

Life Industry RBC Results for 2010

by NAIC Staff

As of August 16, 2011, approximately 803 Life Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2010. This article summarizes the industry results and discusses some of the trends noted in the 2010 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 1A, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 97 to 98 percent of all life insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the seventeen years that the NAIC's Life RBC system has been in place. Table 1B shows the 2006-2010 industry results for the Tax Sensitivity Test action levels.

Table 2A shows the disposition of insurers filing in data years 2009 and/or 2010. There is an increase of 17 new filers in 2010, which is offset by a decrease of 35 companies that filed in 2009 but did not file in 2010. 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 786 companies that filed in both 2009 and in 2010, 16 companies triggered one of the action levels in 2009. Eight of those companies that triggered an action level in 2009 were able to move to the "No Action" level in 2010 while the remaining 8 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 2006 through 2010. 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 3B shows median Tax Sensitivity Test RBC ratios for 2006-2010.

Figure 1A shows the percentage breakdown of the aggregate RBC by component for 2010. For most size companies, the C1 (other asset risk) and C2 (insurance risk) components constitute the bulk of the aggregate RBC, with the insurance risk component being more prominent in the smaller companies and the other asset risk component being more influential in the larger

companies. For example, insurance risk is 52% of the total RBC for companies with between \$10 and \$25 million in total admitted assets, while other asset risk contributes 32 percent. On the other hand, companies with more than \$10 billion in assets have only 15 percent of their RBC coming from insurance risk and 53 percent of the RBC is contributed by other asset risk. Figure 1B shows the same breakdown using pre-tax RBC amounts.

Table 4 shows the industry aggregate Total Adjusted Capital and its breakdown into basic elements for 2006 through 2010. Tax Sensitivity Test TAC is also included for 2006-2010.

Table 5 shows the aggregate RBC by major covariance elements for 2006 through 2010. The RBC after covariance for each year is calculated using that year's respective covariance formula.

Overall, TAC increased 8% in the last year after a 12% increase from 2008-2009. Total pre-tax RBC increased 4% from 2006-2010.

Table 1A
Industry Results By Action Level, 2006-2010

	2006	2007	2008	2009	2010
No Action	913	861	823	801	789
Company Action Level	5	6	10	6	5
Regulatory Action Level	4	3	5	3	1
Authorized Control Level	2	2	2	2	1
Mandatory Control Level	2	2	7	9	7
Total	926	874	847	821	803
Percent At 'No Action' Level	98.6%	98.51%	97.17%	97.56%	98.26%

Table 1B
Industry Results By Tax Sensitivity Test Action Level, 2006-2010

	2006	2007	2008	2009	2010
No Action	904	854	810	791	783
Company Action Level	10	8	18	13	9
Regulatory Action Level	6	6	6	5	2
Authorized Control Level	4	2	5	2	0
Mandatory Control Level	2	4	8	10	9
Total	926	874	847	821	803
Percent At 'No Action' Level	97.6%	97.71%	95.63%	96.35%	97.51%

Table 2A
2010 Disposition of 2009 RBC Filers By Action Level

		2010 Action					
		NO ACTION	COMPANY ACTION LEVEL	REGUL. ACTION LEVEL	AUTHOR. CONTROL LEVEL	MANDATORY CONTROL LEVEL	NOT ON DATABASE
2009 Action	NO ACTION	765	5	0	0	0	31
	COMPANY ACTION LEVEL	6	0	0	0	0	0
	REGULATORY ACTION LEVEL	1	0	0	0	0	2
	AUTHORIZED CONTROL LEVEL	0	0	0	0	1	1
	MANDATORY CONTROL LEVEL	1	0	1	1	5	1
	NOT ON DATABASE	16	0	0	0	1	0

Table 2B
2010 Disposition of 2009 RBC Filers By Tax Sensitivity Test Action Level

		2010 Action					
		NO ACTION	COMPANY ACTION LEVEL	REGUL. ACTION LEVEL	AUTHOR. CONTROL LEVEL	MANDATORY CONTROL LEVEL	NOT ON DATABASE
2009 Action	NO ACTION	753	5	2	0	0	31
	COMPANY ACTION LEVEL	11	2	0	0	0	0
	REGULATORY ACTION LEVEL	2	2	0	0	0	1
	AUTHORIZED CONTROL LEVEL	0	0	0	0	1	1
	MANDATORY CONTROL LEVEL	1	0	0	0	7	2
	NOT ON DATABASE	16	0	0	0	1	0

