of the NAIC elected the association's 2004 officers. South Carolina Insurance Director Ernst Csiszar, current NAIC vice president, was elected president. North Dakota Insurance Commissioner Jim Poolman was elected Vice President, and Oregon Insurance Administrator Joel Ario was re-elected for a second consecutive term as Secretary-Treasurer.

"We made tremendous progress in 2003, highlighted by the adoption of our new plan of action for regulatory reform, called *Reinforced Commitment: Insurance Regulatory Modernization Action Plan*," Csiszar said. "That was just the beginning. 2004 is the time for us to take a strong step forward. I will continue working with all of our constituencies to meet the challenges facing state-based regulation and push toward the concrete goals outlined in our plan."

"This is a tremendous team of officers and I am enthusiastic about our potential in 2004," added Poolman. "We have each been focused on consumer protection and strengthening the system of state regulatory authority in recent years, and that will continue to be our mandate going forward."

"We have outlined some concrete goals and challenges specifically in the market regulation and market conduct areas, so I felt strongly about remaining as Secretary-Treasurer for another term," said Ario. "In this position, I feel as though I can take a more direct role overseeing progress toward our goals, so I'm glad that the members have given me the opportunity to continue to pursue our agenda in 2004."

NIPR Announces Price Reductions for 2004

The Board of Directors of the National Insurance Producer Registry (NIPR) voted yesterday to reduce prices on all products by 10 percent, bringing unexpected savings to insurers, producers and brokers across the country. NIPR, a non-profit affiliate of the National Association of Insurance Commissioners (NAIC), provides products to streamline and bring uniformity to the insurance producer licensing process.

The reduction applies to all NIPR products, including PDB, which compiles information on licensed producers, the Electronic Nonresident Licensing (ENRL) service, and an electronic appointment and termination agent tracking service. The revised pricing structures eliminates any prepayment on the part of users, and creates a "guaranteed amount of usage" agreement that runs for one year and is automatically renewable. The reduced pricing structure takes effect 1/1/2004.

Pickens Promotes NAIC's Regulatory Modernization Action Plan in Congress

In testimony on Capitol Hill, Arkansas Insurance Commissioner (and NAIC President) Mike Pickens told members of the House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises that regulating the business of insurance is a function of the states, where it has served consumers effectively and efficiently for 125 years. Pickens presented the NAIC's recently adopted action plan, "A Reinforced Commitment: Insurance Regulatory Modernization Action Plan," as the blueprint for the future of state insurance regulation.

Unanimously adopted by its members, "*A Reinforced Commitment: Insurance Regulatory Modernization Action Plan*" sets forth comprehensive, time-sensitive principles and goals that address consumer protection, market regulation, "speed-to-market" for insurance products, producer licensing, insurance company licensing, solvency regulation, and change in insurance company control. The action plan calls for states to reach all key modernization goals by dates ranging from December 31, 2003 to December 31, 2008. "State regulators are on time and on target to accomplish changes needed to establish an efficient national system of insurance regulation in the United States," Pickens said.

Property & Casualty RBC Industry Results for 2002

by NAIC Staff

As of October 1, 2003, more than 2,400 Property & Casualty Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2002. This article summarizes the industry results and discusses some of the trends noted in the 2002 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, 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, 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, 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 1, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 96 percent of all P&C insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the nine years that the NAIC's Property & Casualty RBC system has been in place.

Table 2 shows the disposition of insurers filing in data years 2001 and/or 2002. There is an increase of 103 new filers in 2002, which is offset by a decrease of 101 companies that filed in 2001 but did not file in 2002. 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 2,376 companies that filed in both 2001 and in 2002, 73 companies triggered one of the action levels in 2001. About one-third of those

Table 1
Industry Results By Action Level, 1998-2002

	1998	1999	2000	2001*	2002
No Action	2,383	2,298	2,340	2,382	2,373
Company Action Level	20	24	33	25	41
Regulatory Action Level	14	13	19	25	28
Authorized Control Level	6	7	3	7	8
Mandatory Control Level	24	26	28	38	29
Total	2,447	2,368	2,423	2,477	2,479
Percent At 'No Action' Level	97.4%	97.0%	96.6%	96.2%	95.7%

*Revised as of October 2003

Table 2
2002 Disposition of 2001 RBC Filers By Action Level

		2002 Action					
		No Action	Company Action Level	Regulatory Action Level	Authorized Control Level	Mandatory Control Level	Not On Database
2001 Action	No Action	2,249	30	16	2	6	79
	Company Action Level	12	5	3	1	1	3
	Regulatory Action Level	8	3	6	0	2	6
	Authorized Control Level	2	0	0	3	1	1
	Mandatory Control Level	2	2	2	1	19	12
	Not On Database	100	1	1	1	0	N/A

companies that triggered an action level in 2001 were able to move to the "No Action" level in 2002, while the other two-thirds (49 of 73 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 3 shows the median RBC ratio by asset size for data years 1998 through 2002. 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 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 ratios for years prior to 1998 are not exactly comparable to the ratios for later years because of phase-out aspects of the RBC formula. 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. Though relatively few companies employ reserve discounting, this phase-out must still be considered.

Table 3
Median RBC Ratios By Asset Size
1998-2002

Asset Size	2002 Surplus to Asset Ratio	1998	1999	2000	2001	2002
Less than $10 Million	0.777	1779%	1912%	2580%	2822%	2435%
$10 million to $25 million	0.539	1125%	1200%	1256%	1138%	1205%
$25 million to $100 million	0.392	799%	819%	856%	905%	804%
$100 million to $250 million	0.324	710%	734%	740%	713%	650%
$250 million to $500 million	0.307	682%	695%	700%	685%	652%
$500 million to $1 billion	0.308	621%	569%	594%	597%	540%
$1 billion to $10 billion	0.290	571%	573%	528%	506%	462%
More than $10 billion	0.233	456%	452%	437%	383%	338%
All Companies	0.420	841%	858%	908%	870%	810%

Table 4 (page 13-14) shows the aggregate RBC by major covariance elements for 1998 through 2002. During this time the most dramatic change in the aggregate results is an 85 percent increase in the R3 component, credit asset risk. This is mainly due to reinsurance recoverables RBC amounts, which have nearly doubled since 1998. The risk associated with the R2 component, equity asset risk, decreased by nearly 10 percent due to large reductions in preferred and common stock RBC amounts. In comparison, the fixed income asset risk component (R1) increased 44 percent, mostly due to increased bond amounts. Reserve risk (R4), which had remained relatively flat for the past several years, increased by nearly 17 percent in the past year alone and 32 percent overall. The affiliated asset risk (R0) has grown by six percent and the written premium component (R5) has grown by 19 percent.

