NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 10/16/25

Virtual Meeting

JOINT MEETING OF THE PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP AND CATASTROPHE RISK (E) SUBGROUP
Wednesday, November 12, 2025
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP

Tom Botsko, Chair	Ohio	Melissa Robertson	New Mexico
Wanchin Chou, Vice Chair	Connecticut	Ni Qin	New York
Charles Hale	Alabama	Will Davis	South Carolina
Rolf Kaumann/Eric Unger	Colorado	Miriam Fisk	Texas
Jane Nelson	Florida	Adrian Jaramillo	Wisconsin
Sandra Darby	Maine		

NAIC Support Staff: Eva Yeung/Maggie Chang

CATASTROPHE RISK (E) SUBGROUP

Wanchin Chou, Chair	Connecticut	Alexander Vajda	New York
Jane Nelson, Vice Chair	Florida	Tom Botsko	Ohio
Rolf Kaumann/Eric Unger	Colorado	Andy Schallhorn	Oklahoma
Travis Grassel	Iowa	Will Davis	South Carolina
Sandra Darby	Maine	Miriam Fisk	Texas
Melissa Robertson/ Elouisa Macias	New Mexico		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of the Working Group and Subgroup's Oct. 8 Minutes—*Tom Botsko (OH)* — Attachment 1

2. Consider Adoption of Proposal 2025-08-CR (Jan. 1 — Oct. 15 Cat Event List)—*Wanchin Chou (CT)* — Attachment 2

3. Consider Exposure of Proposal 2025-19-CR (Separating Earthquake and Hurricane Loss Experience Data in PR100s)—*Wanchin Chou (CT)* — Attachment 3

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4. Consider Exposure of Proposal 2025-20-CR (Wildfire Rcat Implementation)—*Wanchin Chou (CT)* — Attachment 4

5. Discuss the Working Group and Subgroup's Working Agenda —*Tom Botsko (OH)* — Attachment 5

6. Discuss the Securities Valuation Office (SVO) Fund Risk-Based Capital (RBC) Alignment Project—*Tom Botsko (OH)* — Attachment 6
   a. Comments:
      i. American Property Casualty Insurance Association (APCIA) —*John Muska*
      ii. National Association of Mutual Insurance Companies (NAMIC) —*Jonathan Rodgers/Colleen Scheele*
      iii. Travelers—*D. Kieth Bell*

7. Receive an Update from the Health Risk-Based Capital (E) Working Group Regarding Proposal 2025-15-CA (A&H Underwriting Risk Structure Change)—*Steve Drutz (WA)* — Attachment 7

8. Hear a Presentation from the American Academy of Actuaries (Academy) Regarding the "Property and Casualty Risk-Based Capital Premium and Loss Concentration Factors" Report—*Ron Wilkins (Academy) and Allan Kaufman (Academy)* — Attachment 8

9. Discuss Any Other Matters Brought Before the Working Group and Subgroup—*Tom Botsko (OH) and Wanchin Chou (CT)*

10. Adjournment

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Draft: 10/14/25

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Virtual Meeting
October 8, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Oct. 8, 2025, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Charles Hale (AL); Rolf Kaumann and Eric Unger (CO); Jane Nelson (FL); Sandra Darby (ME); Elouisa Macias (NM); Ni Qin and Alexander Vajda (NY); Will Davis (SC); and Rebecca Armon and Miriam Fisk (TX). The following Subgroup members participated: Wanchin Chou, Chair (CT); Jane Nelson, Vice Chair (FL); Rolf Kaumann and Eric Unger (CO); Travis Grassel (IA); Sandra Darby (ME); Elouisa Macias (NM); Tom Botsko (OH); Andy Schallhorn (OK); Will Davis (SC); and Rebecca Armon and Miriam Fisk (TX). Also participating were: Julie Lederer (MO).

1. Adopted the Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's June 30 minutes

Botsko said the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup met June 30. During this meeting, the Working Group and Subgroup took the following action: 1) adopted their Spring National Meeting minutes; 2) adopted their June 11 minutes, which included the following action: a) adopted proposal 2025-09-P (Underwriting Risk Line 1 Factors, and proposal 2025-11-CR (Catastrophe Modeling Attestation); b) discussed 2024 property/casualty (P/C) RBC statistics; c) heard updates on the wildfire impact analysis; d) discussed climate impact disclosures; e) discussed flood peril; and f) discussed property claim services events list enhancement; and 3) adopted their May 2 minutes, which included the following action: a) adopted proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction); b) exposed proposal 2025-09-P (Underwriting Risk Line 1 Factors), and proposal 2025-11-CR (Catastrophe Modeling Attestation) for a 30-day public comment period that ended June 1; c) heard updates on the wildfire impact analysis; d) discussed holding a summer panel discussion; e) discussed the process for updating the catastrophe event lists; f) discussed the Statutory Accounting Principles (E) Working Group referral for risk-based capital (RBC) assessment for capital notes and non-bond debt securities; g) discussed bond-like treatment for Securities Valuation Office (SVO)-designated mutual funds; and h) discussed the appointment of the Risk-Based Capital Model Governance (EX) Task Force.

