

Property & Casualty Industry RBC Results for 2010

by NAIC Staff

As of August 16, 2011, approximately 2,606 Property & Casualty 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 1, the number of companies triggering one of the regulatory intervention levels is relatively small. Typically, around 97 percent of all P&C insurers filing with the NAIC fall into the "No Action" level. That number has been fairly constant throughout the sixteen years that the NAIC's Property & Casualty RBC system has been in place.

Table 2 shows the disposition of insurers filing in data years 2009 and/or 2010. There is an increase of 45 new filers in 2010, which is offset by a decrease of 78 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 2,561 companies that filed in both 2009 and in 2010, 58 companies triggered one of the action levels in 2009. Twenty-six percent of those companies that triggered an action level in 2009 were able to move to the "No Action" level in 2010, while 74 percent (43 out of 58 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 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.

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 4 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 has typically grown over time, as would be expected due to inflation. The totals did fall in 2009 but

they increased again in 2010. The effective rate for premiums and reserves both fell in 2010 after increasing in 2009.

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, aggregate TAC rose 7.6% from 2009 to 2010, resulting in a net TAC increase of 16 percent over the past five years. Total RBC rose 4% over the past year.

Table 1
Industry Results By Action Level, 2006-2010

	2006	2007	2008	2009	2010
No Action	2,523	2,567	2,566	2,571	2,545
Company Action Level	23	22	29	19	13
Regulatory Action Level	15	16	16	10	17
Authorized Control Level	5	8	10	10	5
Mandatory Control Level	33	27	29	29	26
Total	2599	2640	2650	2639	2606
Percent At 'No Action' Level	97.1%	97.2%	96.8%	97.4%	97.7%

Table 2
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	2,489	5	5	1	3	68
	COMPANY ACTION LEVEL	11	4	4	0	0	0
	REGULATORY ACTION LEVEL	4	1	3	0	0	2
	AUTHORIZED CONTROL LEVEL	0	2	2	3	2	1
	MANDATORY CONTROL LEVEL	0	1	1	1	19	7
	NOT ON DATABASE	41	0	2	0	2	0

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

Asset Size	2010 Surplus to Asset Ratio	2006	2007	2008	2009	2010
Less than \$10 million	0.742	1536%	1924%	1605%	1866%	1729%
\$10 million to \$25 million	0.598	1389%	1559%	1595%	1610%	1587%
\$25 million to \$100 million	0.463	983%	985%	1039%	1145%	1108%
\$100 million to \$250 million	0.418	803%	896%	870%	920%	889%
\$250 million to \$500 million	0.401	796%	862%	861%	907%	908%
\$500 million to \$1 billion	0.382	722%	744%	773%	832%	784%
\$1 billion to \$10 billion	0.367	690%	681%	667%	720%	725%
More than \$10 billion	0.375	480%	539%	474%	528%	556%
All Companies	0.468	935%	977%	992%	1047%	1037%

Table 4
Average Underwriting Risk Factors, 2006-2010

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
2006	498,386,189	90,883,219	0.182	441,514,956	53,926,560	0.122
2007	553,508,233	92,254,735	0.167	437,408,945	57,208,353	0.131
2008	543,265,335	91,358,674	0.168	428,270,742	55,376,189	0.129
2009	534,185,972	92,046,039	0.172	413,241,089	54,614,304	0.132
2010	546,238,801	92,847,848	0.170	416,620,138	53,422,759	0.128