Table 5 shows the relative risk factors by year for the two major underwriting risk components: reserve risk and premium risk. The total amount of RBC attributable to premiums and reserves would normally be expected to grow over time due to inflation. While these risk factors had been surprisingly stable for the past few years, Table 5 shows that the RBC amounts for both factors may be growing. The effective rate for premiums is decreasing, while the reserves effective rate remains relatively stable.

Overall, aggregate TAC remained stable from 2001 to 2002, with a net TAC decrease of 12 percent over the past five years. Total RBC increased 19 percent during same time period, and RBC after covariance increased 17 percent.

Table 5
Average Underwriting Risk Factors, 1998-2002

Year	Aggregate Reserve Base (000)	Aggregate Reserve Base RBC (000)	Average Effective Factor	Aggregate Premium Base (000)	Aggregate Premium Base RBC (000)	Average Effective Factor
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
2000	329,716,218	55,811,973	0.169	284,461,567	40,190,760	0.141
2001	369,829,311	59,602,139	0.161	307,881,119	40,712,542	0.132
2002	402,748,893	67,699,752	0.168	360,133,292	44,323,985	0.123

Table 4
P&C RBC By Components, 1998-2002*
(000)

	1998	1999	2000	2001	2002	Percent of Total RBC 1998	1999	2000	2001	2002
Total Number Companies (actual)	2,447	2,368	2,423	2,477	2,479					
R0 - Asset Risk - Affiliates										
Direct P&C Insurers	19,405,370	18,754,800	16,287,531	16,912,133	16,897,448	10.30%	10.04%	8.39%	8.17%	7.53%
Indirect P&C Insurers	2,412,008	3,129,485	4,122,561	4,386,582	5,447,149	1.28%	1.68%	2.12%	2.12%	2.43%
Direct Life Insurers	3,272,478	3,545,805	3,556,158	3,263,490	3,605,951	1.74%	1.90%	1.83%	1.58%	1.61%
Indirect Life Insurers	1,846,351	1,785,204	2,103,263	1,791,852	2,040,575	0.98%	0.96%	1.08%	0.87%	0.91%
Direct MCOs	--	--	148,041	50,356	25,998	--	--	0.08%	0.02%	0.01%
Indirect MCOs	--	--	185,768	260,168	371,118	--	--	0.10%	0.13%	0.17%
Direct Affiliated Alien Insurers	1,056,781	1,037,021	1,005,918	1,260,913	1,533,891	0.56%	0.56%	0.52%	0.61%	0.68%
Indirect Affiliated Alien Insurers	929,691	644,194	571,118	717,140	741,396	0.49%	0.34%	0.29%	0.35%	0.33%
Non-controlled Assets	119,551	117,551	205,982	195,038	198,502	0.06%	0.06%	0.11%	0.09%	0.09%
Guarantees for Affiliates	31,040	33,753	29,661	29,102	35,046	0.02%	0.02%	0.02%	0.01%	0.02%
Contingent Liabilities	175,974	167,971	186,175	170,094	250,865	0.09%	0.09%	0.10%	0.08%	0.11%
Total R0	29,249,245	29,215,784	28,402,176	29,036,867	31,147,941	15.52%	15.64%	14.63%	14.02%	13.88%
R1 - Asset Risk - Fixed Income										
Government Agency Bonds	112,719	105,064	108,143	132,877	179,581	0.06%	0.06%	0.06%	0.06%	0.08%
Unaffiliated Bonds	1,979,172	1,903,923	1,986,381	2,392,023	2,607,955	1.05%	1.02%	1.02%	1.16%	1.16%
Bond Size Factor	905,465	872,696	966,556	1,167,304	1,267,756	0.48%	0.47%	0.50%	0.56%	0.56%
Bonds - Affiliated Investment Subs.	200	0	0	0	33	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Holding Company	1	11,150	15,787	12,649	12,214	0.00%	0.01%	0.01%	0.01%	0.01%
Bonds - Parents	35,224	22,922	20,360	312,139	311,905	0.02%	0.01%	0.01%	0.15%	0.14%
Bonds - PC Not Subject	15	0	3,918	4,050	0	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Life Not Subject	414	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - MCO Not Subject	--	--	0	0	0	--	--	0.00%	0.00%	0.00%
Bonds - Non-Insurer	--	--	180,323	215,197	111,520	--	--	0.09%	0.10%	0.05%
Bonds - Other Affiliates	155,335	99,149	--	--	--	0.08%	0.05%	--	--	--
Mortgage Loans	102,519	98,584	133,987	133,781	136,640	0.05%	0.05%	0.07%	0.06%	0.06%
Collateral Loans	--	2,725	3,015	3,578	3,004	--	0.00%	0.00%	0.00%	0.00%
Cash	17,807	16,516	18,679	50,653	86,572	0.01%	0.01%	0.01%	0.02%	0.04%
Short-Term Investments	6,836	7,615	4,969	4,104	5,015	0.00%	0.00%	0.00%	0.00%	0.00%
Replication - Synthetic Assets: One Half	--	--	--	--	3,965	--	--	--	--	0.00%
Asset Concentration (Fixed)	247,474	249,603	259,379	322,447	416,289	0.13%	0.13%	0.13%	0.16%	0.19%
Total R1	3,563,180	3,389,946	3,701,497	4,750,802	5,142,450	1.89%	1.82%	1.91%	2.29%	2.29%
R2 - Asset Risk - Equity										
Common - Affiliated Investment Subs.	96,308	16,276	21,940	32,940	25,026	0.05%	0.01%	0.01%	0.02%	0.01%
Common - Holding Company	844,430	1,048,448	1,187,928	1,115,353	826,903	0.45%	0.56%	0.61%	0.54%	0.37%
Common - Parents	64,494	56,099	45,603	128,663	93,433	0.03%	0.03%	0.02%	0.06%	0.04%
Common - PC Not Subject	62,286	40,146	89,183	52,311	32,430	0.03%	0.02%	0.05%	0.03%	0.01%
Common - Life Not Subject	69	2,503	3,254	1,170	2,083	0.00%	0.00%	0.00%	0.00%	0.00%
Common - MCO Not Subject	--	--	4,718	2,380	0	--	--	0.00%	0.00%	0.00%

*Revised as of October 2003

Table 4 (cont.)
P&C RBC By Components, 1998-2002*
(000)