Table 3A
Median RBC Ratios By Asset Size, 2006-2010

Asset Size	2010 Surplus to Asset Ratio	2006	2007	2008	2009	2010
Less than \$10 million	0.472	4634%	4628%	4808%	4841%	4218%
\$10 million to \$25 million	0.455	1676%	1673%	1753%	1474%	1713%
\$25 million to \$100 million	0.351	1089%	1167%	1177%	1156%	1200%
\$100 million to \$250 million	0.217	820%	817%	734%	836%	890%
\$250 million to \$500 million	0.133	862%	882%	720%	855%	862%
\$500 million to \$1 billion	0.156	952%	831%	650%	794%	908%
\$1 billion to \$10 billion	0.088	824%	859%	730%	869%	930%
More than \$10 billion	0.058	827%	806%	777%	842%	875%
All Companies	0.192	996%	1009%	910%	975%	1047%

Table 3B
Median Tax Sensitivity Test RBC Ratios By Asset Size, 2006-2010

Asset Size	2010 Surplus to Asset Ratio	2006	2007	2008	2009	2010
Less than \$10 million	0.472	3194%	3148%	3503%	3463%	2775%
\$10 million to \$25 million	0.455	1104%	1188%	1208%	1229%	1364%
\$25 million to \$100 million	0.351	743%	822%	823%	810%	842%
\$100 million to \$250 million	0.217	612%	562%	484%	570%	655%
\$250 million to \$500 million	0.133	582%	599%	480%	530%	559%
\$500 million to \$1 billion	0.156	685%	551%	478%	561%	572%
\$1 billion to \$10 billion	0.088	536%	582%	476%	517%	569%
More than \$10 billion	0.058	545%	526%	492%	519%	555%
All Companies	0.192	710%	705%	624%	652%	693%

Table 4
Industry Aggregate Total Adjusted Capital, 2006-2010

	2006	2007	2008	2009	2010
	(000)	(000)	(000)	(000)	(000)
Total Adjusted Capital Elements					
Capital and Surplus	306,758,158	322,015,036	305,219,806	354,759,762	373,246,981
AVR	40,960,664	43,589,731	20,363,672	19,252,388	29,442,252
Dividend Liability	9,183,263	9,434,527	8,887,485	8,308,904	8,254,801
Life Subsidiaries' AVR	5,192,932	6,928,252	2,782,364	2,266,975	4,141,445
Life Sub's Dividend Liability	156,249	161,270	153,712	166,281	166,267
P/C Subs' Non-Tab Discount	0	0	0	1,033	89
Total Adjusted Capital (TAC)	363,471,267	382,628,818	337,907,040	385,253,277	415,751,657
Tax Sensitivity Test TAC	350,048,137	367,888,064	311,977,008	349,532,364	378,627,436

Table 5
Life RBC By Components, 2006-2010

	Aggregates for 803 companies (000)					Percent of Total RBC				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
C0 - Asset										
Risk - Affiliates										
Direct P&C Insurers	374,700	453,192	412,080	415,262	455,516	0.33%	0.37%	0.36%	0.35%	0.38%
Direct Life Insurers	21,726,678	24,995,287	22,873,711	24,247,807	23,306,802	19.28%	20.56%	20.25%	20.60%	19.52%
Direct & Indirect Health Insurers	184,382	214,358	36,145	907,605	178,834	0.16%	0.18%	0.03%	0.77%	0.15%
Indirect P&C Insurers	622,771	628,205	643,568	619,573	269,358	0.55%	0.52%	0.57%	0.53%	0.23%
Indirect Life Insurers	1,575,493	1,672,943	589,242	722,786	978,241	1.40%	1.38%	0.52%	0.61%	0.82%
Affiliated Alien Insurers - Canadian	116,071	133,894	225,222	754	0	0.10%	0.11%	0.20%	0.00%	0.00%
Affiliated Alien Insurers - All Other	501,264	575,127	526,340	571,182	690,351	0.44%	0.47%	0.47%	0.49%	0.58%
Off-Balance Sheet Items	2,476,003	2,890,992	1,478,596	1,431,196	2,266,552	2.20%	2.38%	1.31%	1.22%	1.90%
Total C0 - Pre-Tax	27,577,362	31,563,998	26,784,903	28,916,165	28,145,655	24.47%	25.97%	23.71%	24.56%	23.57%
Net C0 - Post-Tax	18,321,556	20,975,497	17,726,055	19,122,914	18,738,968	16.26%	17.26%	15.69%	16.24%	15.69%
C1cs - Asset Risk - Unaffil. Common Stock & Affil. Non-Ins. Stock										
Schedule D Unaffiliated Common Stock	10,389,730	10,384,376	5,659,934	5,408,954	7,110,202	9.22%	8.54%	5.01%	4.59%	5.95%
Schedule BA Unaffiliated Common Stock	6,641,954	10,635,904	9,319,807	9,868,835	11,713,661	5.89%	8.75%	8.25%	8.38%	9.81%
Schedule BA Affiliated Common Stock	2,300,427	2,773,410	2,497,409	3,088,685	3,184,813	2.04%	2.28%	2.21%	2.62%	2.67%
Common Stock Concentration	3,435,689	3,774,600	2,360,307	2,580,622	2,946,436	3.05%	3.11%	2.09%	2.19%	2.47%