Chou made a motion, seconded by Kaumann, to adopt the Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's June 30 minutes (*see NAIC Proceedings – Summer 2025, Capital Adequacy (E) Task Force, Attachment Five*). The motion passed unanimously.

2. Discussed Catastrophe Modeling Wildfire Review and Impact Analysis

Chou reported that a diverse group of catastrophe modelers, regulators, and NAIC staff are actively participating in the Catastrophe (CAT) Modeling Wildfire Review. As the Wildfire Review Ad Hoc Group approaches the final stages of its evaluation, Chou provided an update on the project's background, the convergence of exceedance probability (EP) curves, and the ongoing efforts to formalize the proposal plan and supporting documentation. He explained that, following the precedent set by the 2021 wildfire review, the Ad Hoc Group was re-established and commenced a new review cycle on March 18, guided by the Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas). This process encompasses high-level analysis, confidential

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assessments, and comprehensive impact analysis. In addition to the original three vendors—Moody Risk Management Solutions (RMS), Verisk Extreme Event Solutions, and KCC—CoreLogic joined as a new participant for this review.

Beginning in early June and July, the ad hoc group collaborated with all four vendors to conduct a second round of impact analysis using consistent exposure inputs. On Sept. 25, the group reconvened to address feedback from the impact analysis presentations. He presented a comparative analysis between the initial impact assessment conducted in 2022 and the current evaluation, noting that model outputs have become increasingly consistent. He emphasized that the group now has greater confidence in the models and their applicability to risk management.

Additionally, Chou outlined plans to work with committee support to formally document the review process, ensuring comprehensive records are maintained for future reference. In response to a question from Lederer regarding the difference in probable maximum loss (PML) between 2022 and 2025, Chou clarified that the variation was attributable to differences in exposure inputs provided to the catastrophe vendors. The latest results demonstrate a more converged 100-year aggregate PML.

3. Discussed the Possibility of Updating the Rcat Covariance Formula

Chou clarified that the Rcat covariance formula, integral to the RBC calculation, is designed to aggregate catastrophe risks while recognizing that such events are unlikely to occur simultaneously. This adjustment helps prevent the overestimation of total risk. Presently, the formula treats these risks as largely independent. However, with the increasing influence of climate change, there is an expectation that correlations between certain catastrophe risks, such as hurricanes and severe convective storms, will rise. Additionally, the recent inclusion of wildfire and severe convective storm risks in the RBC formula for informational purposes has prompted consideration of whether the covariance formula should be updated to reflect these positive correlations.

To ensure any future changes are based on robust evidence, Chou has requested the American Academy of Actuaries (Academy) to conduct a comprehensive study on this matter. The objective is to provide empirical support for any modifications to the Rcat covariance formula, ensuring that adjustments are grounded in thorough analysis and reliable data. Until the study is completed, the current formula will remain in use, allowing for a careful evaluation of climate change's impact on risk correlations before implementing changes to the RBC framework.

4. Discussed the Possibility of Separating the Earthquake and Hurricane Losses Experience PR100s

Chou noted that, whereas losses from wildfire and severe convective storms are reported separately in PR100s, the current formula combines hurricane and earthquake experience. He suggested that distinguishing hurricane and earthquake losses, similar to the approach used for wildfire and severe convective storms, could enable the Subgroup and Working Group to more effectively manage and address each peril, taking into account their distinct characteristics and impacts. Hearing no objection from the members and the interested parties, committee support will draft a proposal and expose for comment in the upcoming meeting.

5. Discussed the SVO-Funded RBC Alignment Project

   A. Exposed a Referral from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko reported that the Working Group received a referral from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group concerning the SVO-funded RBC alignment project. The accompanying comment letter indicated that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group had received nine comment letters regarding the American Council of Life Insurers' (ACLI) RBC principles for bond funds presentations, as well as the NAIC's memorandum on bond funds included in the 2023 annual statement filings. The Risk-Based Capital Investment Risk and Evaluation (E) Working Group agreed to expose the life proposal 2025-12-IRE for a 30-day public comment period ending July 23.

Additionally, Botsko noted that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group requested the Property and Casualty Risk-Based Capital (E) Working Group to consider developing a similar proposal for the P/C RBC formula. He further stated that the life proposal and the associated comment letters are included in the meeting materials. All interested parties were encouraged to review these documents and continue the discussion at the upcoming meeting.