	1998	1999	2000	2001	2002	Percent of Total RBC 1998	1999	2000	2001	2002
Total Number Companies (actual)	2,447	2,368	2,423	2,477	2,479					
Common - Non-Insurer	--	--	2,538,726	2,575,912	2,757,443	--	--	1.31%	1.24%	1.23%
Common - Other Affiliates	2,290,038	2,380,766	--	--	--	1.22%	1.27%	--	--	--
Preferred - Affiliated	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
Preferred - Holding Company	452	22,983	113	4,840	4,078	0.00%	0.01%	0.00%	0.00%	0.00%
Preferred - Parents	9,197	2,337	58,727	56,250	56,250	0.00%	0.00%	0.03%	0.03%	0.03%
Preferred - PC Not Subject	22,393	22,725	5,709	1,688	0	0.01%	0.01%	0.00%	0.00%	0.00%
Preferred - Life Not Subject	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
Preferred - MCO Not Subject	--	--	0	0	0	--	--	0.00%	0.00%	0.00%
Preferred - Non-Insurer	--	--	90,969	17,245	494,239	--	--	0.05%	0.01%	0.22%
Preferred - Other Affiliates	61,921	14,762	--	--	--	0.03%	0.01%	--	--	--
Unaffiliated Preferred	438,507	297,560	268,861	326,423	316,617	0.23%	0.16%	0.14%	0.16%	0.14%
Unaffiliated Common	21,645,094	22,649,118	22,439,164	18,951,068	15,532,589	11.49%	12.13%	11.56%	9.15%	6.92%
Real Estate	921,922	910,858	978,539	957,661	977,596	0.49%	0.49%	0.50%	0.46%	0.44%
Schedule BA Assets	3,520,062	5,676,368	6,359,600	6,650,628	6,721,172	1.87%	3.04%	3.28%	3.21%	3.00%
Receivables for Securities	56,610	66,643	146,268	97,214	105,238	0.03%	0.04%	0.08%	0.05%	0.05%
Aggr Write-ins-Invested Assets	139,455	136,432	183,487	113,566	212,620	0.07%	0.07%	0.09%	0.05%	0.09%
Replication-Synthetic Asset:1/2	--	--	--	--	3,965	--	--	--	--	0.00%
Asset Concentration Equity	11,755,897	12,861,516	12,219,710	10,628,480	9,672,522	6.24%	6.89%	6.29%	5.13%	4.31%
Total R2	41,929,134	46,205,539	46,642,497	41,713,792	37,834,204	22.25%	24.74%	24.02%	20.14%	16.86%
R3 - Asset Risk - Credit										
Other Credit RBC	3,091,194	3,397,573	1,146,768	4,810,460	5,176,014	1.64%	1.82%	0.59%	2.32%	2.31%
One Half of Rein Recoverables	5,909,525	6,203,698	7,121,389	9,540,967	10,620,339	3.14%	3.32%	3.67%	4.61%	4.73%
Other Half of Rein Recoverables	921,107	1,164,959	1,333,641	2,253,221	2,570,174	0.49%	0.62%	0.69%	1.09%	1.15%
Health Credit Risk	--	12,041	12,445	5,700	6,172	--	0.01%	0.01%	0.00%	0.00%
Total R3	9,921,826	10,778,272	9,614,242	16,610,348	18,372,699	5.27%	5.77%	4.95%	8.02%	8.19%
R4 - Underwriting Risk – Reserves										
One Half of Reinsurance RBC	4,988,418	5,038,739	5,767,653	7,287,781	8,050,165	2.65%	2.70%	2.97%	3.52%	3.59%
Unpaid Loss/Expense Reserve	57,121,413	52,884,536	56,028,242	60,539,196	67,700,508	30.32%	28.32%	28.85%	29.23%	30.17%
Excess Grow–Loss/Exp Reserve	959,759	1,096,332	1,891,352	3,628,253	7,552,571	0.51%	0.59%	0.97%	1.75%	3.37%
A&H Claims Reserves	115,506	141,212	216,553	197,511	200,512	0.06%	0.08%	0.11%	0.10%	0.09%
Total R4	63,185,096	59,160,817	63,903,800	71,652,741	83,503,738	33.53%	31.68%	32.91%	34.60%	37.21%
R5 - Underwriting Risk - Written										
NWP RBC	39,413,353	36,762,711	40,287,095	40,964,916	44,323,741	20.92%	19.68%	20.75%	19.78%	19.75%
Excess Growth - Premiums	588,279	554,926	632,775	1,324,164	3,101,427	0.31%	0.30%	0.33%	0.64%	1.38%
Net Health Premium RBC	572,208	731,276	1,035,357	1,066,270	997,205	0.30%	0.39%	0.53%	0.51%	0.44%
Health Stabilization Reserves	--	-33,311	-34,008	-39,409	-39,703	--	-0.02%	-0.02%	-0.02%	-0.02%
Total R5	40,573,839	38,015,601	41,921,218	43,315,941	48,382,670	21.53%	20.35%	21.59%	20.92%	21.56%
Total RBC	188,422,320	186,765,959	194,185,430	207,080,491	224,383,702					
RBC After Covariance	134,700,300	134,857,830	137,719,856	145,788,347	157,374,352	71.49%	72.21%	70.92%	70.40%	70.14%
Total Adjusted Capital	406,648,858	392,622,015	379,118,060	360,525,621	357,363,487	215.82%	210.22%	195.24%	174.10%	159.26%

*Revised as of October 2003

2002 Health RBC Industry Results

by NAIC Staff

As of October 1, 2003, more than 680 Health Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2002. This article summarizes the industry results and discusses some of the trends noted in the 2002 filings.

The RBC test is one of many different tests used by regulators to help ensure that insurers remain solvent. The NAIC RBC formula generates the regulatory minimum amount of capital that an insurer is required to maintain to avoid regulatory action. There are five levels of action that an insurer can trigger under the formula. The base action level is the Authorized Control Level. If an insurer's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the insurer 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 an insurer's total adjusted capital (TAC) is at least twice its ACL;
2. Company Action Level, which means that an insurer's TAC is at least 1.5 times its ACL but less than twice its ACL;
3. Regulatory Action Level, which means that the insurer's TAC is at least equal to its ACL but less than 1.5 times its ACL;
4. Authorized Control Level, which means that an insurer's TAC is at least 0.70 times its ACL but less than its ACL; and
5. Mandatory Control Level, which means that the insurer'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 insurer is in strong financial condition. It simply means that the insurer has not triggered one of the regulatory intervention levels. An insurer can be in weak condition and still pass the RBC test.

Distribution of Companies by Action Level

As can be seen in Table 1 (page 16), over eighty-five percent of the insurers that made a Health RBC filing for 2002 did not trigger one of the regulatory intervention levels.

Table 2 (page 16) shows the disposition of insurers filing in data years 2001 and/or 2002. There is an increase of 79 new filers in 2002, which is offset by a decrease of 64 companies that filed in 2001 but did not file in 2002. 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 609 companies that filed in both 2001 and in 2002, 90 companies triggered one of the action levels in 2001. Two-fifths of those companies that triggered an action level in 2001 were able to move to the "No Action" level in 2002, while the other three-fifths (54 of 90 companies) remain in one of the action levels.

