

NAIC Property and Casualty Risk-Based Capital Newsletter

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What RBC Pages Should Be Submitted?

For year-end 2017 property/casualty (P/C) risk-based capital (RBC), hard copies of pages **PR001 through PR035**, as well as **PR038 and PR039**, should be submitted to any state that requests a hard copy. Beginning with the year-end 2011 RBC, a hard copy was not required to be submitted to the NAIC, but a portable document format (PDF) file representing the hard copy filing is part of the electronic filing with the NAIC.

Type 7 Affiliated Investments

As a result of the adoption of agenda item 2014-29-P by the Capital Adequacy (E) Task Force at the 2016 Fall National Meeting, the calculation of the RBC charge for the ownership of investment affiliates (affiliate Type 7) will be simplified by applying a fixed 22.5% times the book-adjusted carrying value (BACV) of the common stocks, preferred stocks and bonds.

Operational Risk

As a result of a technical issue that was presented during the June 28 Capital Adequacy (E) Task Force conference call, implementation of a risk factor for Operational Risk has been deferred for at least a year. The Task Force adopted agenda item 2016-13-O at the Spring National Meeting and modified it on its June 28 conference call. At the Spring National Meeting, the Task Force in essence voted to “go live” for 2017 reporting by adopting the structural change to remove the informational only page and move the “add-on” approach for basic operational risk to Page PR032. On its June 28 conference call, the Task Force adopted the operational risk instructions for pages PR003 and PR032, but voted to reduce the recommended RBC charge from 1.5% to 0% for 2017 to allow the Operational Risk (E) Subgroup to address the technical concerns raised.

Stop Loss

As a result of the adoption of agenda item 2016-17-CA by the Capital Adequacy (E) Task Force at the Spring National Meeting, a tiered factor approach will be applied to Line (9) on page PR019. A footnote was added to apply a factor of 0.350 to the first \$25,000,000 in stop loss premium and apply a factor of 0.250 to the remaining premium in excess of \$25,000,000.

Money Market Mutual Funds

As a result of the reclassification of money market mutual funds (MMMFs) to cash equivalents by the Statutory Accounting Principles (E) Working Group, the Capital Adequacy (E) Task Force adopted agenda item 2016-15-CA at Spring National Meeting. MMMFs will be isolated on their own line on the Miscellaneous Assets schedule and subtracted from the cash equivalents. The Annual Statement Source will be Sch E Pt 2 C7 L8599999.

Catastrophe Risk

1. Catastrophe risk, long identified as the most significant risk missing from the RBC formula, will finally become part of the formula for 2017 reporting after more than a decade of development. This is taking place as a result of the adoption of agenda item 2016-07-CR by the Capital Adequacy (E) Task Force at the Spring National Meeting. Please see the proposal for the detail of the changes.

2. A clarifying change was made to the interrogatory that provides insurers with little or no exposure to earthquake or hurricane risk to obtain exemption from reporting catastrophe risk. As a result of the adoption of agenda item 2016-11-CR by the Capital Adequacy (E) Task Force at the Fall National Meeting, the revised interrogatory will separate the earthquake and hurricane risks into two sections so that a company has to complete this interrogatory if either the earthquake or the hurricane RBC charge is zero.

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Unaffiliated Common Stock Money Market Mutual Funds

As a result of the adoption of agenda item 2016-15-CA, the Capital Adequacy (E) Task Force adopted agenda item 2017-06-CA on its June 28 conference call. To avoid double counting MMMFs in both cash equivalents and common stock, the factor was changed to 0.00 in Line (16) on page PR007. The instructions also were revised to reflect the change.

Supplemental Benefits within Stand-Alone Medicare Part D Coverage

As a result of the adoption of agenda item 2016-16-CA by the Capital Adequacy (E) Task Force at the Spring National Meeting, the factor for Supplemental Benefits within Stand-Alone Medicare Part D Coverage (Page PR019, Line (3.2) and Line (10.2) were increased to 0.500 and will be applied to claims incurred.

New Underwriting Risk Factors

On its June 28 conference call, the Capital Adequacy (E) Task Force adopted the new factors for the Underwriting Risk page PR017 Underwriting Risk—Reserves Line (4) and PR018 Underwriting Risk—Net Written premium Line (4) .