The Working Group and Subgroup concurred to expose this referral, along with the comment letters from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment XXX), for a 30-day public comment period ending Nov. 7.

B. Comments Received

Botsko reported that the Working Group has received four comment letters in recent months. Premera Blue Cross expressed support for developing a harmonized proposal that would assign bond-like treatment to SVO-designated funds, emphasizing that equitable RBC treatment for fixed income investments is essential to ensuring fair market access.

Helen Remeza (PineBridge Investments) also endorsed the RBC alignment initiative, noting that non-life insurers currently face more conservative RBC charges for funds. Remeza stated that harmonizing RBC treatment for funds with the SVO designation supports two NAIC guiding principles: (1) substance over form and (2) equal capital for equal risk. She further indicated that aligning these charges with those applied to life insurers would allow non-life insurers to utilize SVO designation for RBC relief at their discretion.

United Educators (UE) commented that harmonizing RBC treatment for non-life funds with the life insurance sector would enhance the consistency and accuracy of solvency assessments across all lines of insurance.

The Alternative Credit Council (ACC) added that implementing consistent, risk-based principles reflecting the underlying economic substance would enable the NAIC to reduce unnecessary capital charges, improve comparability, and strengthen the insurance investment framework.

Chou emphasized that while consistency across all lines of business is important, a cost-benefit analysis is necessary to determine applicability for P/C companies. Hale observed that the comment letters were largely similar in content and suggested that companies could collaborate and submit a joint letter. Keith Bell (Travelers) indicated that Travelers will submit a comment letter with additional observations during the exposure period.

6. Heard Updates from the Academy Regarding P/C RBC Premium and Loss Concentration Factors

Ron Wilkins (Academy) reported that, following a letter sent by the Academy to the Working Group in May 2019, three analyses were initiated to calibrate the premium and reserve risk components of the RBC formula. Two reports have already been published: the first in 2021, detailing the indicated risk factors for premium and reserve

risk, and the second in 2023, which included updates on investment income adjustment (IIA) factors and revised risk factors for premium and reserve risk. Wilkins noted that the Academy is nearing completion of the third analysis, with publication anticipated later in 2025. Preliminary findings suggest that as companies diversify across more lines of business, the maximum percentage decreases while the diversification credit increases. This could result in a higher maximum diversification credit for both premiums and reserves. Wilkins concluded by stating that the Academy will present a comprehensive update on the RBC dependency report in November.

7. Discussed Other Matters

A. Accident and Health Structure in the P/C RBC Formula

Botsko stated that the Health Risk-Based Capital (E) Working Group is actively developing the H2—Underwriting Risk Component and Managed Care Credit Calculation for inclusion in the 2026 health RBC formula. To ensure consistency across all lines of business, the Accident and Health section within the P/C RBC formula will also undergo review. He noted that committee support are currently working to develop this structure, drawing upon the health RBC formula as a reference. The updated instructions and framework are scheduled to be released for public exposure in November.

Lastly, Botsko announced that the Working Group and Subgroup are planning to schedule a meeting in November.

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

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-Fall/PCRBCWG/Joint PCRBC Cat Risk Minutse 100825.docx

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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
[x] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Op Risk RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] Stress Testing (E) Subgroup

DATE: 11/3/2024

CONTACT PERSON: Derek Noe

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ON BEHALF OF: Catastrophe Risk (E) Subgroup

NAME: Wanchin Chou

TITLE: Chair

AFFILIATION: Connecticut Department of Insurance

ADDRESS: 153 Market St,
Hartford, CT 06103

FOR NAIC USE ONLY

Agenda Item # 2025-08-CR

Year 2025

DISPOSITION

[ ] ADOPTED 1st release: 2nd release:

[ ] REJECTED

[ ] DEFERRED TO

[ ] REFERRED TO OTHER NAIC GROUP

[x] EXPOSED 1st release: 11/3/2025 2nd release:

[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks	[ ] Property/Casualty RBC Blanks	[ ] Life RBC Instructions
[ ] Fraternal RBC Blanks	[ ] Health RBC Instructions	[ ] Property/Casualty RBC Instructions
[ ] Life RBC Blanks	[ ] Fraternal RBC Instructions	[x] OTHER Cat Event Lists

DESCRIPTION OF CHANGE(S)

2025 U.S. and non-U.S. Catastrophe Event Lists

REASON OR JUSTIFICATION FOR CHANGE **

New events were determined based on the sources from Swiss Re and Aon Benfield.