Table 1
Industry Results By Action Level, 2001-2002

	2001*	2002
No Action	567	605
Company Action Level	37	32
Regulatory Action Level	32	25
Authorized Control Level	17	12
Mandatory Control Level	20	14
Total	673	688
Percent At 'No Action' Level	84.3%	87.9%

*Revised as of October 2003

Table 2
2002 Disposition of 2001 RBC Filers By Action Level

		2002 Action					
		No Action	Company Action Level	Regulatory Action Level	Authorized Control Level	Mandatory Control Level	Not On Database
2001 Action	No Action	501	11	3	2	2	48
	Company Action Level	16	8	4	0	4	5
	Regulatory Action Level	10	9	6	4	2	1
	Authorized Control Level	5	2	5	3	1	1
	Mandatory Control Level	5	1	1	0	4	9
	Not On Database	68	1	6	3	1	N/A

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 an insurer has with its providers. The median discount factors for 2002 are broken out by insurer asset size in Table 3. 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 insurer and provider.

Table 3 also shows the median RBC ratio by asset size for 2001-2002. The RBC ratio is the ratio of an insurer'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 occur for all but the lowest asset range.

The aggregate RBC by major covariance elements for 2001-2002 is shown in Table 4 (page 18). As might be expected, the greatest portion of RBC for 2002 comes directly from net underwriting risk, which accounts for 65% of the total. The next highest factors for 2002 are affiliated and non-affiliated asset risk, which weigh in at slightly higher than ten percent each.

Figure 1 (page 19) shows the percentage breakdown of the aggregate RBC by component for 2002. 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 17 percent of the total RBC for companies with less than $10 million in total admitted assets, while Asset Risk contributes only two percent. Companies with between $25 and $100 million in assets have ten percent of their RBC coming from Business Risk and seven percent from Asset Risk. Companies with more than $250 million in assets have only eight percent of their RBC coming from Business Risk, while 30 percent is contributed by Asset Risk.

Table 3
Median RBC Ratios By Asset Size
2001-2002

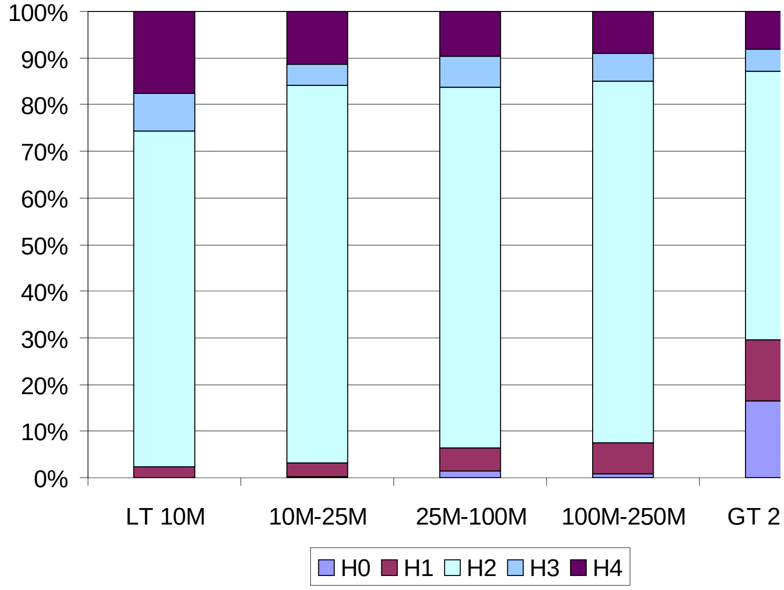
Asset Size	2002 Median Managed Care Discount Factor	2001	2002
Less than $10 Million	0.835	680%	800%
$10 million to $25 million	0.847	277%	351%
$25 million to $100 million	0.835	291%	352%
$100 million to $250 million	0.831	351%	400%
More than $250 million	0.847	446%	513%
All Companies	0.838	387%	457%

Table 4
Health RBC By Components, 2001-2002*

	2001	2002	Percent of Total RBC 2001	Percent of Total RBC 2002
Total Number Companies (actual count)	673	688		
H0 – Asset Risk – Affiliates W/ RBC				
Off-Balance Sheet	21,985	16,093	0.14%	0.10%
Directly Owned Insurers	254,893	339,376	1.64%	2.07%
Indirectly Ownde Insurers	331,747	287,208	2.14%	1.75%
Directly Owned MCOs	507,891	671,445	3.27%	4.09%
Indirectly Owned MCOs	348,127	406,431	2.24%	2.47%
Directly Owned Alien Insurers	4,757	3,035	0.03%	0.02%
Indirectly Owned Alien Insurers	0	0	0.00%	0.00%
Total H0	1,469,399	1,723,589	9.47%	10.50%
H1 – Asset Risk – Other				
Investment Subsidiary	3,444	4,553	0.02%	0.03%
Holding Company Excess of Subs	38,900	35,987	0.25%	0.22%
Investment in Parent	11,818	4,384	0.08%	0.03%
Other Affiliates	137,559	173,642	0.89%	1.06%
Fair Value Excess Affiliated Common Stock	46,049	74	0.30%	0.00%
Fixed Income Assets	268,968	319,248	1.73%	1.94%
Replication & Mandatorily Convertible Securities	48	71	0.00%	0.00%
Unaffiliated Preferred Stock	4,708	3,951	0.03%	0.02%
Unaffiliated Common Stock	672,729	611,722	4.33%	3.73%
Property & Equipment	276,971	316,225	1.78%	1.93%
Asset Concentration	243,970	195,358	1.57%	1.19%
Total H1	1,705,165	1,665,216	10.99%	10.14%
H2 - Underwriting Risk				
Net Underwriting Risk	9,984,201	10,705,857	64.33%	65.19%
Rate Guaranty - 15-36 Months	54,621	26,111	0.35%	0.16%
Rate Guaranty - Over 36 Months	2,370	9,256	0.02%	0.06%
Assessment Risk (Non-Guaranty Fund)	169,021	179,839	1.09%	1.10%
Stop Loss	67,298	101,433	0.43%	0.62%
Disability Income	688	161	0.00%	0.00%
Long-Term Care	109	1,474	0.00%	0.01%
Limited Benefit Plans	2,352	1,273	0.02%	0.01%
Premium Stabilization Reserve	-229,944	-306,007	-1.48%	-1.86%
Total H2	10,050,716	10,719,397	64.76%	65.28%
H3 - Credit Risk				
Total Reinsurance	4,690	3,342	0.03%	0.02%
Intermediaries Credit Risk	526,878	557,822	3.39%	3.40%
Total Other Receivables	304,038	300,887	1.96%	1.83%
Total H3	835,606	862,050	5.38%	5.25%
H4 - Business Risk				
Administrative Expenses Base	738,443	769,286	4.76%	4.68%
Non-Underwritten & Limited Risk Business	330,325	413,536	2.13%	2.52%
Premiums Subject to Guaranty Fund Assessment	89,025	101,936	0.57%	0.62%
Excessive Growth	300,992	166,529	1.94%	1.01%
Total H4	1,458,786	1,451,287	9.40%	8.84%
Total RBC	15,519,672	16,421,539	100.00%	100.00%
RBC After Covariance	12,240,431	13,080,772	78.87%	79.66%
Total Adjusted Capital	26,429,478	30,070,875	170.30%	183.12%