Schedule BA	2,613,113	3,758,130	4,143,227	3,851,725	4,007,119	2,32%	3.09%	3.67%	3.27%	3.36%	1.61%	2.15%	2.55%	2.30%	2.31%
Real Estate															
Other Long-Term Assets	4,288,325	5,639,349	5,302,109	3,315,174	3,377,632	3.81%	4.64%	4.69%	2.82%	2.83%	2.65%	3.23%	3.27%	1.98%	1.95%
Schedule BA Mortgages	59,148	48,425	69,967	86,486	210,057	0.05%	0.04%	0.06%	0.07%	0.18%	0.04%	0.03%	0.04%	0.05%	0.12%
Concentration Factor	2,203,678	3,027,930	3,020,152	3,128,415	2,849,731	1.96%	2.49%	2.67%	2.66%	2.39%	1.36%	1.73%	1.86%	1.87%	1.64%
Miscellaneous Assets	592,216	820,966	741,342	376,279	305,103	0.53%	0.68%	0.66%	0.32%	0.26%	0.37%	0.47%	0.46%	0.23%	0.18%
Replication Transactions & Mandatorily Convertible Securities	94,956	239,913	212,441	156,268	196,951	0.08%	0.20%	0.19%	0.13%	0.16%	0.06%	0.14%	0.13%	0.09%	0.11%
Reinsurance	182,130	1,995,651	2,007,897	1,647,072	1,678,653	0.16%	1.64%	1.78%	1.40%	1.41%	0.11%	1.14%	1.24%	0.99%	0.97%
Total C1o – Pre-tax	47,873,821	53,067,181	53,398,853	52,862,358	53,217,707	42.48%	43.66%	47.28%	44.90%	44.57%	29.54%	30.37%	32.91%	31.63%	30.71%
Net C1o – Post-Tax	34,298,958	37,982,463	38,262,547	38,141,703	38,380,998	30.43%	31.25%	33.88%	32.40%	32.14%	21.16%	21.73%	23.58%	22.82%	22.15%
Total C1 – Pre-tax	75,548,441	85,649,343	76,742,918	78,393,544	83,003,391	67.04%	70.46%	67.94%	66.59%	69.51%	46.61%	49.01%	47.29%	46.90%	47.90%
Net C1 – Post-Tax	52,287,479	59,160,914	53,436,484	54,736,974	57,741,693	46.40%	48.67%	47.31%	46.50%	48.36%	32.26%	33.85%	32.93%	32.75%	33.32%
C2 - Insurance Risk															
Individual & Industrial Life Insurance	9,420,514	9,463,706	9,457,353	9,467,786	9,551,942	8.36%	7.79%	8.37%	8.04%	8.00%	5.81%	5.42%	5.83%	5.66%	5.51%
Group & Credit Life Insurance	7,456,946	7,655,634	7,278,762	6,444,928	6,547,453	6.62%	6.30%	6.44%	5.47%	5.48%	4.60%	4.38%	4.49%	3.86%	3.78%
Total Health Insurance	16,341,561	16,636,014	17,906,941	17,905,910	18,048,148	14.50%	13.69%	15.85%	15.21%	15.12%	10.08%	9.52%	11.04%	10.71%	10.42%
Premium															
Stabilization Reserve Credit	-3,821,315	-4,011,388	-3,970,545	-3,934,967	-4,085,406	-3.39%	-3.30%	-3.52%	-3.34%	-3.42%	-2.36%	-2.30%	-2.45%	-2.35%	-2.36%
Total C2 – Pre-Tax	29,397,706	29,743,967	30,672,511	29,883,658	30,062,137	26.09%	24.47%	27.16%	25.38%	25.18%	18.14%	17.02%	18.90%	17.88%	17.35%
Net C2 – Post-Tax	21,332,094	21,583,666	22,559,848	21,857,420	21,834,212	18.93%	17.76%	19.97%	18.57%	18.29%	13.16%	12.35%	13.90%	13.08%	12.60%
C3a - Interest Rate Risk															
Total C3a – Pre-Tax	19,470,620	17,525,580	17,276,884	17,605,946	17,438,258	17.28%	14.42%	15.30%	14.96%	14.60%	12.01%	10.03%	10.65%	10.53%	10.06%
