



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 3/8/21

*Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)*

CATASTROPHE RISK (E) SUBGROUP

Monday, March 8, 2021

2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

ROLL CALL

Wanchin Chou, Chair	Connecticut	Halina Smosna	New York
Robert Ridenour, Vice Chair	Florida	Tom Botsko	Ohio
Laura Clements	California	Andrew Schallhorn	Oklahoma
Judy Mottar	Illinois	Will Davis	South Carolina
Gordon Hay	Nebraska	Miriam Fisk	Texas
Anna Krylova	New Mexico		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of its Jan. 27 Minutes—*Wanchin Chou (CT)* Attachment A
2. Consider Adoption of 2020-08-CR (Clarification to PR027 Interrogatories)
—*Sakman Luk (NY)* Attachment B
3. Consider Adoption of 2020-11-CR (Remove Embedded Operation Risk Factor
From Contingent Risk)—*Wanchin Chou (CT)* Attachment C
4. Discuss Wildfire Modeling and Risk-Based Capital (RBC) Charge Development
Progress—*Wanchin Chou (CT)*
5. Discuss the Catastrophe Risk (E) Subgroup Working Agenda—*Wanchin Chou (CT)* Attachment D
6. Discuss the Internal Catastrophe Model Evaluation Process—*Wanchin Chou (CT)* Attachment E
7. Discuss Any Other Matters Brought Before the Subgroup—*Wanchin Chou (CT)*
8. Adjournment

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Draft: 1/28/21

Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup
E-Vote
January 27, 2021

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force that concluded Jan. 22, 2020. The following Working Group members participated: Tom Botsko, Chair (OH); Richard Ford (AL); Laura Clements (CA); Mitchell Bronson (CO); Wanchin Chou (CT); Robert Ridenour (FL); Judy Mottar (IL); Anna Krylova (NM); Sak-man Luk (NY); Will Davis (SC); Miriam Fisk (TX); and Randy Milquet (WI). The following Subgroup members participated: Wanchin Chou, Chair (CT); Robert Ridenour, Vice Chair (FL); Mitchell Bronson (CO); Judy Mottar (IL); Gordon Hay (NE); Anna Krylova (NM); Sak-man Luk (NY); Tom Botsko (OH); Andrew Schallhorn (OK); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted the Updated 2020 U.S. and Non-U.S. Catastrophe Risk Event Lists

The Working Group and the Subgroup conducted an e-vote to consider adoption of the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Ms. Krylova made a motion, seconded by Mr. Bronson, to adopt the lists. The motion passed unanimously.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup adjourned.

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Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☒ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Operational Risk (E) Subgroup
☐ C3 Phase II/ AG43 (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup

DATE: <u>10/19/2020</u> CONTACT PERSON: <u>Jean Buckley</u> TELEPHONE: <u>816-783-8406</u> EMAIL ADDRESS: <u>jbuckley@naic.org</u> ON BEHALF OF: _____ NAME: <u>Sakman Luk</u> TITLE: <u>Supervising Actuary</u> AFFILIATION: <u>New York State Department</u> ADDRESS: <u>One State Street</u> <u>New York, NY 10004</u>	<u>FOR NAIC USE ONLY</u> Agenda Item # <u>2020-08-CR</u> Year <u>2021</u> <u>DISPOSITION</u> ☐ ADOPTED _____ ☐ REJECTED _____ ☐ DEFERRED TO _____ ☐ REFERRED TO OTHER NAIC GROUP _____ ☒ EXPOSED <u>10/19/20</u> ☐ OTHER (SPECIFY) _____
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Instructions
☐ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Blanks
☐ OTHER _____

DESCRIPTION OF CHANGE(S)

Add instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the Interrogatories.

REASON OR JUSTIFICATION FOR CHANGE **

Some insurers with no earthquake and/or hurricane exposure did not file PR027A, PR027B and the Interrogatories on PR027. This results with situation that it is not clear if the insurers fail to complete the exhibits or they simply have no gross exposure, thus creating cross-check problem. The clarification wording will reduce the cross-check problems experienced by NAIC.