*Revised as of October 2003

Figure 1



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WHO: State, federal and international insurance regulators, as well as insurance industry and consumer representatives

WHAT: 2004 Symposium: "Ensuring Solvency, Transparency and Competitiveness in a Global Insurance Market"

WHEN: February 23-24, 2004

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- Assuring Reserve Adequacy
- Moving Toward the Capital Adequacy Approach in Insurance Rating
- Monitoring Competitive Markets
- Risk-Focused Supervision vs. Traditional Solvency Regulation
- Preserving Our Guaranty Fund System
- The Basel II Accord—Lessons for U.S. Solvency Regulation?
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NAIC Action on Model Laws and White Papers at the Winter National Meeting

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Following is a brief description of the NAIC's action on model laws and white papers that occurred at the Winter National Meeting. The Executive Committee/Plenary adopted two models, one white paper and one actuarial guideline and deleted 12 models. Two model drafts were adopted by parent committees and will be considered for adoption by the Executive Committee in March. Twenty-three models will be considered for deletion. Seven new drafts of models, one white paper and one actuarial guideline were released for comment.

Models Adopted by Executive Committee/ Plenary

1. Health Insurance Reserves Model Regulation (#10) Drafts: 6/20/03 and 9/11/03)

   The Accident and Health Working Group of the Life and Health Actuarial Task Force adopted an amendment to Section 2 of the model to clarify the periods for which disability income insurers may use their own experience in determining claim reserves. The working group also adopted an amendment to Section 3 to exclude single premium credit disability from all unearned premium reserve requirements. The amendment was proposed to clarify a June 2001 amendment. The task force and the Health Insurance and Managed Care (B) Committee also adopted the revised language at the Fall National Meeting. The Plenary adopted the two suggested changes at the Winter National Meeting.

2. Market Conduct Record Retention and Production Model Regulation (#910) (Draft dated 9/12/03)

   At the Summer National Meeting, the Executive Committee returned the model to the Market Regulation and Consumer Affairs (D) Committee for further revision after a technical problem was discovered. Upon delegation from the parent committee, the Market Regulation (D) Task Force asked the Record Retention Model (D) Working Group to review the time limits that apply to providing records and responding to examiners for conflicts with the recommendations of the Uniformity (D) Working Group's Uniform Outline. During a conference call prior to the Fall National Meeting, the task force discussed additional language that was recommended by the working group. The additions include two drafting notes that would permit states to consider an extension of time for certain types of requests. After comment from the property and casualty trade associations, the task force adopted the revisions to the model. In September the parent committee adopted the revisions without comment. At the Winter National Meeting the Executive Committee/ Plenary adopted the revised model.

3. Issues Involving External Review Procedures (Draft: 7/25/03)

   The Regulatory Framework (B) Task Force adopted a second draft of revisions to the white paper entitled Issues Involving External Review. The revisions update the issues paper by incorporating all of the state external review laws that have been enacted since the paper was adopted by the NAIC in 1999. The draft dated July 25, 2003 includes a chart that illustrates the various approaches taken by the 43 states that have external review laws or regulations discussed in the paper. This draft also reflects comments received on the first draft, including a few technical corrections suggested in comments submitted by some state insurance departments. The Health Insurance and Managed Care (B) Committee adopted the revisions without comment in September and the Plenary concurred in December.

4. Actuarial Guideline XXXIV Variable Annuity Minimum Guaranteed Death Benefit Reserves (Draft 10/30/03)

   Authored by the Life and Health Actuarial Task Force, the proposed revision to Actuarial Guideline XXXIV is limited to the addition of one paragraph in the "Scope" section. One purpose of the additional paragraph is to clarify that the impact of future partial withdrawal activity on the death benefit does not need to be incorporated in the reserve method described in Actuarial Guideline XXXIV. A second purpose is to make clear that any additional reserves for the portion of contract holders that may elect partial withdrawals in the future should be considered as part of a stand-alone asset adequacy analysis. The Life and Health Actuarial Task Force and the Life Insurance and Annuities (A) Committee adopted the guideline by conference call to allow the Executive Committee/Plenary to vote on this matter at the Winter National Meeting.

Models Deleted by the Executive Committee/Plenary

1. Illustrations Guideline for Variable Life Insurance Model Regulation (#271)

   The Life Insurance and Annuities (A) Committee recommended that the actuarial guideline be deleted from the official set of NAIC models because it is already published in the *Accounting Practices and Procedures Manual*. The guideline was adopted in 1986.

2. Guideline Concerning Variable Life Insurance Separate Account Investments (#272)

   The Life Insurance and Annuities (A) Committee recommended that the actuarial guideline be deleted from the official set of NAIC models because it is already published in the *Accounting Practices and Procedures Manual*. The guideline was adopted in 1987.

3. Guideline for Variable Life Nonforfeiture Values (#273)

   The Life Insurance and Annuities (A) Committee recommended that the actuarial guideline be deleted from the official set of NAIC models because it is already published in the *Accounting Practices and Procedures Manual*. The guideline was adopted in 1987.

4. Policy Loan Interest Rate Draft Model Bill (#595)

   The Life Insurance and Annuities (A) Committee considered the model, which was drafted in 1972 to implement a recommendation that policy loan interest rates be permitted to vary in response to economic conditions. The Model Policy Loan Interest Rate Bill (An Act to Regulate Interest Rates on Life Insurance Policy Loans) (#590) was subsequently adopted by almost all states. The committee recommended deletion of the model.

5. Premium Financing of Life Insurance for College Students Model Regulation or Guideline (#600)

   The Life Insurance and Annuities (A) Committee reviewed this model for possible deletion. The goal of the drafters to provide a uniform approach to this narrow issue has not been achieved, because only eight states have adopted the 1971 model. The committee recommended deletion of the model.

6. Industrial Life Insurance Model Bill (#608)

The Life Insurance and Annuities (A) Committee recommended deletion of the model first adopted in 1942 because the terminology and definitions it contains are outdated. The committee determined that reliance on the model could be erroneous and that the NAIC would not currently recommend that states adopt the model.

7. Variable Contract Insurance Issued by Fraternal Benefit Societies (Optional Enabling Language) (#676)

The Life Insurance and Annuities (A) Committee voted to recommend deletion of the model because it is not necessary to include this model in the NAIC *Model Laws, Regulations and Guidelines* when states may easily draft simple language to include fraternal benefit societies in variable products laws, if desired.

8. Guideline Concerning the Commissioners' Annuity Reserve Valuation Method (#825)

The Life and Health Actuarial Task Force reviewed the guideline for possible deletion and determined that because it is included with other actuarial guidelines in Appendix C of the *Accounting Practices and Procedures Manual*, this guideline need not be included among the model laws and regulations. The Life Insurance and Annuities (A) Committee adopted the task force's recommendation.