Table 5
P&C RBC By Components, 2006-2010

	Aggregates for 2,599 Companies (000)		Aggregates for 2,640 Companies (000)		Aggregates for 2,650 Companies (000)		Aggregates for 2,568 Companies (000)		Aggregates for 2,606 Companies (000)		Percent of Total RBC				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
R0 - Asset Risk - Affiliates															
Direct P&C Insurers	21,797,178	22,487,331	22,390,774	22,728,641	24,263,446	7.81%	7.75%	8.18%	8.11%	8.31%	8.11%	7.75%	8.18%	8.11%	8.31%
Indirect P&C Insurers	5,282,083	5,735,135	6,354,630	6,682,900	6,090,293	1.89%	1.98%	2.32%	2.38%	2.09%	1.89%	1.98%	2.32%	2.38%	2.09%
Direct Life Insurers	3,587,291	3,939,839	3,505,148	4,241,619	4,351,220	1.29%	1.36%	1.28%	1.51%	1.49%	1.29%	1.36%	1.28%	1.51%	1.49%
Indirect Life Insurers	2,585,617	2,242,002	2,049,912	2,369,769	2,295,040	0.93%	0.77%	0.75%	0.85%	0.79%	0.93%	0.77%	0.75%	0.85%	0.79%
Direct Health Insurers	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Indirect Health Insurers	3,920	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Direct Affiliated Alien Insurers	2,436,857	4,830,605	5,113,652	5,623,934	5,949,782	0.87%	1.67%	1.87%	2.01%	2.04%	0.87%	1.67%	1.87%	2.01%	2.04%
Indirect Affiliated Alien Insurers	1,967,633	1,576,387	1,387,450	1,150,616	1,030,765	0.71%	0.54%	0.51%	0.41%	0.35%	0.71%	0.54%	0.51%	0.41%	0.35%
Non-controlled Assets	395,899	904,715	718,078	928,790	981,845	0.14%	0.31%	0.26%	0.33%	0.34%	0.14%	0.31%	0.26%	0.33%	0.34%
Guarantees for Affiliates	28,139	21,646	206,595	245,333	216,712	0.01%	0.01%	0.08%	0.09%	0.07%	0.01%	0.01%	0.08%	0.09%	0.07%
Contingent Liabilities	203,093	202,745	240,790	257,706	229,622	0.07%	0.07%	0.09%	0.09%	0.08%	0.07%	0.07%	0.09%	0.09%	0.08%
Total R0	38,287,711	41,940,406	41,956,539	44,229,308	45,408,726	13.72%	14.46%	15.33%	15.78%	15.55%	13.72%	14.46%	15.33%	15.78%	15.55%
R1 - Asset Risk - Fixed Income															
Government Agency Bonds	205,734	247,537	200,722	199,228	199,065	0.07%	0.09%	0.07%	0.07%	0.07%	0.07%	0.09%	0.07%	0.07%	0.07%
Unaffiliated Bonds	2,932,593	3,173,638	3,519,179	3,789,018	3,926,520	1.05%	1.09%	1.29%	1.35%	1.34%	1.05%	1.09%	1.29%	1.35%	1.34%
Bond Size Factor	954,418	1,005,879	1,267,490	1,352,645	1,437,284	0.34%	0.35%	0.46%	0.48%	0.49%	0.34%	0.35%	0.46%	0.48%	0.49%
Bonds - Affiliated Investment Subs.	19	34	34	34	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Holding Company	0	0	84	83	2,129	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Parents	18,102	9,199	8,140	59,489	41,314	0.01%	0.00%	0.00%	0.02%	0.01%	0.01%	0.00%	0.00%	0.02%	0.01%
Bonds - PC Not Subject	0	5,696	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Life Not Subject	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Health Not Subject	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bonds - Non-Insurer	58,129	42,182	79,968	346,761	37,244	0.02%	0.01%	0.03%	0.12%	0.01%	0.02%	0.01%	0.03%	0.12%	0.01%
Mortgage Loans	198,349	251,696	264,006	237,650	221,159	0.07%	0.09%	0.10%	0.08%	0.08%	0.07%	0.09%	0.10%	0.08%	0.08%
Collateral Loans	3,933	4,364	59,391	60,895	101,474	0.00%	0.00%	0.02%	0.02%	0.03%	0.00%	0.00%	0.02%	0.02%	0.03%
Cash, Cash Equiv & Short-Term Invest.	98,275	101,319	90,368	76,725	85,006	0.04%	0.03%	0.03%	0.03%	0.03%	0.04%	0.03%	0.03%	0.03%	0.03%