Additional Staff Comments:

10/19/20 – The Cat Risk SG exposed the proposal for a thirty-day public comment period ending Nov. 18.

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

Revised 2-2019

CALCULATION OF CATASTROPHE RISK CHARGE RCAT PR027

The catastrophe risk charge for earthquake (PR027A) and hurricane (PR027B) risks is calculated by multiplying the RBC factors by the corresponding modeled losses and reinsurance recoverables. The risk applies on a net basis with a corresponding contingent credit risk charge for certain categories of reinsurers. Data must be provided for the worst year in 50, 100, 250, and 500; however, only the worst year in 100 will be used in the calculation of the catastrophe risk charge. While projected losses modeled on an Aggregate Exceedance Probability basis is preferred, companies are permitted to report on an Occurrence Exceedance Probability basis if that is consistent with the company's internal risk management process.

The Grand Total (PR027) page includes an interrogatory to support an exemption from filing the catastrophe risk charge. Any company qualifying for exemption from the earthquake risk charge must identify the particular criteria from among (1a), (1b), (2) and (3) that provides its qualification for exemption, and may leave the other three items from this group of four possible qualifications for exemption blank; except identification of criteria (3) as the basis for the exemption requires a further answer to (3a) and (3b). **If an insurer does not write or assume earthquake risks leaving no gross exposure, enter an "X" in interrogatory 3, with no need to fill in (3a) and (3b).** Any company qualifying for exemption from the hurricane risk charge must identify the particular criteria from among (4a), (4b), (5) and (6) that provides its qualification for exemption, and may leave the other three items from this second group of four possible qualifications for exemption blank. **If an insurer does not write or assume hurricane risks leaving no gross exposure, enter an "X" in interrogatory 6.**

If the company qualifies for exemption from the earthquake risk charge, page PR027A and line (1) on this page may be left blank. If the company qualifies for exemption from the hurricane risk charge, page PR027B and line (2) on this page may be left blank.

In general, the following conditions will qualify a company for exemption: if it uses an intercompany pooling arrangement or quota share arrangement with U.S. affiliates covering 100% of its earthquake and hurricane risks such that there is no exposure for these risks; if it has a ratio of Insured Value – Property to surplus as regards policyholders of less than 50%; or if it writes Insured Value – Property that includes hurricane and/or earthquake coverage in catastrophe-prone areas representing less than 10% of its surplus as regards policyholders.

"Insured Value – Property" includes aggregate policy limits for structures and contents for policies written and assumed in the following annual statement lines – Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril.

"Catastrophe-Prone Areas in the U.S." include:

- i. For hurricane risks, Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean and/or the Gulf of Mexico including Puerto Rico.
- ii. For earthquake risk or for fire following earthquake, any of the following commonwealth or states: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| ☐ Capital Adequacy (E) Task Force | ☐ Health RBC (E) Working Group | ☐ Life RBC (E) Working Group |
| ☐ Catastrophe Risk (E) Subgroup | ☐ Investment RBC (E) Working Group | ☐ Operational Risk (E) Subgroup |
| ☐ C3 Phase II/ AG43 (E/A) Subgroup | ☐ P/C RBC (E) Working Group | ☐ Longevity Risk (A/E) Subgroup |

DATE: <u>10/27/20</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 (E) Working Group</u> NAME: <u>Tom Botsko</u> TITLE: <u>Chair</u> AFFILIATION: <u>Ohio Department of Insurance</u> ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u>	<u>FOR NAIC USE ONLY</u> Agenda Item # <u>2020-11-CR</u> Year <u>2021</u> <u>DISPOSITION</u> ☐ ADOPTED _____ ☐ REJECTED _____ ☐ DEFERRED TO _____ ☐ REFERRED TO OTHER NAIC GROUP _____ ☒ EXPOSED <u>10/27/20</u> ☐ OTHER (SPECIFY) _____
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|--|--|
| ☐ Health RBC Blanks | ☒ Property/Casualty RBC Blanks | ☐ Life and Fraternal RBC Instructions |
| ☐ Health RBC Instructions | ☒ Property/Casualty RBC Instructions | ☐ Life and Fraternal RBC Blanks |
| ☐ OTHER _____ | | |

DESCRIPTION OF CHANGE(S)

The proposed change would remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat.