Additional Staff Comments:

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**** This section must be completed on all forms.** **Revised 11-2013**

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Attachment 2

Type of Event	Name	Date	Location	Overall losses when occurred
Hurricane	Matthew	2016	Florida, North Carolina, South Carolina, Georgia and Virginia	$ 2,698,400,000
Hurricane	Hermine	2016	Florida, North Carolina, South Carolina, Georgia and Virginia	$ 245,640,000
Convective Storm	Thunderstorm, flood, landslides	1/31/2016 - 2/1/2016	CA	25-100m
Convective Storm	Thunderstorms, wind	2/19/2016 - 2/20/2016	MI, IL	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	2/22/2016-2/25/2016	TX, NC, LA, FL, GA, VA, NY, SC, PA, MA, AL, CT, MS, DC, DE	600m-1b
Convective Storm	Thunderstorms, hail, flood	3/5/2016 - 3/11/2016	LA, TX, CA, MS, AR, TN, OK	300-600m
Convective Storm	Thunderstorms, tornadoes, hail	3/13/2016 - 3/14/2016	SC, AR, NC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	3/13/2016 - 3/15/2016	IL, WA, CA	100-300m
Convective Storm	Thunderstorms, hail	3/17/2016 - 3/18/2016	TX, LA, MS, AR, FL, AL	600m-1b
Convective Storm	Thunderstorms, hail	3/27/2016	IN	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	3/30/2016 - 4/1/2016	TX, OK, MS, AR, AL, LA, KS	100-300m
Convective Storm	Thunderstorms, hail	4/2/2016 - 4/3/2016	IN, OH, NJ, IL, PA, MD, VA, NY, DE, DC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	4/25/2016 - 4/28/2016	TX, KS, MO, IN, WV, OK, IL, NC, MS	600m-1b
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/29/2016 - 5/3/2016	TX, AR, VA, IN, NC, MD, OK, GA, MO, IL, WV	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	5/7/2016 - 5/10/2016	NE, KY, TX, OK, CO, TN, KS	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	5/11/2016 - 5/12/2016	MO, TX, NE, IL	600m-1b
Convective Storm	Thunderstorms, hail	5/16/2016 - 5/19/2016	TX	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	5/21/2016 - 5/28/2016	TX, MT, KS, MO, CO	600m-1b
Convective Storm	Thunderstorms, tornadoes, flood	5/29/2016 - 6/2/2016	TX	100-300m
Convective Storm	Thunderstorms, hail	6/6/2016 - 6/7/2016	CO	100-300m
Convective Storm	Thunderstorms, hail	6/16/2016 - 6/18/2016	VA, GA, AL, SC	100-300m
Convective Storm	Thunderstorms, hail	6/16/2016 - 6/18/2016	ND, SD, MN	100-300m
Convective Storm	Thunderstorms, hail, flood	7/5/2016 - 7/7/2016	MN, TN, KY, WI	100-300m
Convective Storm	Thunderstorms, hail	7/7/2016 - 7/9/2016	CO, MI, NC, TN	100-300m
Convective Storm	Thunderstorms, hail, tornadoes	7/13/2016 - 7/15/2016	CO, OK, IL, AR, MO, KS	300-600m
Convective Storm	Thunderstorms, hail	7/20/2016 - 7/21/2016	MN	25-100m
