

NAIC Property and Casualty Risk-Based Capital Newsletter

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What RBC Pages Should Be Submitted?

For year-end 2016 P/C RBC, hard copies of pages **PR001 through PR036**, as well as **PR039 and PR040**, 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 PDF file representing the hard copy filing is part of the electronic filing with the NAIC.

Catastrophe Risk

Page PR027

1. As a result of the adoption of agenda item 2015-19-CR by the Capital Adequacy (E) Task Force at the Spring National Meeting, the R6 and R7 components will be replaced by the Rcat Component. The PR002 attestations 1 and 6 are updated to reflect the change. As more catastrophe perils will be included in the future, this change will simplify the covariance adjustment formula by combining the entire catastrophe perils into Rcat component.
2. As a result of the adoption of agenda item 2015-21-CR by the Capital Adequacy (E) Task Force on its June 30 conference call, a new interrogatory was added to determine whether there is “substantive earthquake and hurricane risk exposure” based on minimum coverage exposure and surplus percentages of Insured value—Property in Catastrophe-Prone Areas. The P/C RBC will continue to analyze and calculate a potential RBC requirement for the operational risk. Additional analysis will be performed before final factors and methodologies are considered.

3. As a result of the adoption of agenda item 2015-CR by the Capital Adequacy (E) Task Force on its June 30 conference call, the instructions and Interrogatories language in the PR027 were clarified to address the industry confusions on reporting the PR027 Interrogatories.

Page PR018A

Line (1), Ex-Cat Industry Average Loss and Expense Ratios, and Line (4), Ex-Cat Industry Losses and Loss Adjustment Expense Ratio:

Col.	Line of Business	Line 1 Factor	Line 4 Factor
(1)	H/F	0.687	0.910
(2)	PPA	0.792	0.969
(3)	CA	0.689	0.988
(4)	WC	0.752	1.033
(5)	CMP	0.647	0.903
(6)	MPL Occurrence	0.767	1.822
(7)	MPL Clms Made	0.691	1.092
(8)	SL	0.562	0.889
(9)	OL	0.618	1.042
(10)	Fidelity / Surety	0.464	0.883
(11)	Special Property	0.549	0.924
(12)	Auto Physical Damage	0.711	0.843
(13)	Other (Credit A&H)	0.699	0.893
(14)	Financial / Mortgage Guaranty	1.293	1.482
(15)	INTL	0.563	1.169
(16)	REIN. P&F Lines	0.440	1.273
(17)	REIN. Liability	0.588	1.506
(18)	PL	0.684	1.214
(19)	Warranty	0.611	0.883

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New Industry Average Risk Factors – Annual Update

As a result of the adoption of agenda item 2015-20-P by the Capital Adequacy (E) Task Force at the Spring National Meeting, the original PR017, PR018 and PR018A Line 1 computation approach is used to those Lines of Business contains 500 or more qualified companies whereas the new alternative approach is used those lines with less than 500 qualified companies reported to 2015 RBC reporting. The alternative approach intends to eliminate/reduce the impact of the intercompany pooling arrangement on computation of the lines with less than 500 qualified companies.

The annual update of industry average development factors was adopted during the June 30 conference call of the Capital Adequacy (E) Task Force:

PR017 Underwriting Risk – Reserves			
Line (1), Industry Average Development Factors			
Col.	Line of Business	2015 Factor	2016 Factor
(1)	H/F	0.962	0.972
(2)	PPA	1.002	1.002
(3)	CA	0.987	1.015
(4)	WC	0.961	0.971
(5)	CMP	0.938	0.942
(6)	MPL Occurrence	0.966	0.841
(7)	MPL Clms Made	0.839	0.822
(8)	SL	0.975	0.919
(9)	OL	0.923	0.929
(10)	Fidelity / Surety	1.016	1.035
(11)	Special Property	0.991	0.973
(12)	Auto Physical Damage	0.995	0.995
(13)	Other (credit A&H)	1.041	0.986
(14)	Financial / Mortgage Guaranty	1.185	0.853
(15)	INTL	1.350	0.897
(16)	REIN. P&F Lines	1.002	0.814
(17)	REIN. Liability	0.938	0.896
(18)	PL	1.072	0.937
(19)	Warranty	0.994	0.977

