



Risk-Based Capital Newsletter

NAIC

National Association of
Insurance Commissioners

Information-Only Alternative C-3 RBC Cash Flow Testing

Adopted on the June 30, 2015, conference call of the Capital Adequacy (E) Task Force was a proposal to modify the footnotes and instructions for FR027, Interest Rate Risk and Market Risk (Alternative) to indicate that this information-only data is not required for 2015.

Jurat Page Signature Requirement

The Capital Adequacy (E) Task Force adopted proposal 2015-03-CA on its June 30, 2015, conference call. The purpose of this change is to clarify the Jurat Signature requirements in accordance with the requirement of the domiciliary state.

Management Discussion and Analysis

As a result of adoption of 2014-22-CA by the Capital Adequacy (E) Task Force on its June 30, 2015, conference call, the instruction was revised to indicate that the RBC Requirement, Total Adjusted Capital and RBC Factors cannot be modified for the calculation of Authorized Control Level.

Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision

As a result of adoption of 2014-36-L by the Capital Adequacy (E) Task Force at its March 29, 2015, Spring National Meeting, the new FR020-A will break out premiums, claims and the medical loss ratio (MLR) by individual, small group and large group plans, as well as a break out of claims and the MLR for Medicare, Medicaid and Other Health. This page is for informational purposes only for 2015 reporting to allow regulators a more granular view of a health entity's overall writings as a result of the federal Affordable Care Act (ACA).

What RBC Pages Should Be Submitted?

For year-end 2015 Fraternal RBC, submit hard copies of pages **FR001 through FR049** to any state that requests a hard copy. A hardcopy is not required to be submitted to the NAIC.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hardcopy filing. Other pages, such as the mortgage and real estate worksheets, do not need to be submitted, but still need to be retained by the company as documentation.

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Federal ACA Risk Adjustment and Risk Corridor Sensitivity Test

The Capital Adequacy (E) Task Force adopted proposal 2014-39-L at its March 29, 2015, Spring National Meeting. This proposal adds a sensitivity test which reduces the total adjusted capital by either the receivable or payable for the risk adjustment and risk corridor in the federal Affordable Care Act based on a 25% adjustment.

Calculation of Total Adjusted Capital

As a result of adoption of 2015-05-CA by the Capital Adequacy (E) Task Force on its June 30, 2015, conference call, the annual statement reference or the amount reported in the Total Adjusted Capital Less ACA fee amount was changed to Note 22 B in the Notes to Financial Statements.

Operational Risk

The operational risk proposal, 2015-13-O, was adopted on the June 30, 2015, conference call of the Capital Adequacy (E) Task Force. Page FR029-A Operational Risk is for informational purposes only for 2015 reporting and will have no impact on the company's actual RBC calculation. Factors will apply to premiums, reserve and operational growth risk and capital add-on lines. The purpose of the updates is to allow regulators to analyze and calculate a potential RBC requirement.

Derivatives Collateral

The derivatives proposal, 2014-32-I, was adopted by the Capital Adequacy (E) Task Force on its April 30, 2015, conference call. The proposal removes a double charge in the fraternal RBC formula and applies an appropriate charge to centrally cleared items.

XXX/AXXX Reinsurance Proposals

The following proposals were adopted by the Capital Adequacy (E) Task Force on its June 30, 2015, conference call:

1. 2014-33-L-Mod Qualified Actuarial Opinion – This proposal modifies the interrogatory on FR027 Interest Rate Risk and Market Risk. This interrogatory allows companies submitting an unqualified opinion to receive a one-third reduction in the factors. It was modified to prevent an opinion qualified solely due to the direction in AG 48, which is line-of-business specific, impacting all lines of business.
2. 2014-35b-L-Mod Primary Securities Shortfall – This proposal adds a new schedule showing the primary security shortfall by individual cession. The cumulative amount of primary security shortfall, with no offset for any surpluses, is then taken as a dollar-for-dollar addition to the reporting company's Authorized Control Level.
3. 2014-42-L-Mod RBC Shortfall – This proposal adds a new schedule which shows the RBC calculation by individual captive. The cumulative amount of RBC shortfalls, with no offset for any surpluses, is then taken as a dollar-for-dollar reduction to the reporting company's Total Adjusted Capital.

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Direct correspondence to: Dave Fleming, Fraternal RBC
Newsletter, NAIC, 1100 Walnut, Suite 1500, Kansas City, MO
64106-2197. Phone: (816) 783-8121. Email: dfleming@naic.org

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

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