Replication - Synthetic Assets:									
One Half	8,534	14,438	4,620	3,382	-1,023	0.00%	0.00%	0.00%	0.00%
Asset Concentration (Fixed)	279,368	296,393	525,787	619,371	615,967	0.10%	0.10%	0.19%	0.22%
Total R1	4,757,455	5,152,372	6,019,789	6,745,280	6,666,137	1.70%	1.78%	2.20%	2.41%
R2 - Asset Risk - Equity									
Common - Affiliated Investment Subs.	43,749	191,617	106,809	127,295	190,847	0.02%	0.07%	0.04%	0.05%
Common - Holding Company	1,427,009	1,964,159	2,132,444	1,990,959	2,112,637	0.51%	0.68%	0.78%	0.71%
Common - Parents	109,060	98,226	69,171	66,457	74,190	0.04%	0.03%	0.03%	0.02%
Common - PC Not Subject	18,733	62,103	94,050	88,562	98,264	0.01%	0.02%	0.03%	0.03%
Common - Life Not Subject	1,107	1,128	1,475	1,717	1,553	0.00%	0.00%	0.00%	0.00%
Common - Health Not Subject	4,444	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Common - Non-Insurer	2,557,389	2,360,484	4,148,937	3,866,513	2,310,248	0.92%	0.81%	1.52%	1.38%
Preferred - Affiliated Investment Subs.	0	0	0	0	6,450	0.00%	0.00%	0.00%	0.00%
Preferred - Holding Company	0	3,596	147,015	147,515	1,820	0.00%	0.00%	0.05%	0.05%
Preferred - Parents	0	0	374	3,161	3,633	0.00%	0.00%	0.00%	0.00%
Preferred - PC Not Subject	0	0	5,059	5,483	0	0.00%	0.00%	0.00%	0.00%
Preferred - Life Not Subject	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Preferred - Health Not Subject	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Preferred - Non-Insurer	562,026	547,793	681,041	137,829	127,608	0.20%	0.19%	0.25%	0.05%
Unaffiliated Preferred	107,151	148,225	139,334	165,784	206,358	0.04%	0.05%	0.05%	0.06%
Unaffiliated Common	26,856,613	27,127,325	18,660,310	22,825,449	23,515,744	9.62%	9.35%	6.82%	8.14%
Real Estate	999,341	1,052,561	1,096,874	1,072,664	1,033,676	0.36%	0.36%	0.40%	0.38%
Schedule BA Assets	10,579,772	15,357,049	11,923,225	11,752,528	20,510,715	3.79%	5.29%	4.36%	4.19%
Receivables for Securities	108,841	89,686	128,562	51,910	223,113	0.04%	0.03%	0.05%	0.02%
Aggregate Write-ins for Invested Assets	112,953	203,872	145,623	107,980	72,161	0.04%	0.07%	0.05%	0.04%
Derivatives (new line 2010)					31,981				0.01%
Replication - Synthetic Asset:									
One Half	8,534	14,438	4,620	3,382	-1,023	0.00%	0.00%	0.00%	0.00%
Asset Concentration (Equity)	16,361,398	18,305,541	12,971,776	14,794,440	18,968,359	5.86%	6.31%	4.74%	5.28%
Total R2	59,858,120	67,527,803	52,456,701	57,209,628	69,488,335	21.45%	23.28%	19.16%	20.41%
R3 - Asset Risk - Credit									
Other Credit RBC	6,179,719	2,713,236	3,310,690	3,333,020	3,138,588	2.21%	0.94%	1.21%	1.19%
One Half of Rein Recoverables	11,464,017	10,703,079	10,870,321	10,462,354	9,964,021	4.11%	3.69%	3.97%	3.73%
Other Half of Rein Recoverables	3,289,586	2,553,875	3,066,407	2,389,458	1,801,276	1.18%	0.88%	1.12%	0.85%
Health Credit Risk	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total R3	20,933,322	15,970,190	17,247,418	16,184,833	14,903,885	7.50%	5.51%	6.30%	5.77%