REASON OR JUSTIFICATION FOR CHANGE **

Operational risk is now separately addressed in RBC as a stand-alone capital add-on. When this factor was implemented, it borrowed from the credit risk factors in R3 that included a load for operational risk. This is assessment of operational risk is duplicative and is inadvertently being applied in Rcat. The gross modeled Rcat risk does not apply this duplicative assessment of operational risk to Rcat, and it follows that it should not be applied to ceded modeled Rcat risk either.

Additional Staff Comments:

10/27/20 – The PCRBC WG exposed this proposal for a 35-day public comment period ending Dec. 1.

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

Revised 2-2019

*Specific Instructions for Application of the Formula*Column (1) – Direct and Assumed Modeled Losses

These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

Column (2) – Net Modeled Losses

These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

Column (3) - Ceded Amounts Recoverable

These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

Column (4) - Ceded Amounts with Zero Credit Risk Charge

Per the footnote, modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Column (6) – Amount

These are automatically calculated based on the previous columns.

Column (7) - RBC Requirement

A factor of 1.000 is applied to the reported modeled catastrophe losses calculated on both AEP and OEP basis, and a factor of **0.018** is applied to the reinsurance recoverables. The RBC Requirement is based on either AEP reported results or OEP reported results (not both), consistent with the way the company internally evaluates and manages its modeled net catastrophe risk.

Column (5) – Y/N

Please indicate “Y” for OEP basis and “N” for AEP basis. This column should not be blank.

CALCULATION OF CATASTROPHE RISK CHARGE FOR EARTHQUAKE PR027A

		Modeled Losses			
Earthquake	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				
				(5) Y/N	
(5) Has the company reported above, its modeled earthquake losses using an occurrence exceedance probability (OEP) basis?					
		(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)	
(6) Net Earthquake Risk	L(2) C(2)	0	1.000	0	
(7) Contingent Credit Risk for Earthquake Risk	L(2) C(3) - C(4)	0	0.018	0	
(8) Total Earthquake Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0	
(9) Total Earthquake Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0	
(10) Total Earthquake Catastrophe Risk	L(8) C(7) + L(9) C(7)			0	

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, EQECAT, RMS, the ARA HurLoss Model, or the Florida Public Model for hurricanes; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

†† Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

CALCULATION OF CATASTROPHE RISK CHARGE FOR HURRICANE PR027B

		Modeled Losses			
Hurricane	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				
				(5) Y/N	
(5) Has the company reported above, its modeled hurricane losses using an occurrence exceedance probability (OEP) basis?					
		(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)	
(6) Net Hurricane Risk	L(2) C(2)	0	1.000	0	
(7) Contingent Credit Risk for Hurricane Risk	L(2) C(3) - C(4)	0	0.018	0	
(8) Total Hurricane Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0	
(9) Total Hurricane Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0	
(10) Total Hurricane Catastrophe Risk	L(8) C(7) + L(9) C(7)			0	

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, EQECAT, RMS, the ARA HurLoss Model, or the Florida Public Model for hurricane; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

†† Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

Stephen W. Broadie
Vice President, Financial & Policy

December 1, 2020

Tom Botsko
Chair, NAIC Property and Casualty Risk-Based Capital (E) Working Group
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, OH 43215

Re: Agenda Item # 20-11-CR, Removal of 3% Operational Risk Component of Reinsurance Credit Risk Factor of Rcat

Dear Mr. Botsko:

The American Property Casualty Insurance Association (APCIA) urges the Property and Casualty Risk-Based Capital (E) Working Group to adopt its exposed proposal to remove the embedded 3% operational risk charge from the reinsurance credit risk factor in the catastrophe risk-based capital charge.¹ As the proposal notes, operational risk is now a stand-alone factor in the property/casualty risk-based capital formula, and continuing to include it in the reinsurance credit risk factor in Rcat is duplicative. We appreciate the Working Group's willingness to consider this correction in the formula.