Convective Storm	Thunderstorms, hail, flood	7/30/2016 - 8/1/2016	MD, NJ, NY, PA, VA	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	8/24/2016 - 8/25/2016	IN, OH	25-100m
Convective Storm	Thunderstorms, hail, tornadoes, flood	9/19/2016 - 9/23/2016	WI, MN, IA	100-300m
Convective Storm	Thunderstorms, tornadoes	11/28/2016 - 12/1/2016	TN, AL, GA, SC, MS, LA, NC	100-300m
Convective Storm	Hailstorm	3/23/2016	TX	1-3b
Convective Storm	Hailstorm	4/10/2016 - 4/15/2016	TX, FL	1-3b
Convective Storm	Hailstorm	7/28/2016 - 7/29/2016	CO, WY	1-3b
Convective Storm	Hailstorm	11/4/2016 - 11/6/2016	TX, NM	300-600m
Wildfire	Erskine Fire	6/23/16-7/11/16	Lake Isabella, Kern County, California	~26 million
Wildfire	Soberanes Fire	7/22/16-9/30/16	Soberanes Creek, Garrapata State Park, Santa Lucia Preserve, Monterey County, California	> 200 million
Wildfire	Chimney Fire	8/13/16-9/6/16	Santa Lucia Range, San Luis Obispo County, California	> 25 million
Wildfire	Clayton Fire	8/13/16-8/26/16	Lake County, California	>25 million
Wildfire	Gatlinburg Wildfire	11/29/16-12/5/16	Sevier County, Gatlinburg, Pigeon Forge, Tennessee	~637 million
Wildfire	Northern California Wildfires	10/8/17-10/31/17	Northern California	~ 11 billion
Wildfire	Southern California Wildfires	12/4/17-12/23/17	Southern California	~ 2.2 billion
Hurricane	Harvey	2017	Texas, Lousiana	25+ million
Hurricane	Jose	2017	East Coast of the United States	25+ million
Hurricane	Irma	2017	Eastern United States	25+ million
Hurricane	Maria	2017	Southeastern United States, Mid-Atlantic States	25+ million
Hurricane	Nate	2017	Louisiana, Mississippi, Alabama, Tennessee and Eastern United States	25+ million
Convective Storm	Thunderstorms, tornadoes	1/1/2017 - 1/3/2017	GA, TX, AL, LA, MS	100-100m
Convective Storm	Tornadoes	1/18/2017 - 1/23/2017	CA, GA, MS, TX, FL, AL, LA, SC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	2/7/2017	LA, AL, FL, MS	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	2/19/2017 - 2/20/2017	TX	100-300m
Convective Storm	Windstorm, flood	2/19/2017 - 2/21/2017	CA	25-100m
Convective Storm	Thunderstorms, tornadoes, hail	2/25/2017	VA, PA	100m-300m
Convective Storm	Thunderstorms, tornadoes, hail	2/28/2017 - 3/2/2017	IL, MO, IN, KY, OH, TN, GA, IA, AR, NC, VA, AL, SC, WV, MD, MI	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	3/6/2017 - 3/9/2017	MO, MI, NY, MN, IA, OH, IL, WI, AR, OK, NE	1-3b
Convective Storm	Thunderstorms, hail	3/21/2017 - 3/22/2017	SC, TN, GA, NC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	3/28/2017 - 3/31/2017	TX, VA, NC, OK	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/2/2017 - 4/3/2017	TX, GA, LA, MS, AL, SC, FL, AR, NC	100-300m