PR018 Underwriting Risk – Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2015 Factor	2016 Factor
(1)	H/F	0.701	0.701
(2)	PPA	0.786	0.792
(3)	CA	0.684	0.689
(4)	WC	0.751	0.752
(5)	CMP	0.655	0.648
(6)	MPL Occurrence	0.880	0.767
(7)	MPL Clms Made	0.697	0.691
(8)	SL	0.630	0.572
(9)	OL	0.616	0.618
(10)	Fidelity / Surety	0.462	0.464
(11)	Special Property	0.571	0.559
(12)	Auto Physical Damage	0.703	0.711
(13)	Other (credit A&H)	0.706	0.699
(14)	Financial / Mortgage Guaranty	1.096	1.293
(15)	INTL	1.150	0.607
(16)	REIN. P&F Lines	0.723	0.512
(17)	REIN. Liability	0.749	0.600
(18)	PL	0.715	0.684
(19)	Warranty	0.799	0.611

Asset Concentration

As a result of the adoption of agenda item 2015-18-CA by the Capital Adequacy (E) Task Force at the Spring National Meeting, the factors in the Grand Total issuer were removed.

Operational Risk

As a result of the adoption of agenda item 2016-05-O by the Capital Adequacy (E) Task Force on its June 30 conference call, the factors for Line (1) Net Written Premium and Line (2) Net Claim Liability Reserves were changed to 1.1%. The Operational Risk (E) Subgroup will continue to analyze and calculate a potential RBC requirement for the operational risk. Additional analysis will be performed before final factors and methodologies are considered.

Miscellaneous Assets

1. As a result of the adoption of agenda item 2016-08-CA by the Capital Adequacy (E) Task Force on its June 30 conference call, the factor of Line (1) Receivable for Securities of Miscellaneous Assets (PR009) and Line (25) of Asset Concentration (PR011) were updated.
2. As a result of adoption of agenda item 2016-18BWG MOD by the Blanks (E) Working Group on its June 16 conference call, the description of Line (10) of Miscellaneous Assets (PR009) was updated to All Other Money Market Mutual Fund.

Credit Risk for Receivables (For Informational Purposes Only page)

1. As a result of the adoption of agenda item 2016-02-P by the Capital Adequacy (E) Task Force on its April 29 conference call, several electronic only tables were added to calculate the required credit risk for reinsurance recoverables based on the reinsurer's financial strength ratings reported in the Annual Statement Schedule F, Part 5 and Part 6 Section 1 Electronic Columns.
2. As a result of adoption of agenda item 2016-09-P Alternative one by the Capital Adequacy (E) Task Force on its June 30 conference call, the PR012 instruction will be updated to allow a current rating from an approved agency instead of requiring the lowest rating when 2 or more ratings have been assigned.
3. For year-end 2016, the Blanks (E) Working Group is considering editorial changes to Schedule F, Part 3, Part 5 and Part 6 to revise the instructions related to the completion of new electronic-only columns to capture the "secure Code" of reinsurers subject to reinsurance arrangements with the reporting entity. These editorial revisions are being made to clarify that the term "secure" (which is being removed and replaced with "reinsurer designation equivalent") has no relationship to the "secure rating" assigned by state insurance departments for certified reinsurers, as the "Secure Rating" is strictly used to determine the percentage of collateral that is required under each reinsurance arrangement. Therefore, for purposes of completing PR012A, reporting entities shall follow the instructions provided in determining the "secure code" to be reported, and not utilize any "secure rating" (if applicable) assigned by a state insurance department for certified reinsurers. Revisions to PR012A, consistent with those made by the Blanks (E) Working Group for year-end 2016, will be considered for year-end 2017.

Editorial Changes

1. The “R6 and R7” in The Attestation Re: Catastrophe Modeling Used in RBC Catastrophe Risk Charges (PR002) was replaced with “Rcat”.
2. The Column (6) headings of PR003 and PR003A Detail for Affiliated Bonds and Stocks were updated to Valuation Basis of Column (5) E—Equity Method with zero/no unamortized goodwill.
3. The reference of Column (4) heading of PR003A was changed to PR033 L80.
4. The line description for Asset Concentration Page, Lines (22) and (23) were changed to “Property Held For Production of Income or For Sale Excluding Home Office” and “Property Held for Production of Income or For Sale Encumbrances Excluding Home Office” respectively.
5. As a result of the adoption of agenda item 2016-18BWG—Modified by the Blanks (E) Working Group on its June 16 conference call. The Annual Statement Source reference of Schedule D, Part 1A, Section 1, Column 6 in PR005, PR006 and PR007 were updated to Column 7, and the Line 9 in PR006 was updated to Line 10. The RBC instructions were also updated to reflect these changes.
6. As a result of the adoption of agenda item 2016-01BWG—Modified by the Blanks (E) Working Group on its June 16 conference call. The Annual Statement Source reference of Schedule D, Part 6, Section 1, Column 8 in PR005 were updated to Column 9.

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