If you, NAIC staff or any other members of the Working Group have any questions about our comments, please feel free to contact me at steve.broadie@apci.org or 847/736-8258.

Sincerely,



Stephen W. Broadie

¹ APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

February 9, 2021

Ms. Eva Yeung, NAIC
Eyeung@NAIC.org

✓ **RAA Supports Adoption of 2020-11-CR**

Dear Ms. Yeung:

RAA supports this proposal to eliminate the duplicative application of op risk charges for modeled reinsurance recoverable in RBC Rcat.

This duplication exists because the reinsurance contingent credit risk component of Rcat borrows from the R3 credit risk factors, which include a significant load for op risk. In Rcat, this op risk load makes up 62.5% [3%/4.8%] of the contingent credit risk factor being applied to 1-in-100-year modeled hurricane and earthquake losses.

Rcat is not Intended to Address Op Risk:

Operational risk is not being applied in Rcat to gross modeled loss, and it is only inadvertently being applied to the reinsured portion of Rcat modeled loss. If the Working Group intended for Rcat to assess companies for operational risk, then it follows that an op risk component of Rcat would apply to all modeled losses.

R3 Itself Includes a Duplicative Application of Op Risk Charges:

R3 reinsurance credit risk factors include an explicit 3% factor op risk load, because at the time they were proposed; there was not a stand-alone op risk charge. Now, RBC has implemented a stand-alone op risk charge that is a 3% capital add-on across the board. Therefore, even in the context of R3, the application of op risk is being duplicated for reinsurance ceded.

Unintended Consequences:

For RBC filers that utilize reinsurance, there is a duplicative application of op risk charges:

- Once as a 3% capital add-on stand-alone charge
- Again, in R3, as a 3% base factor in the reinsurance credit risk component
- Once again, in Rcat, as the major component being applied to modeled reinsurance recoverable

This stacking of op risk charges treats reinsurance as a risk multiplier when it is, in fact, a risk diversifier. This has a punitive and unintended impact on ceding companies; especially those which write CAT-exposed lines, and which utilize reinsurance to transfer risk.

We appreciate the Working Group's willingness to expose 2020-11-CR to remedy this problem and support its adoption.

Sincerely,



2021 #	Owner	2021 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Carry-Over Items Currently being Addressed – P&C RBC							
13	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2022 or later	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.		The SG agreed on adding Wildfire Peril to Reat.	10/19/2020
14	P&C RBC WG	1	Year-end 2020 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsurers that do not trigger growth risk in their own right.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
15	P&C RBC WG	1	2020 Summer Meeting or later	Continue development of RBC formula revisions based on the Covered Agreement: 'a) consider eliminating the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers; 'b) consider whether the factor for uncollateralized, unrated reinsurers, runoff and captive companies should be adjusted c) Evaluate the possibility of using NAIC as a centralized location for reinsurer designations.		12/5/19 - The WG exposed Proposal 2018-19-P (Vulnerable 6 or unrated risk charge) for a 30-day exposure period. 2/3/20 - The WG adopted Proposal 2018-19-P. However, the WG intended to evaluate the data annually until reaching any agreed upon change to the factor and the structure.	8/4/2018
16	P&C RBC WG	1	Year-end 2021 or later	Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to P/C RBC Affiliated Investments			6/10/2019
17	P&C RBC WG	1	2021 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.			6/10/2019
18	P&C RBC WG	1	Year-end 2020	Evaluate the RBC impact on two different retroactive reinsurance exception approaches.		1/7/20 - received a referral from the SAPWG	1/9/2020
19	Cat Risk SG	1	Year-end 2021 or later	Evaluate the possibility of allowing additional third party models or adjustments to the vendor models to calculate the cat model losses			12/6/2019
20	P&C RBC WG	1	2021 Spring Meeting	Evaluate if changes should be made to the P/C formula to better assess companies in runoff.		1/29/20 - received a referral from the Restructuring Mechanisms (E) WG	2/3/2020
21	P&C RBC WG	1	2021 Spring Meeting	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
22	Cat Risk SG	1	2021 Spring Meeting	Modify instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the interrogatories		10/27/20 - expose the proposal for 30 day comment period	10/19/2020