Attachment 2

Type of Event	Name	Date	Location	Overall losses when occurred
Convective Storm	Thunderstorms, tornadoes, hail	4/4/2017 - 4/6/2017	AL, KY, GA, VA, SC, TX, MO, NC, TN,FL, MD, OK, AR, KS, DC	600m-1b
Convective Storm	Thunderstorms, tornadoes	4/10/2017 - 4/11/2017	TX, IL, IN	100-300m
Convective Storm	Thunderstorms, hail, tornadoes, flood	4/21/2017 - 4/25/2017	TX, TN, OK, NC, VA, SC	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	4/26/2017	TX	25-100m
Convective Storm	Thunderstorms, tornadoes, hail	5/3/2017 - 5/5/2017	TX, LA, GA, VA, NC	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	5/15/2017 - 5/18/2017	IL, WI, MN, OK, IA, NY	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	5/27/2017 - 5/28/2017	MO, TN, VA, OK, KY	300-600m
Convective Storm	Thunderstorms, hail	6/2/2017 - 6/4/2017	TX	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	6/12/2017 - 6/14/2017	TX, WY, Midwest	600m-1b
Convective Storm	Thunderstorms, tornadoes, hail	6/16/2017 - 6/19/2017	NE, IA, KS, MO, PA, IL, VA, NY	300-600m
Convective Storm	Thunderstorms, tornadoes, hail	6/27/2017 - 6/29/2017	NE, IA, IL	1-3b
Convective Storm	Thunderstorms, hail, tornadoes, flood	7/11/2017 - 7/12/2017	IL, MN	100-300m
Convective Storm	Thunderstorms, hail	7/21/2017 - 7/23/2017	IL, KS, MO	300-600m
Convective Storm	Thunderstorms, hail, tornadoes, flood	8/5/2017 - 8/8/2017	TX, OK, LA, KS, MO	100-300m
Convective Storm	Thunderstorms, hail, flood	10/14/2017 - 10/15/2017	IL, MO, KS	100-300m
Convective Storm	Thunderstorms, hail	11/5/2017 - 11/6/2017	OH, MO	100-300m
Convective Storm	Thunderstorms, tornadoes, hail	3/26/2017 - 3/28/2017	TX, OK, AL, TN, KY, MS	1-3b
Convective Storm	Thunderstorms, tornadoes, hail	5/8/2017 - 5/11/2017	CO, NM, OK, TX, MO	1-3b
Convective Storm	Hailstorm	6/11/2017	MN, WI	1-3b
Tropical Storm	Alberto	2018	Southeast, Midwest	25+ million
Hurricane	Lane	2018	Hawaii	25+ million
Tropical Storm	Gordon	2018	Southeast, Gulf coast of the United States, Arkansas and Missouri	25+ million
Hurricane	Florence	2018	Southeast, Mid-Atlantic	25+ million
Hurricane	Michael	2018	Southeastern and East Coasts of United States	25+ million
Wildfire	Spring Creek Fire	6/27/18-7/11/18	Spring Creek, Colorado	< 100 million
Wildfire	Carr, Mendocino California Wildfires	7/23/18-8/15/18	Northern California	>1,000 million
Wildfire	Northern California Camp Wildfire	11/8/18-11/25/18	Butte County, California	>7.5 billion
Wildfire	Southern California Woolsey Wildfires	11/8/18-11/21/18	Los Angeles andVentura County, California	2.9 billion
Convective Storm		1/8/2018 - 1/10/2018	CA	<1,000m
Convective Storm		2/24/2018 - 2/26/2018	KY, TN, MO, AR	<1,000m
Convective Storm		3/18/2018 - 3/21/2018	TX, LA, AL, MS, GA, FL, SC	>1,000m
Convective Storm		4/6/2018 - 4/7/2018	TX, LA, MS, OK	<1,000m
Convective Storm		4/13/2018 - 4/17/2018	TX, OK, MO, AR, LA, MS, IA, KS, VA, NC, SC, GA, FL	<1,000m
Convective Storm		4/28/2018 - 5/5/2018	KS, MO, IA, IL	>1,000m
Convective Storm		5/12/2018 - 5/16/2018	Northeast, Midwest, Southern	>1,000m
Convective Storm		6/3/2018 - 6/6/2018	Southwest	<1,000m
Convective Storm		6/12/2018 - 6/13/2018	Midwest	<1,000m
Convective Storm		6/18/2018 - 6/20/2018	Midwest	>1,000m
Convective Storm		6/24/2018 - 6/26/2018	Midwest	<1,000m
Convective Storm		6/29/2018 - 7/1/2018	Midwest	<1,000m
Convective Storm		7/19/2018 - 7/22/2018	Midwest, Southern	>1,000m
Convective Storm		7/21/2018 - 7/26/2018	Northeast	<1,000m
Convective Storm		7/26/218 - 7/29/2018	Midwest, Southern	<1,000m
Convective Storm		7/30/2018 - 7/31/2018	Southwest	<1,000m
Convective Storm		8/6/2018 - 8/7/2018	Midwest	<1,000m
Convective Storm		9/20/2018 - 9/21/2018	Midwest	<1,000m
Convective Storm		10/31/2018 - 11/1/2018	Midwest	>1,000m
Convective Storm		11/14/2018 - 11/16/2018	Northeast	<1,000m
Hurricane	Dorian	2019	Southeast, Mid-Atlantic	500+ million
Hurricane	Barry	2019	Southeast, Midwest, Northeast	300+ million
Tropical Storm	Imelda	2019	Plains, Southeast	25+ million
Tropical Storm	Nestor	2019	Southeast	25+ million
Tropical Storm	Olga	2019	Louisiana, Mississippi, Texas and Arkansas	25+ million
Wildfire	Saddleridge Wildfire	10/10/19-10/23/19	Sylmar, Los Angeles, Calimesa, Riverside County, California	<1,000 million
Wildfire	Kincade Wildfire	10/23/19-11/6/19	Northeast of Geyserville, Sonoma County, California	<1,000 million
Convective Storm		2/1/2019 - 2/3/2019	CA	<100m
Convective Storm		2/23/2019 - 2/26/2019	Midwest, Northeastern	<1,000m

