The Capital Adequacy (E) Task Force met Nov. 17, 2021. The following Task Force members participated: Judith L. French, Chair, represented by Tom Botsko (OH); Cassie Brown, Vice Chair, represented by Rachel Hemphill (TX); Lori K. Wing-Heier represented by David Phifer (AK); Jim L. Ridling represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); David Altmaier represented by Carolyn Morgan and Ray Spudeck (FL); Doug Ommen represented by Mike Yanacheck (IA); Dana Popish Severinghaus represented by Kevin Fry (IL); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Chlora Lindley-Myers represented by John Rehagen and William Leung (MO); Mike Causey represented by Jackie Obusek (NC); Eric Dunning represented Michael Muldoon (NE); Glen Mulready represented by Eli Snowbarger (OK); Raymond G. Farmer represented by Michael Shull (SC); Mike Kreidler represented by Steve Drutz (WA); and Mark Afable represented by Amy Malm (WI).

1. ** Adopted its Sept. 30 Minutes**

The Task Force conducted an e-vote that ended Sept. 30 to adopt its 2022 proposed charges. No significant changes were made to the charges.

Mr. Drutz made a motion, seconded by Mr. Chou to adopt the Task Force’s Sept. 30 minutes (Attachment One). The motion passed unanimously.

2. ** Adopted the Reports and Minutes of its Working Groups**

   a. ** Health Risk-Based Capital (E) Working Group**

Mr. Drutz said the Health Risk-Based Capital (E) Working Group met Nov. 4 (Attachment Two) and took the following action: 1) exposed benchmark guidelines for Investment Income Adjustment for the Underwriting Risk Factors for a 30-day public comment period; and 2) discussed incorporating pandemic risk into the Health Risk-Based Capital (RBC) Formula.

   b. ** Life Risk-Based Capital (E) Working Group**

Mr. Botsko said the Life Risk-Based Capital (E) Working Group met Nov. 9 (Attachment Three) and took the following action: 1) exposed guidance on the bond factor changes for a 30-day public comment period; and 2) exposed the American Academy of Actuaries’ (Academy’s) C2 Mortality Risk Work Group recommendation on mortality factor updates for a 60-day public comment period.

   c. ** Catastrophe Risk (E) Subgroup**

Mr. Chou said the Catastrophe Risk (E) Subgroup met Oct. 27 (Attachment Four) and Sept. 28 (Attachment Five). During the Oct. 27 meeting, the Subgroup took the following action: 1) adopted its Sept. 28 minutes; 2) heard a presentation from Karen Clark & Company (KCC) regarding the KCC U.S. wildfire model, which included the current wildfire trends and an overview of the KCC U.S. wildfire model; 3) discussed the possibility of allowing additional third-party models or adjustments to the vendor models; and 4) heard updates from the Catastrophe Model Technical Review Ad Hoc Group.

   d. ** Property and Casualty Risk-Based Capital (E) Working Group**

Mr. Botsko said the Property and Casualty Risk-Based Capital (E) Working Group met Oct. 25 (Attachment Six) and took the following action: 1) adopted its July 22 minutes; 2) heard a report from the Catastrophe Risk (E) Subgroup; 3) exposed a draft recommendation to the Restructuring Mechanism (E) Subgroup for a 30-day public comment period ending Nov. 24. The draft recommendation was developed by the Working Group, which included the findings and recommendation of the runoff companies; 4) exposed proposal 2021-14-P (R3 Factor Adjustment) for a 30-day public comment period ending Nov. 24; and 5) heard an update on the status of the research on recommended adjustments to the formulas for premium and reserve risk to reflect the impact of interest rates from the Academy.
Mr. Chou made a motion, seconded by Mr. Reedy, to adopt the minutes of its working groups and subgroup. The motion passed unanimously.


Mr. Chou said the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group jointly conducted an e-vote that concluded Nov. 12 to adopt the 2021 (January through October) Catastrophe Event List. Both groups are planning to conduct another e-vote in January 2022 to adopt any November and December catastrophe events.

Mr. Chou made a motion, seconded by Mr. Reedy, to adopt proposal 2021-16 CR (2021 Catastrophe Event List) (Attachment Seven). The motion passed unanimously.

4. **Adopted its Working Agenda**

Mr. Drutz said Item 19 was added to the Health RBC Working Agenda section to evaluate the underwriting risk factors for an adjustment of investment income based on a six-month U.S. Department of the Treasury (Treasury Department) bond on an annual basis. The second change was to Item 29 for bond evaluation, which was to change the priority status to a 3 and the expected completion date to year-end 2023 or later.

Mr. Drutz made a motion, seconded by Mr. Muldoon, to adopt its working agenda (Attachment Eight). The motion passed unanimously.

5. **Discussed a Memorandum to the Financial Condition (E) Committee**

Mr. Botsko said the Task Force has received numerous referrals over the past several years regarding investments that could potentially start being evaluated by the Securities Valuation Office (SVO) and reported with an NAIC designation in the investment schedules of the annual statement. The purpose of this new working group (RBC Investment Risk and Evaluation (E) Working Group) will be to evaluate the impact this could have, whether those changes are significant enough to change the current structure of the RBC formula, and whether the added granularity is beneficial to determine the appropriate capital standard. Mr. Botsko noted that an informal group was recently formed to discuss investment schedule reporting in the annual statement, and unlike the Investment Risk-Based Capital (E) Working Group that was recently disbanded, its focus was strictly with bond reporting and the RBC investment formula, and factors have been in place for 20 years, so a formal group is warranted to document its analysis for updates or justification of no changes to the factors and formula.

6. **Heard a Presentation from RMS Regarding its North America Wildfire HD Model**

Michael Young (Risk Management Solutions—RMS) provided a brief overview on its North America Wildfire High-Definition (HD) Model regarding: 1) the rationale for the development of its model; 2) key features and differentiators of the model; 3) factors influencing wildfire losses; and 4) the application of wildfire mitigation to insured property exposure. Mr. Chou encouraged all the interested parties to review this presentation and provide comments on the upcoming conference call.

Mr. Chou also stated that a Subgroup member met with the three wildfire modelers—i.e., AIR, KCC, and RMS—earlier to discuss the result of the impact analysis earlier. He said he believes that gaining a better understanding of the modeling results will enable the development of a better wildfire structure in the RBC formula. He said he expects that the initial RBC structure for wildfire will be ready for discussion in December. Thoughts and ideas on the structure are welcome at the upcoming meeting to complete this project effectively.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

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