Priority 1 – High priority
 Priority 2 – Medium priority
 Priority 3 – Low priority

**CAPITAL ADEQUACY (E) TASK FORCE
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2021**

Attachment D
 Capital Adequacy (E) Task Force

2021 #	Owner	2021 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
23	P&C RBC WG/Cat Risk SG	1	2021 Spring Meeting	Remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat		10/27/20 - expose the proposal for 35 day comment period	10/27/2020
24	P&C RBC WG	1	2021 Summer Meeting	Evaluate R3 Adjustment for Operational Risk Charge			10/27/2020
Carry-Over Items not Currently being addressed - P&C RBC							
New Items – P&C RBC							
25	Cat Risk SG	1	2022 Spring Meeting	Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)			3/8/2021

The Definition of Internal CAT Model

- Internal CAT Models – Natural Perils
- Vendor CAT Models with Adjustments
- Derivative Model Based on Vendor Models

NAIC Guidance Related to the Use of “Own Models” for RBC Catastrophe Risk Charges – PR027

The projected losses can be modeled using the following NAIC approved third party commercial vendor catastrophe models: AIR, EQECAT, RMS, the ARA HurLoss Model, or the Florida Public Model for hurricane, as well as catastrophe models that are internally developed by the insurer or that are the result of adjustments made by the insurer to vendor models to represent the own view of catastrophe risk (hereinafter “own models”).

To obtain permission to use the own model, the insurer must provide the domestic or lead state insurance regulator with written evidence of each of the following:

1. The use of the own model is reasonable considering the nature, scale, and complexity of the insurer’s catastrophe risk;
2. The own model is used for catastrophe risk management, capital assessment, and the capital allocation process and the model has been used for at least the last 3 years;
3. The perils included in the RBC Catastrophe Risk Charge have been validated by the insurer and that these perils include both US and global exposures, where applicable;
4. The own model has been developed using reasonable data and assumptions and that model results used in determining the RBC Catastrophe Risk Charge reflect exposure data that is no older than six months;

NAIC Guidance Related to the Use of “Own Models” for RBC Catastrophe Risk Charges – PR027

5. The insurer has individuals with experience in developing, testing and validating internal models or engages third parties with such experience. The insurer must provide supporting model documentation and a copy of the latest validation report and the insurer is solely responsible for the relevant cost. For each peril included in the RBC Catastrophe Risk Charge, the validation report should attest that the projected losses are a reasonable quantification of the exposure of the reporting entity. The validation report must provide a description of the scope, content, results and limitations of the validation, the individual qualifications of validation team and the date of the validation. Both the model documentation and the model validation report must be provided at a minimum once every five years, or whenever the lead or domestic state calls an examination; whenever there is a material change in the model; or whenever there is a material change in the insurer's exposure to catastrophe exposure.
6. The results of the own model should be compared with the results produced by at least one of the following models: AIR, EQECAT, RMS, ARA HurLoss, or the Florida Public Model. The insurer must provide the comparison and an explanation of the drivers of differences between the results produced by the internal model vs. results produced by the selected prescribed model.
7. If the own model has been approved or accepted by the non-U.S. group-wide supervisor for use in the determination of regulatory capital, the insurer must submit evidence, if available, from the non-US group-wide supervisor of the most recent approval/acceptance including the description of scope, content, results and limitations of the approval/acceptance process and dates of any planned future approval/acceptance, if known. The name and the contact information of a contact person at the non-US group-wide supervisor should also be provided for questions on the approval/acceptance process.