Attachment 2

Type of Event	Name	Date	Location	Overall losses when occurred
Convective Storm		2/26/2019 - 2/28/2019	CA	<100m
Convective Storm		3/3/2019 - 3/4/2019	Southern	<1,000m
Convective Storm		3/23/2019 - 3/25/2019	Southern	>1,000m
Convective Storm		3/26/2019 - 3/27/2019	FL	<1,000m
Convective Storm		4/5/2019 - 4/7/2019	Southern	<1,000m
Convective Storm		4/12/2019 - 4/15/2019	Midwest, Southeast	<1,000m
Convective Storm		4/17/2019 - 4/20/2019	Southern	<1,000m
Convective Storm		4/23/2019 - 4/25/2019	Southern	<1,000m
Convective Storm		4/30/2019 - 5/2/2019	Midwest, Southern	<1,000m
Convective Storm		5/7/2019 - 5/10/2019	Southern	<1,000m
Convective Storm		5/13/2019	NC	<1,000m
Convective Storm		5/16/2019 - 5/17/2019	Midwest	<1,000m
Convective Storm		5/17/2019 - 5/18/2019	TX	<1,000m
Convective Storm		5/20/2019 - 5/22/2019	Midwest, Southern	<1,000m
Convective Storm		5/24/2019 - 5/25/2019	Southern	<100m
Convective Storm		5/26/2019 - 5/29/2019	Multistate	>1,000m
Convective Storm		6/4/2019 - 6/6/2019	Midwest	<1,000m
Convective Storm		6/9/2019 - 6/10/2019	Southern	<1,000m
Convective Storm		6/15/2019 - 6/16/2019	IN	<100m
Convective Storm		6/16/2019 - 6/17/2019	TX	<1,000m
Convective Storm		6/23/2019 - 6/24/2019	TX	<1,000m
Convective Storm		6/29/2019 - 6/30/2019	IL, NY	<100m
Convective Storm		7/4/2019 - 7/5/2019	CO	<1,000m
Convective Storm		7/7/2019 - 7/8/2019	Southern	<1,000m
Convective Storm		7/17/2019 - 7/18/2019	MN, WY	<1,000m
Convective Storm		7/19/2019 - 7/23/2019	Northeast, Midwest	<1,000m
Convective Storm		7/26/2019 - 7/27/2019	MN	<1,000m
Convective Storm		8/4/2019 - 8/5/2019	MN, WI	<1,000m
Convective Storm		8/6/2019	ND, SD	<1,000m
Convective Storm		8/10/2019 - 8/11/2019	MT	<1,000m
Convective Storm		8/14/2019 - 8/18/2019	Midwest	<1,000m
Convective Storm		8/25/2019 - 8/26/2019	Midwest, South	<1,000m
Convective Storm		9/10/2019 - 9/11/2019	Midwest	<1,000m
Convective Storm		9/27/2019 - 9/28/2019	Midwest	<100m
Convective Storm		10/16/2019 - 10/17/2019	Northeast	<1,000m
Convective Storm		10/20/2019 - 10/21/2019	Southern	>1,000m
Convective Storm		10/26/2019 - 10/27/2019	CA	<100m
Convective Storm		10/31/2019 - 11/1/2019	Northeast, South	<1,000m
Convective Storm		11/19/2019 - 11/21/2019	AZ	<100m
Convective Storm		11/26/2019 - 11/28/2019	Midwest	<1,000m
Tropical Storm	Cristobal	2020	Southeast, Plains, Midwest	150 million
Tropical Storm	Fay	2020	Southeast, Northeast	400 million
Hurricane	Hanna	2020	Texas	350 million
Hurricane	Isaias	2020	Southeast, Mid-Atlantic, Northeast	> 3 billion
Hurricane	Laura	2020	Plains, Southeast, Mid-Atlantic	> 4 billion
Hurricane	Sally	2020	Southeast (Alabama, Mississippi, Louisiana)	> 1 billion
Tropical Storm	Beta	2020	Plains, Southeast	25+ million
Hurricane	Delta	2020	Gulf Coast of United States, Southeast, Northeast (AL, GA, NC, SC, MS, LA, TX)	> 2 billion
Hurricane	Eta	2020	Florida	>1 billion
Hurricane	Zeta	2020	Gulf coast of the United States, Southeastern United States, Mid-Atlantic	> 1.5 billion
Wildfire	Cameron Peak	08/13/20-12/02/20	Roosevelt National Forest, Larimer County, Colorado	~71 million
Wildfire	SCU Lighting Complex Wildfire	8/16/20-9/16/20	San Franciscon Bay Area, Central Valleym Santa Clara, Alameda, Contra Costa, San Joaquin, Merced, Stanislaus	<1,000 million
Wildfire	Beachie Creek Wildfire	8/16/20-10/10/20	Approx. 2 miles south of Jaw Bones flats in rugged terrain deep in the Opal Creek Wilderness.	>1,000 million
Wilfire	CZU Lightning Complex Wildfire	8/16/20-9/22/20	San Mateo and Santa Cruz Counties, California	>1,000 million
Wildfire	LNU Lightning Complex WildFire	8/17/20-10/2/20	Lake, Napa, Sonoma, Solano, and Yolo Counties, California	> 1,000 million
Wildfire	Carmel Fire	8/18/20-9/4/20	Carmel Valley, California	<1,000 milion