Net C3a – Post-Tax	12,655,767	11,391,627	11,229,975	11,443,865	11,334,868	11.23%	9.37%	9.94%	9.72%	9.49%	7.81%	6.52%	6.92%	6.85%	6.54%
C3b – Health Credit Risk															
Total C3b – Pre-Tax	2,219	2,028	1,806	2,063	1,734	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Net C3b – Post-Tax	2,219	2,028	1,806	2,063	1,734	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
C3c – Market Risk															
Total C3c – Pre-Tax	1,120,547	1,290,892	631,001	1,912,276	4,552,449	0.99%	1.06%	0.56%	1.62%	3.81%	0.69%	0.74%	0.39%	1.14%	2.63%
Net C3c – Post-Tax	2,081,016	2,397,371	1,171,858	3,551,369	2,959,092	1.85%	1.97%	1.04%	3.02%	2.48%	1.28%	1.37%	0.72%	2.12%	1.71%
C4a – Business Risk															
Premium Component	7,118,383	6,951,296	8,479,932	8,495,330	7,984,644	6.32%	5.72%	7.51%	7.22%	6.69%	4.39%	3.98%	5.23%	5.08%	4.61%
Liability Component	1,322,431	1,460,464	1,058,594	1,254,663	1,422,546	1.17%	1.20%	0.94%	1.07%	1.19%	0.82%	0.84%	0.65%	0.75%	0.82%
Subtotal Business Risk (C4a) – Pre-Tax	8,440,814	8,411,760	9,538,526	9,749,993	9,407,191	7.49%	6.92%	8.44%	8.28%	7.88%	5.21%	4.81%	5.88%	5.83%	5.43%
Net C4a – Post-Tax	5,486,529	5,467,644	6,200,042	6,337,495	6,114,674	4.87%	4.50%	5.49%	5.38%	5.12%	3.38%	3.13%	3.82%	3.79%	3.53%
C4b – Business Risk															
Health Admin. Expense Component – Pre-Tax	532,386	575,589	624,537	670,667	678,561	0.47%	0.47%	0.55%	0.57%	0.57%	0.33%	0.33%	0.38%	0.40%	0.39%
Net C4b – Post-Tax	532,386	575,589	624,537	670,667	678,561	0.47%	0.47%	0.55%	0.57%	0.57%	0.33%	0.33%	0.38%	0.40%	0.39%
Total RBC															
Total RBC – Pre-Tax	162,090,095	174,763,157	162,273,086	167,134,312	173,289,976	143.83%	143.77%	143.67%	141.97%	145.13%	100.00%	100.00%	100.00%	100.00%	100.00%
Net RBC – Post-Tax	112,699,046	121,554,336	112,950,605	117,722,767	119,403,802	100.00%	100.00%	100.00%	100.00%	100.00%	69.53%	69.55%	69.61%	70.44%	68.90%
Total RBC After Covariance	89,591,874	95,435,586	89,190,900	92,233,605	92,556,536	79.50%	78.51%	78.96%	78.35%	77.52%	55.27%	54.61%	54.96%	55.19%	53.41%
Tax Sensitivity – Total RBC after Covariance	129,714,513	138,261,812	128,049,106	132,690,609	133,288,741	115.10%	113.74%	113.37%	112.71%	111.63%	80.03%	79.11%	78.91%	79.39%	76.92%
Total Adjusted Capital															
Total Adjusted Capital	363,471,267	382,628,818	337,907,040	384,989,361	415,751,657	322.51%	314.78%	299.16%	327.03%	348.19%	224.24%	218.94%	208.23%	230.35%	239.92%
Tax Sensitivity – Total Adjusted Capital	350,048,137	367,888,064	311,977,008	348,955,238	378,627,436	310.60%	302.65%	276.21%	296.42%	317.10%	215.96%	210.51%	192.25%	208.79%	218.49%