Unlike the Line (1) industry average factors that are updated annually, these factors had not been updated since 2010 reporting. An updated review of the factors using the revised methodology was completed by the American Academy of Actuaries (Academy). After further discussion and study by the Property and Casualty Risk-Based Capital (E) Working Group, it was agreed to update the Line (4) factors based on the scenario #1 (10% capped) in the report of 2017 Property and Casualty Risk-Based Capital Underwriting Line 4 Factors by the Academy. The factors will be re-evaluated again and expected to reach the fully proposed values in next four years. The new 2017 factors will be as follows:

PR017 Underwriting Risk – Reserves			
Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2016 Factor	2017 Factor
(1)	H/F	0.201	0.213
(2)	PPA	0.192	0.181
(3)	CA	0.230	0.243
(4)	WC	0.324	0.336
(5)	CMP	0.465	0.494
(6)	MPL Occurrence	0.431	0.417
(7)	MPL Clms Made	0.306	0.297
(8)	SL	0.257	0.270
(9)	OL	0.511	0.531
(10)	Fidelity / Surety	0.325	0.338
(11)	Special Property	0.191	0.207
(12)	Auto Physical Damage	0.112	0.121
(13)	Other (credit A&H)	0.172	0.186
(14)	Financial / Mortgage Guaranty	0.200	0.194
(15)	INTL	0.327	0.336
(16)	REIN. P&F Lines	0.286	0.304
(17)	REIN. Liability	0.769	0.711
(18)	PL	0.643	0.688
(19)	Warranty	0.325	0.338

PR018 Underwriting Risk – Net Written Premiums			
Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2016 Factor	2017 Factor
(1)	H/F	0.937	0.927
(2)	PPA	0.969	0.969
(3)	CA	0.988	1.005
(4)	WC	1.033	1.044
(5)	CMP	0.921	0.892
(6)	MPL Occurrence	1.822	1.778
(7)	MPL Clms Made	1.092	1.103
(8)	SL	0.904	0.898
(9)	OL	1.042	1.027
(10)	Fidelity / Surety	0.883	0.875
(11)	Special Property	0.941	0.907
(12)	Auto Physical Damage	0.843	0.836
(13)	Other (credit A&H)	0.893	0.906
(14)	Financial / Mortgage Guaranty	1.482	1.515
(15)	INTL	1.169	1.187
(16)	REIN. P&F Lines	1.349	1.223
(17)	REIN. Liability	1.507	1.449
(18)	PL	1.214	1.228
(19)	Warranty	0.883	0.875

New Industry Average Risk Factors – Annual Update

On its June 28 conference call, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors:

PR017 Underwriting Risk – Reserves			
Line (1), Industry Average Development Factors			
Col.	Line of Business	2016 Factor	2017 Factor
(1)	H/F	0.972	0.984
(2)	PPA	1.002	1.012
(3)	CA	1.015	1.034
(4)	WC	0.971	0.971
(5)	CMP	0.942	0.956
(6)	MPL Occurrence	0.841	0.868
(7)	MPL Clms Made	0.822	0.854
(8)	SL	0.919	0.926
(9)	OL	0.929	0.952
(10)	Fidelity / Surety	1.035	1.016
(11)	Special Property	0.973	0.982
(12)	Auto Physical Damage	0.995	1.001
(13)	Other (credit A&H)	0.986	0.981
(14)	Financial / Mortgage Guaranty	0.853	0.820
(15)	INTL	0.897	0.855
(16)	REIN. P&F Lines	0.814	0.814
(17)	REIN. Liability	0.896	0.914
(18)	PL	0.937	0.935
(19)	Warranty	0.977	0.989

PR018 Underwriting Risk – Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2016 Factor	2017 Factor
(1)	H/F	0.701	0.688
(2)	PPA	0.792	0.800
(3)	CA	0.689	0.706
(4)	WC	0.752	0.751
(5)	CMP	0.648	0.647
(6)	MPL Occurrence	0.767	0.777
(7)	MPL Clms Made	0.691	0.722
(8)	SL	0.572	0.567
(9)	OL	0.618	0.629
(10)	Fidelity / Surety	0.464	0.430
(11)	Special Property	0.559	0.555
(12)	Auto Physical Damage	0.711	0.727
(13)	Other (credit A&H)	0.699	0.712
(14)	Financial / Mortgage Guaranty	1.293	1.175
(15)	INTL	0.607	0.565
(16)	REIN. P&F Lines	0.512	0.459
(17)	REIN. Liability	0.600	0.609
(18)	PL	0.684	0.670
(19)	Warranty	0.611	0.645

Editorial Change

The Column (4) headings of PR003 Detail for Affiliated Bonds and Stocks were updated to “Affiliate’s RBC After Co-variance Before Operational Risk”, and the line references for life and P/C were changed to Line (67) + (70) and Line (73), respectively.

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Direct correspondence to: Eva Yeung, RBC Newsletters,
 NAIC, 1100 Walnut Street, Suite 1500, Kansas City,
 MO 64106-2197. Phone: 816-783-8407. Email:
 eyeung@naic.org.

Address corrections requested. Please mail the old
 address label with the correction to: NAIC Publications
 Department, 1100 Walnut Street, Suite 1500, Kansas
 City, MO 64106-2197. Phone: 816-783-8300. Email:
 prodserv@naic.org.