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 ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 5/28/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Steve Broadie**	Agenda Item # 2024-20-CR Year 2024
TELEPHONE:	**847-736-8258**	**DISPOSITION**
EMAIL ADDRESS:	**steve.broadie@apci.org**	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
ON BEHALF OF:	**APCIA, NAMIC , and RAA (“the Associations”)**	
NAME:	**Steve Broadie**	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
TITLE:	**Vice Present, Financial & Counsel**	
AFFILIATION:	**American Property Casualty Insurance Assoc**	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
ADDRESS:	______	**OTHER:** ☐ DEFERRED TO ______ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ______

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a replacement for the climate risk scenario analysis proposal adopted by the Capital Adequacy (E) Task Force, the Associations propose that insurers required to calculate the RCAT charge perform catastrophe model runs on their current books of business with:

- a 50% increased frequency of major hurricanes (Category 3 and higher, but for wind losses only), and
- a 50% increased frequency of all wildfire events.

These frequency adjustments are selected to fall within the reasonable distribution of hurricane and wildfire impacts suggested by climate modeling research for SSP2-4.5 by mid-century (~2°C by 2041-2060). Domestic regulators can then compare the 1/50-, 1/100-, 1/250-, and 1/500-year probable maximum losses generated from the model runs with those currently reported in the insurer’s RCAT filing and hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils.

Additional Staff Comments:

This proposal was developed specifically for consideration at the Financial Condition (E) Committee level.

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE
PR027B2, PR027C2

These disclosures are intended to collect the impact of a major increase in the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge. The impact should be estimated using the following specific instructions:

- The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and greater, but only for wind losses) and a 50% increase for all wildfire events.
- Assume a static book of business at year end (no changes to book of business, to reinsurance strategy or to total insured value (TIV) inflation).
- The impact can be modeled using the same CAT model used to develop the insurer's RCAT charge.

The same basic information is required to be completed for this PR027B2 and PR027C2 as the previous pages PR027B and PR027C, including specifically as follows:

<u>Column 1 – Direct and Assumed Modeled Losses</u>
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.

<u>Column 2 – Net Modeled Losses</u>
These are the net modeled losses per the footnote. Include losses only: no loss adjustment expenses.

<u>Column 3 – Ceded Amounts Recoverable</u>
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.

CALCULATION OF CATASTROPHE RISK CHARGE FOR HURRICANE PR027B

	Hurricane	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
			Modeled Losses			
(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?	

		Reference	(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(7) 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, CoreLogic, RMS, KCC, 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.

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C
(For Informational Purposes Only)

	Wildfire	Reference	Modeled Losses (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 wildfire losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Wildfire Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Wildfire Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Wildfire 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 Wildfire 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 Wildfire Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Disclosure in lieu of model-based reporting:

		(8) Direct and Assumed	(9) Net
(11)	For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:		
	a. Provide the company's gross and net 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.		

b. Provide details on how the company estimated the amounts shown in 11a.

c. Provide a narrative disclosure about how the company manages its wildfire risk.

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, RMS, or KCC~~,~~ 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).

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DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

			50% Frequency Increase for Major Hurricanes	
		(1)	(2)	3†
Hurricane	Reference	Direct and Assumed	Net	Ceded Amounts Recoverable
(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			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. Modeling assumptions should be the same as those used in the RCAT charge, but climate impact is constrained to wind frequency only - no adjustments should be made for other subperils. The impact should be modeled using a 50% frequency increase for major hurricanes (Category 3 and greater).

† 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).

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

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

		50% Increase for Wildfire Events		
Wildfire	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(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			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. The impact should be modeled using a 50% increase for all wildfire events.

† 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).

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