9. Model Statistical Reporting Regulation (#755)

The Statistical Information (C) Task Force reviewed the model for possible deletion and determined that it had been replaced by the 1997 adoption of the Model Regulation to Require Reporting of Statistical Data by Property and Casualty Insurance Companies (#751). The Property and Casualty Insurance (C) Committee adopted the recommendation to delete the model.

10. Employee Leasing Model Act (#935)

The Model Laws Review Working Group of the Workers' Compensation (C) Task Force considered the model regulation during two conference calls after the Summer National Meeting. The working group determined that few states had adopted the model and that the model is outdated. The working group, the task force and the Property and Casualty Insurance (C) Committee voted to recommend the deletion of this model regulation from the official set of NAIC models.

11. Employee Leasing Model Regulation (#936)

The Model Laws Review Working Group of the Workers' Compensation (C) Task Force considered the model act during two conference calls after the Summer National Meeting. The working group determined that few states had adopted the model and that the model is outdated. The working group, the task force and the Property and Casualty Insurance (C) Committee voted to recommend the deletion of this model act from the official set of NAIC models.

12. Reinsurance: A Model Act for the Regulation of Reserves Ceded to Non-Admitted Reinsurers (#795)

The Reinsurance (G) Task Force considered this model at a conference call prior to the Fall National Meeting and voted to recommend its deletion from the official set of NAIC model laws. The group observed that it had been adopted by only one state and has been superseded by the Credit for Reinsurance Model Act (#785). The Special Insurance Issues (G) Committee adopted this recommendation.

Models and White Papers to be Considered for Adoption by the Executive Committee at the Spring National Meeting in New York

1. Health Carrier External Review Model Act (#75) (Draft: 9/29/03)

   The Regulatory Framework (B) Task Force discussed amendments to the model to coordinate with amendments made to the Utilization Review and Benefit Determination Model Act and the Health Carrier Grievance Procedure Model Acts as a result of the Department of Labor claims procedure regulation. Consistent with the intent of the working group that developed the Health Carrier External Review Model Act, the amendments to the model ensure that only those adverse determinations involving an issue of medical necessity are eligible for external review. The amendments were adopted by the task force and by the Health Insurance and Managed Care (B) Committee at the Winter National Meeting.

2. Health Insurance Reserves Model Regulation (#10) (Draft: 10/23/03)

   The Accident and Health Working Group of the Life and Health Actuarial Task Force recommended that the task force adopt changes to the model that have been available for comment since October 2003. Amendments include incorporating a provision for moderately adverse deviations, prohibiting future morbidity improvement, changing the mortality table to 1994 Group Annuity Mortality Static Table, and revising the minimum allowable voluntary lapse rates. The working group, its parent task force and the Health Insurance and Managed Care (B) Committee adopted the model as amended.

Models to be Considered by the Executive Committee at the Spring National Meeting for Deletion from the NAIC *Model Laws, Regulations and Guidelines*

1. Comprehensive Health Insurance and Health Care Cost Containment Model Act (#15)

   In the 25 years since the model law was adopted, the NAIC and states have chosen different directions for health care reform. In addition, the success of the health coverage system proposed in the model depends on the participation of employers, entities that state insurance departments do not regulate. Therefore the Health Insurance and Managed Care (B) Committee recommends its deletion.

2. State Hospital Cost Containment Act (Version Establishing a System Which Limits Gross Patient Service Revenue) (#18)

   The Health Insurance and Managed Care (B) Committee recommends deleting this model law because it focuses on the regulation of hospitals, entities typically outside the oversight of state insurance departments. No state has adopted the model since its adoption by the NAIC 20 years ago.

3. State Hospital Cost Containment Act (Version Establishing a Rate/Budget Review and Approval System) (#19)

   The Health Insurance and Managed Care (B) Committee recommends deleting this model law because it focuses on the regulation of hospitals, entities typically outside the oversight of state insurance departments. No state has adopted the model since its adoption by the NAIC 20 years ago.

4. State Hospital Cost Containment Act (Version Establishing a Rate Review and Approval System) (#20)

   The Health Insurance and Managed Care (B) Committee recommends deleting this model law because it focuses on the regulation of hospitals, entities typically outside the oversight of state insurance departments. No state has adopted the model since its adoption by the NAIC 20 years ago.

5. Mass Marketed Life or Health Insurance Model Act (#25)

The model law, adopted in 1977, contains language that is inconsistent with the Nonadmitted Insurance Model Act. In addition, the requirements that the model establishes are redundant to requirements applicable to non-mass marketed insurance. Therefore the Health Insurance and Managed Care (B) Committee recommends its deletion.

6. Definition-Franchise Insurance (#27)

The Health Insurance and Managed Care (B) Committee recommends the model definition for deletion because it is obsolete. It refers to practices deemed illegal by the NAIC's small group models and contains requirements that are addressed elsewhere in the models and the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

7. Health Insurance Shopper's Guide (#45)

The official list of NAIC *Model Laws, Regulations and Guidelines* typically does not include shopper's guides as stand-alone models. The model does not reflect the Health Insurance Portability and Accountability Act of 1996 (HIPAA). It demands a high level reading comprehension and attempts to cover areas that are the subject of other shopper's guides. Therefore the Health Insurance and Managed Care (B) Committee recommends its deletion.

8. Model Regulation to Eliminate Unfair Sex Discrimination (#50)

The Health Insurance and Managed Care (B) Committee recommends deleting this model regulation because the subject of the model has been addressed by subsequent legislation at the state and national levels. The model is no longer needed.

9. Preferred Provider Arrangements Model Act (#65)

The Health Insurance and Managed Care (B) Committee recommends the deletion of this model. Five NAIC health plan standards model acts address almost all of the issues covered by the model law, with one exception. This model contains an optional filing requirement for non-insurance entities with preferred provider arrangements. Six states have adopted the model since its adoption in 1986, when the subject matter was a relatively new concept.

10. Jurisdiction to Determine Jurisdiction of Providers of Health Care Benefits Model Act (#95)

Although the situations this model law was intended to address continue to present difficulty to regulators, certain sections of the model can be interpreted as contrary to state regulation of unauthorized entities or those falsely claiming to be exempt from state regulation. The model has been superseded by two Department of Labor rules. The Health Insurance and Managed Care (B) Committee recommends its deletion. The B Committee also recommends that states that have adopted the model or something similar consider amending their laws to address the problems identified by the ERISA (B) Working Group.

11. Small Employer Health Insurance Availability Model Act (Allocation With or Without an Opt-Out) (#116)

The Health Insurance and Managed Care (B) Committee recommends deleting this model because only one state has adopted the allocation method found in this model. The NAIC no longer supports this model and its class of business provisions.