Figure 1A
RBC Components by Company Size
2010

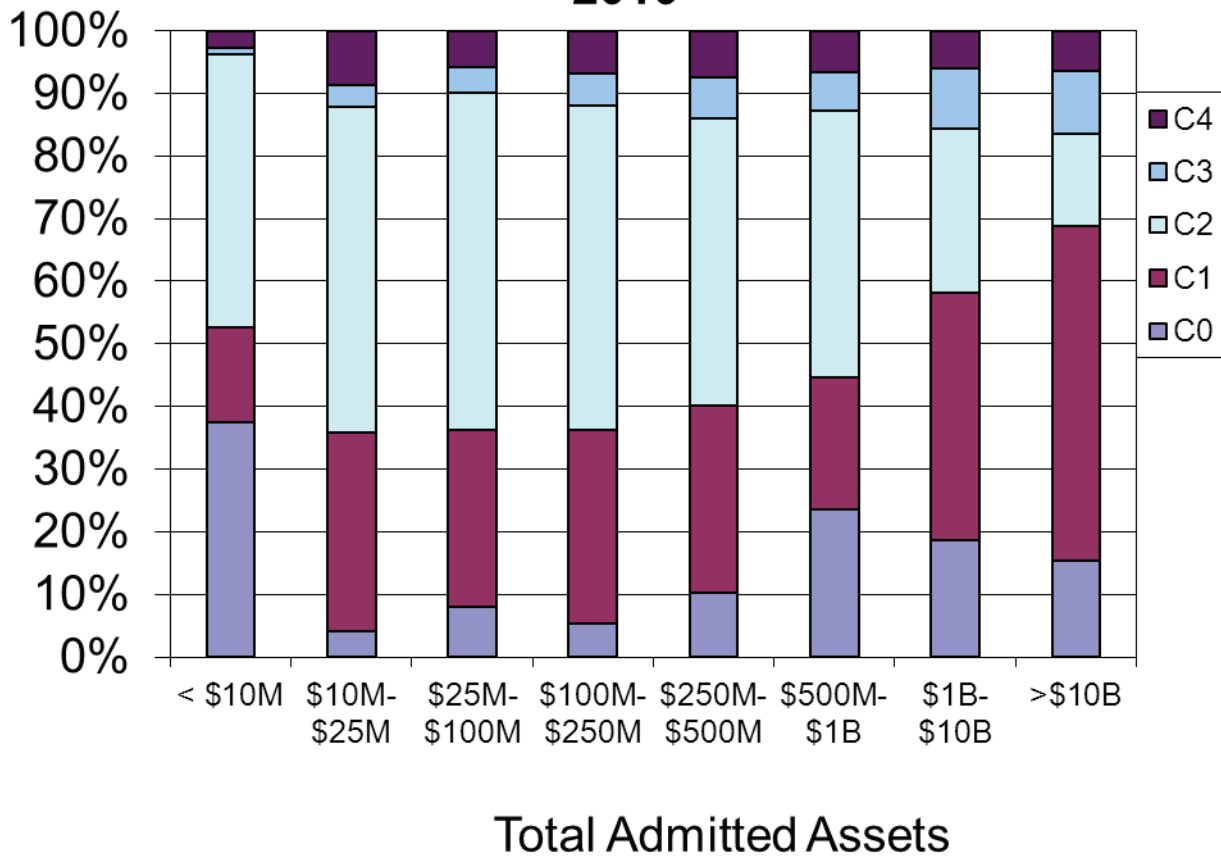


Figure 1B
Pre-tax RBC Components by
Company Size
2010

