

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

DATE: <u>11/16/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u> TELEPHONE: <u>816-783-8407</u> EMAIL ADDRESS: <u>eyeung@naic.org</u> ON BEHALF OF: <u>P/C RBC WG</u> NAME: <u>Tom Botsko</u> TITLE: <u>Chair</u> AFFILIATION: <u>Ohio Department of Insurance</u> ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u>	Agenda Item # <u>2018-16-P</u> Year <u>2019</u> <b style="text-align: center;"><u>DISPOSITION</u> <input type="checkbox"/> ADOPTED _____ <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input type="checkbox"/> EXPOSED _____ <input type="checkbox"/> OTHER (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|---|--|---|
| <input type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life RBC Instructions |
| <input type="checkbox"/> Fraternal RBC Blanks | <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions |
| <input type="checkbox"/> Life RBC Blanks | <input type="checkbox"/> Fraternal RBC Instructions | <input type="checkbox"/> OTHER _____ |

DESCRIPTION OF CHANGE(S)

American Academy of Actuaries (Academy) Report for 2017 Property and Casualty Risk-Based Capital Underwriting Line 4 Factors.

The factors are based on the scenario #1 (10% capped) Underwriting Factors proposed by the Academy were adopted for 2017 RBC reporting (See the proposal 2016-14-P). During the 10/11 PCRBC WG conference call, the WG decided to develop a proposal to include four different options:

- 1) factors capped at 35% for all lines of business;
- 2) uncapped factors for all lines of business;
- 3) factors capped at 35% on Commercial lines and Medical Professional Liability lines and uncapped on all other lines of business; and
- 4) any other alternatives suggested by interested parties.

REASON OR JUSTIFICATION FOR CHANGE **

At the request of the PCRBC WG, the Academy examined the underwriting risk charges used the NAIC RBC formula. The Academy recommended that the Working Group consider adopting factors resulting from the revised methodology outlined in the report.

Additional Staff Comments:

11/16/18 – During the Joint P/C RBC WG and Catastrophe Risk Subgroup meeting, the members agreed to 1) use the 35 percent capped factors for Commercial Insurance, Medical Professional Liability, and All Other Lines; and use uncapped factors for Personal Lines and Reinsurance Lines and 2) expose this proposal for a 60-day comment period ending January 18, 2019.

2/20/19 - Per discussion in the Joint PC RBC WG and Cat Risk SG call, the members agreed to re-expose this proposal for 30 days comment period.

**** This section must be completed on all forms.**

Revised 11-2013

35 percent capped factors for Commercial Insurance, Medical Professional Liability, and All Other Lines; uncapped factors for Personal Lines and Reinsurance

Schedule P Line of Business	LOB	Short tailed	Reserves		Premiums	
			Proposed for adoption - 2019 PR017 Line 4	2018 PR017 Line 4	Proposed for adoption - 2019 PR018A Line 4	2018 PR018A Line 4
H/F	A		0.213	0.213	0.936	0.927
PPA	B		0.179	0.181	0.969	0.969
CA	C		0.276	0.243	1.010	1.005
WC	D		0.344	0.336	1.044	1.044
CMP	E		0.494	0.494	0.883	0.892
MM Occurrence	F1		0.383	0.417	1.668	1.778
MM Clms Made	F2		0.276	0.297	1.130	1.103
SL	G		0.304	0.270	0.922	0.898
OL	H		0.531	0.531	1.013	1.027
Fidelity / Surety	K	X	0.371	0.338	0.854	0.875
Special Property	I	X	0.246	0.207	0.863	0.907
Auto Physical Damage	J	X	0.155	0.121	0.836	0.836
Other (Credit, A&H)	L	X	0.220	0.186	0.935	0.906
Financial / Mortgage Guaranty	S	X	0.179	0.194	1.598	1.515
Intl	M		0.359	0.336	1.234	1.187
Rein. Property & Financial Lines	NP		0.415	0.304	1.170	1.223
Rein. Liability	O		0.656	0.711	1.322	1.449
PL	R		0.802	0.688	1.263	1.228
Warranty	T	X	0.371	0.338	0.854	0.875

Comparison of P&C Underwriting Factors between Current (2017) RBC formula, Underwriting Factors Capped at 35% and Uncapped Factors

	Commercial Lines Writers										Personal Lines Writers			
	CAL	WC	CMP	OL	SP	PL	H/F	PPAL	APD					
<u>PRO17 Line 4</u>														
Current	0.243	0.336	0.494	0.531	0.207	0.688	0.213	0.181	0.121					
35% Cap	0.276	0.344	0.494	0.531	0.246	0.802	0.213	0.179	0.143					
Uncap	0.348	0.344	0.494	0.531	0.428	1.345	0.213	0.179	0.155					
	Med Mal Writer										Other Lines Writers			
<u>PRO17 Line 4</u>														
Current	0.417	0.297	0.304	0.711	0.270	0.338	0.186	0.194	0.336					
35% Cap	0.383	0.276	0.348	0.656	0.304	0.371	0.220	0.179	0.359					
Uncap	0.296	0.089	0.415	0.656	0.431	0.917	0.375	0.060	0.695					

	Commercial Lines Writers										Personal Lines Writers			
	CAL	WC	CMP	OL	SP	PL	H/F	PPAL	APD					
<u>PRO18 Line 4</u>														
Current	1.005	1.044	0.892	1.027	0.907	1.228	0.927	0.969	0.836					
35% Cap	1.010	1.044	0.883	1.013	0.863	1.263	0.936	0.969	0.836					
Uncap	1.010	1.044	0.883	1.013	0.816	1.285	0.936	0.969	0.836					
	Med Mal Writer										Other Lines Writers			
<u>PRO18 Line 4</u>														
Current	1.778	1.103	1.223	1.449	0.898	0.875	0.906	1.515	1.187					
35% Cap	1.668	1.130	1.170	1.322	0.922	0.854	0.935	1.598	1.234					
Uncap	1.490	1.176	1.170	1.322	0.933	0.680	0.935	2.513	1.638					