12. Accident and Health Policy Regulatory Law to Require Filing and Prior Approval of Individual Accident and Health Policies (#130)

Ten states have adopted the model law. A significant number of other states have adopted "file and use" procedures governing the filing of health insurance policies. The model is not particularly useful to the states, which all have significantly more detailed laws governing policy filing. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

13. Official Guide for the Filing and Approval of Accident and Health Contracts (#133)

Adopted in 1946 and never amended, the model is extremely outdated. Only three states have adopted it. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

14. Administrative Procedure Relative to Renewability and Cancellation Provisions in the Approval of Accident and Health Policies Drafted in Accordance with the Uniform Individual Accident and Sickness Policy Provisions Law (#140)

All states have procedures in place related to the filing of individual health policies that are not guaranteed renewable to a certain age. The model is outdated. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

15. Model Regulation for Certification of Health Plans or Policies (#145)

The model regulation has been adopted by only one state. Its goal of promoting healthy activity is more consistent with the activities of a nationally recognized best practices organization, as opposed to dissemination by means of a model law. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

16. Model Act on the Availability of Alcohol and Other Drug Dependency Coverage in Group Health Insurance Policies and Contracts (#150)

Four states have adopted the model law. The NAIC has generally not favored adoption of model laws on mandated benefits. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

17. Health Examination Benefits Availability Act (#160)

The Health Insurance and Managed Care (B) Committee recommends that this model law be deleted because the NAIC generally stays out of the fray regarding mandated benefits.

18. Uniform Application for Resident/Non-Resident License (#211)

The model has been superseded by the National Insurance Producer Registry (NIPR) and its uniform application. Therefore, the Market Regulation and Consumer Affairs (D) Committee recommends its deletion.

19. Standard Certification Form (#212)

The model has been superseded by the National Insurance Producer Registry (NIPR) and its uniform procedures. Therefore, the Market Regulation and Consumer Affairs (D) Committee recommends its deletion.

20. Standard Letter of Clearance (#213)

The model has been superseded by the National Insurance Producer Registry (NIPR) and its uniform procedures. Therefore, the Market Regulation and Consumer Affairs (D) Committee recommends its deletion.

21. HMO Producer Model Regulation (#433)

Reference to the model regulation in the Health Maintenance Organization Model Act was removed by 2003 revisions to that model law. In addition, the Producer Licensing Model Act governs the qualifications and procedures for the licensing of producers of all lines of insurance, including HMOs. This model is not needed. Therefore, the Health Insurance and Managed Care (B) Committee recommends its deletion.

22. Public Employer Workers' Compensation Group Self-Insurance Model Act (#945)

The Workers' Compensation Task Force recommended the model law be deleted because, in most states, the Labor Department or Industrial Board, as opposed to the Insurance Department, regulates group self-insurance programs for workers' compensation. The current model is not a practical model for insurance departments wishing to regulate the solvency of such groups.

23. Private Employer Workers' Compensation Group Self-Insurance Model Act (#940)

The Workers' Compensation Task Force recommended the model law be deleted because, in most states, the Labor Department or Industrial Board, as opposed to the Insurance Department, regulates group self-insurance programs for workers' compensation. The current model is not a practical model for insurance departments wishing to regulate the solvency of such groups.

New Drafts of Models Released for Comment

1. Viatical Settlements Model Regulation(#698 Draft 12/6/03)

The Viatical Settlements Working Group of the Life Insurance and Annuities (A) Committee is making amendments to the Viatical Settlements Model Regulation to comply with the model act adopted in March 2001. The revisions bring the regulation up to date to include all sales of life insurance policies for less than the face amount, rather than applying just to the terminally or chronically ill. The verification of coverage form was revised and a new consumer brochure added to the model regulation. During the Winter National Meeting the group adopted the revised model regulation. The parent Life Insurance and Annuities (A) Committee decided to retain jurisdiction of the model to hear comments and consider adoption at the Spring National Meeting.

2. Determining Reserve Liabilities for Credit Life Insurance Model Regulation (Draft: 12/5/03)

The Life and Health Actuarial Task Force reviewed a draft of the model regulation, which would recognize the 2001 CSO Male Composite Ultimate Mortality Table and specify the interest rate and method to be used in determining the minimum standard of valuation. The task force agreed to add to the description of the model's scope, to delete Section 6D and to modify the drafting notes.

3. Long Term Care Insurance Model Act (#640) (Draft: 10/31/03)

The Long Term Care Working Group of the Senior Issues (B) Task Force is considering amendments to the model act to codify best practices and address any market problems in the long term care insurance marketplace since the latest amendments to the models were adopted in August 2000. The working group decided to focus on agent education and training and cross border benefit definitions issues during 2004.

4. Long Term Care Insurance Model Regulation (#641) (Draft: 10/31/03)

The Long Term Care Working Group of the Senior Issues (B) Task Force is considering amendments to the model regulation to codify best practices and address any market problems in the long term care insurance marketplace since the latest amendments to the models were adopted in August 2000. The working group decided to focus on agent education and training and cross border benefit definitions issues during 2004.

5. Public Adjuster Licensing Model Act (Draft: 12/07/03)

The Producer Licensing Working Group of the Market Regulation and Consumer Affairs (D) Committee released a draft of a Public Adjuster Licensing Model Act. The model would govern the qualifications and procedures for the licensing of public adjusters. The subgroup working on adjuster licensing issues agreed to concentrate on the public adjuster model law and to defer its work on the development of model acts for the licensing of company and independent adjusters.

6. Model Act to Permit the Use of Clearing Corporations by Insurance Companies (#295) (Draft: 11/19/03)

The Custodial Assets Working Group of the Financial Condition (E) Committee has developed amendments to the model act. The proposed revisions were introduced in accordance with the committee's September 2003 decision to allow brokers and dealers that meet certain standards to act as custodians of securities held by insurance companies.

7. Model Regulation on the Use of Clearing Corporations by Insurance Companies (#298) (Draft: 11/19/03)

The Custodial Assets Working Group of the Financial Condition (E) Committee has developed amendments to the model regulation. The proposed revisions were introduced in accordance with the committee's September 2003 decision to allow brokers and dealers that meet certain standards to act as custodians of securities held by insurance companies.

8. Actuarial Guideline VACARVM—CARVM for Variable Annuities Redefined (Draft: 12/5/03)

The Life Risk-Based Capital Working Group and the Life and Health Actuarial Task Force are developing risk-based capital and reserve standards for variable annuities. The Life and Health Actuarial Task Force voted to release for comment a draft actuarial guideline that contains reserve standards for variable annuities. Since there are numerous issues that remain to be resolved, the task force does not anticipate adoption of the guideline soon.

