

Capital Adequacy (E) Task Force
RBC Proposal Form

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|---|---|--|
| <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"/> Op Risk RBC (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>4/10/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2018-10-P</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2018</u>
EMAIL ADDRESS: <u>eveyung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>P/C RBC (E) Working Group</u>	<input checked="" type="checkbox"/> ADOPTED <u>6/28/18</u>
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>50 West Town Street, Suite 300</u>	<input checked="" type="checkbox"/> EXPOSED <u>4/26/18</u>
<u>Columbus, OH 43215</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|---|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input 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)

The proposed change would provide PR026 exemption to those companies that write less than 5% A&H premiums.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of this change is to clarify that the PR026 should be left blank if a company has less than 5% A&H premiums.

Additional Staff Comments:

4/26/18 – The P/CRBC WG exposed this proposal for a 30-day comment period ending 5/25/18.
5/26/18 – No comment was received.
6/28/18 – The Capital Adequacy (E) Task Force adopted the proposal.

**** This section must be completed on all forms. Revised 11-2013**

PR026 - Federal ACA Risk adjustment sensitivity test

The Federal ACA Risk Adjustment Sensitivity Test should be completed by those companies that write 5 percent or more of its premiums in A&H lines in the last three consecutive years. Those companies that write less than 5 percent are exempt. The federal ACA Risk Adjustment Sensitivity Test is used to adjust TAC for the risk adjustment receivable or payable. The sensitivity test identifies the potential impact to an insurer's RBC ratio due to the risk of **misestimation of** the ACA risk adjustment by the insurer. The sensitivity test looks at both the risk of overestimation and underestimation by the insurer for both receivables and payables. Lines (1) through (8) look at the risk of overestimation while Lines (9) through (16) look at the risk of underestimation by decreasing and increasing the amount reported in the Notes to Financial Statement by 25 percent. The sensitivity test provides a "what if" scenario that has no effect on the risk-based capital amounts reported in the annual statement. The Health Risk-Based Capital (E) Working Group determined that a 25 percent change in the annual statement amount and a 50 percent factor should be used to calculate the effect of the **misestimation of** the risk adjustment receivable and payable on the RBC ratio. The company can provide an explanation in the Footnote if the company believes the factors are not appropriate, with an explanation as to why the factors are inappropriate.



Detail Eliminated To Conserve Space



To: Thomas Botsko, Chair of Property & Casualty Risk-Based Capital (E) Working Group
From: Patrick McNaughton, Chair of the Health Risk-Based Capital (E) Working Group
Re: Instructions for Federal Affordable Care Act Risk Adjustment Sensitivity Test (Page PR026)
Date: April 9, 2017

The purpose of this referral is to request consideration be given to revise the instructions for the Federal ACA Risk Adjustment Sensitivity Test for those P/C companies that meet the criteria for completing the A&H pages of the Property & Casualty RBC formula.

The Health Risk-Based Capital (E) Working Group asks that consideration be given to adding the following sentence to the Page PR026 instructions:

“The Federal ACA Risk Adjustment Sensitivity Test should be completed by those companies that write 5 percent or more of its premiums in A&H lines in the last three consecutive years. Those companies that write less than 5 percent are exempt.”

Cc: Eva Yeung

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