New Drafts of White Papers Released for Comment

1. Best Practices Organizations White Paper (Draft: 12/8/03)

The Insurance Marketplace Standards Working Group of the Life Insurance and Annuities (A) Committee is drafting a white paper that analyzes the standards established by best practices organizations to determine what recognition, if any, should be given to these organizations. The paper will also analyze how regulators may best use the results of the accreditation reviews of entities performed by the organizations. The working group began by hearing about how some existing organizations are structured and made a list of the characteristics the group believes states should look for in an organization before they give any recognition to the accreditation or certification from the best practices organization. Prior to the Winter National Meeting, the working group held a series of conference calls to revise the model. During the meeting several more changes were made and best practices organizations and funded consumer representatives were invited to submit comments that will be included as appendices. With those additions, the working group expects to adopt the white paper at the Spring National Meeting.

No Further Versions of These Drafts Released

1. Weather Financial Instruments (Temperature): Insurance or Capital Markets Products? (Draft: 9/02/03)

The Crop Insurance (C) Working Group and its parent committee are considering a draft of a white paper that discusses whether certain weather derivative agreements currently marketed as investments should be regulated as insurance. The proposed white paper concludes that weather derivatives should be classified as insurance products for a number of reasons, including that the derivatives essentially perform like insurance products by transferring risk from a business to a professional risk-taker. Before the Winter National Meeting, the Property and Casualty Insurance (C) Committee received a request from the Insurance Securitization (E) Working Group for an opportunity to comment on the white paper, because the definition of weather derivatives does not conform to the definition used by the European Community. The working group also learned that the definition variance could have implications in the banking industry. The Crop Insurance (C) Working Group solicited the Insurance Securitization (E) Working Group's comments for the Spring National Meeting.

2. Coordination of Benefits Model Regulation (#120) (Draft: 9/14/03)

At the Winter National Meeting, the Coordination of Benefits Working Group of the Regulatory Framework (B) Task Force reviewed comments on a draft of the Group Coordination of Benefits Model Regulation. The proposed revisions in this draft are based, in part, on the comments submitted by interested parties. The working group is considering a number of issues, including amendments that will alter the order of benefit determination for certain beneficiaries, alter the benefit reserve requirement for secondary plans and make the coordination rules apply to individual and group plans.

3. Fiduciary Responsibility of Insurance Producers Model Act (Draft: 6/18/03)

The Producer, Company and Unauthorized Entities Unlawful Activity Working Group of the Antifraud (G) Task Force is considering a draft of the model that would define a producer's fiduciary responsibility to hold funds received or collected as a producer in a separate account. At the Winter National Meeting, the working group discussed one set of comments and planned to conduct a conference call to incorporate all comments into a new draft.

4. Standard Valuation Law (#820) (Draft: 9/12/03)

The Life and Health Actuarial Task Force is considering a proposed revision of the model law that would remove the requirement of a Certificate of Valuation contained in Section 2 of the model. The proposed revision was prompted by a survey of the states in which a majority of the respondents favored eliminating the requirement. The task force specifically stated that this proposed revision would be adopted only if other potential changes to the model are considered and adopted in the future.

5. Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651) (Draft: 11/25/02)

The Medicare Supplement Working Group of the Senior Issues (B) Task Force decided to withdraw the draft amendment, which adds a definition of "premium" to the model regulation. The working group decided that states can address this issue adequately under existing state law.

6. Model Regulation to Implement the Small Employer Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out) (#119) (Draft: 3/19/01)

The NAIC charged the Regulatory Framework (B) Task Force with the duty to review and revise NAIC model laws and regulations affected by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and federal regulations adopted pursuant to HIPAA. A first draft of amendments to this model regulation to conform both to HIPAA regulatory requirements and the rating provisions of the Small Employer Health Insurance Availability Model Act has been prepared by the task force. The task force referred provisions of this model regulation concerning rating to the Accident and Health Working Group of the Life and Health Actuarial Task Force for drafting assistance.

7. Model Regulation to Implement the Individual Health Insurance Portability Model Act (#38 Draft: 12/4/00)

The Regulatory Framework Task Force of the Health Insurance and Managed Care (B) Committee is considering amendments to conform this model to the provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Several proposed amendments concern drafting notes that speak to the differing guaranteed issue requirements for federally defined eligible individuals. A new Section 10 was added that would set out HIPAA's requirements for providing certificates of prior creditable coverage as provided in the HIPAA interim final regulations; this section likely will be revised after the final HIPAA regulations are issued.

8. Authorization for Criminal History Record Check Model Act (Draft: 3/5/03)

The Producer Licensing Working Group of the Market Regulation and Consumer Affairs (D) Committee discussed a new Authorization for the Criminal History Record Check Model Act at the Spring National Meeting. The model act is designed to provide states with the ability to collect fingerprints on insurance entities and submit these fingerprints to the appropriate state law enforcement and the Federal Bureau of Investigation (FBI). The working group is taking a closer looks at the electronic fingerprinting process before moving forward with the model. At the Fall National Meeting, the group received oral testimony from the FBI and the National Association of Securities Dealers on their fingerprint processing systems and additional comments from states on their fingerprint procedures. At the Winter National Meeting the group reviewed the steps in the electronic fingerprinting process and decided to flesh out the process before adjusting the language of the model act.

9. Model Regulation to Require Reporting of Statistical Data by Property and Casualty Insurance Companies (#751) (Draft: 3/17/02)

The Statistical Handbook Working Group of the Statistical Information (C) Task Force is considering changes that would be necessary should the data quality standards and provisions be added to the Statistical Handbook. The changes concern primarily effective dates and references to state exception. At the Winter National Meeting, the working group requested that comments be submitted by the end of the year. The working group will schedule a conference call to discuss comments with the goal of adopting the revisions by the Spring National Meeting.

10. Determination of Nonforfeiture Benefits and Guaranteed and Non-Guaranteed Elements for Life Insurance and Annuity Contracts (Draft: 9/8/00)

The Life and Health Actuarial Task Force was charged with developing a new nonforfeiture law for life insurance, health insurance, and annuities to replace the existing nonforfeiture standards. The draft under development did not have strong regulatory support. At the 2000 Winter National Meeting, a revised set of principles was discussed. Under this approach the concept of an operational plan was eliminated in favor of various policyholder protections being triggered if a company substantially changes the way it determines nonguaranteed elements. Regulators generally agree on a few concepts: retrospective design, floor for benefits, cash value and some degree of regulator control for nonguaranteed elements. At the 2003 Winter National Meeting the task force engaged in a lengthy discussion of the model's direction. There was general agreement that the project should continue, yet possibly narrow its primary focus to life insurance. The task force also questioned whether the model law should address non-guaranteed elements.

NAIC Education & Training Department's
Schedule of Programs
January – April 2004

Program	Dates	Location
*Introduction to Financial Regulation	January 26-29	Kansas City
Market Conduct Handbook	February 2-4	Kansas City
*Staff Education	February 9-12	Kansas City
State Insurance Regulation: Ensuring Solvency, Transparency and Competitiveness in a Global Insurance Market	February 23-24	Washington, D.C.
*Regulation of Insurance Products	March 29-31	Kansas City
*Integrating Market Regulation	April 26-30	Kansas City

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