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Type of Event	Name	Date	Location	Overall losses when occurred
Wildfire	North Complex Fire	8/18/20-10/12/20	Plumas and Butte Counties, California	<1,000 milion
Wildfire	Creek Fire	9/4/20-10/12/20	Fresno and Madera Counties, California	<1,000 milion
Wildfire	Bobcat Fire	9/6/20-10/23/20	Central San Gabriel Mountains, in and around the Angeles National Forest California	< 1,000 million
Wildfire	Babb Road Fire	9/7/20-9/18/20	Malden and Pine City, Palouse County of Eastern Washington	<1,000 million
Wildfire	Almeda Fire	9/7/20-9/16/20	Jackson County, Oregon	<1,000 milion
Wildfire	Holiday Farm Fire	9/7/20-10/3/20	Willamette National Forest	<1,000 milion
Wildfire	Echo Mountain Complex Fire	9/7/20-9/23/20	north of Lincoln City, Oregon	<100 milion
Wildfire	Riverside FIre	9/8/20-10/3/20	Valley Drive between Misty Ridge Drive and Mitchell Avenue, Oregon	<100 milion
Wildfire	Slater Fire	9/8/20-10-9/20	Northern California and Southern Oregon	<100 million
Wildfire	Glass Fire	9/27/20-10/19/20	Napa and Sonoma Counties, California	> 1,000 million
Wildfire	East Troublesome Fire	10/14/20-11/9/20	Grand County, Colorado	~543 million
Convective Storm		1/10/2020 - 1/12/2020	Midwest, Southern	<1,000m
Convective Storm		2/5/2020 - 2/8/2020	South, Northeast	<1,000m
Convective Storm		2/8/2020 - 2/11/2020	AZ, CA	<100m
Convective Storm		3/2/2020 - 3/4/2020	Midwest, Southern	>1,000m
Convective Storm		3/17/2020 - 3/20/2020	Midwest, Southern	<1,000m
Convective Storm		3/27/2020 - 3/30/2020	Midwest. Southern	>1,000m
Convective Storm		4/7/2020 - 4/9/2020	Northeast, Midwest	>1,000m
Convective Storm		4/10/2020 - 4/14/2020	Northeast, Southern	>1,000m
Convective Storm		4/18/2020 - 4/20/2020	Southern	<1,000m
Convective Storm		4/21/2020 - 4/24/2020	Southern	>1,000m
Convective Storm		4/24/2020 - 4/26/2020	Southern	<1,000m
Convective Storm		4/27/2020 - 4/30/2020	South, Northeast	<1,000m
Convective Storm		5/2/2020 - 5/3/2020	Southern	<1,000m
Convective Storm		5/4/2020 - 5/5/2020	Southern	>1,000m
Convective Storm		5/7/2020 - 5/8/2020	Southern	<1,000m
Convective Storm		5/13/2020 - 5/15/2020	Midwest, Northeast	<1,000m
Convective Storm		5/16/2020 - 5/21/2020	South, Northeast	<1,000m
Convective Storm		5/20/2020 - 5/24/2020	Southern	>1,000m
Convective Storm		5/25/2020 - 5/26/2020	TX	<100m
Convective Storm		5/27/2020 - 5/28/2020	TX	>1,000m
Convective Storm		6/2/2020 - 6/3/2020	Northeast	<1,000m
Convective Storm		6/4/2020	SD	<1,000m
Convective Storm		6/5/2020 - 6/11/2020	Midwest	<1,000m
Convective Storm		6/6/2020 - 6/9/2020	Southern	<1,000m
Convective Storm		6/19/2020 - 6/21/2020	TX	<1,000m
Convective Storm		7/5/2020 - 7/7/2020	Northeast	<1,000m
Convective Storm		7/10/2020 - 7/12/2020	Midwest	<1,000m
Convective Storm		7/17/2020 - 7/19/2020	Midwest	<1,000m
Convective Storm		7/25/2020 - 7/27/2020	TX	<1,000m
Convective Storm		8/4/2020 - 8/5/2020	CO	<1,000m
Convective Storm		8/8/2020 - 8/11/2020	Midwest	>1,000m
Convective Storm		8/13/2020 - 8/17/2020	Midwest, Southern	<1,000m
Convective Storm		8/26/2020 - 8/28/2020	Northeast	<1,000m
Convective Storm		8/29/2020 - 8/30/2020	TX	<100m
Convective Storm		9/5/2020 - 9/6/2020	IA, MN	<1,000m
Convective Storm		9/7/2020 - 9/9/2020	ID, UT	<1,000m
Convective Storm		10/7/2020 - 10/8/2020	Northeast	<1,000m
Convective Storm		10/25/2020 - 10/28/2020	CA, OK	<1,000m
Convective Storm		11/10/2020 - 11/12/2020	Midwest, Southern	<1,000m
Convective Storm		11/15/2020 - 11/16/2020	Northeast	<1,000m
Convective Storm		11/30/2020 - 12/1/2020	Northeast	<100m
Tropical Storm	Claudette	2021	Gulf Coast of the United States, Georgia, Carolinas	> 350 million
Hurricane	Elsa	2021	East Coast of the United States	1.2 billion
Tropical Storm	Fred	2021	Eastern United States (particularly Florida and North Carolina)	1.3 billion
Hurricane	Henri	2021	Northeastern United States	550 million

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Type of Event	Name	Date	Location	Overall losses when occurred
Hurricane	Ida	2021	Gulf Coast of the United States (especially Louisana), East Coast of the United States (especially the Northeastern United States)	44 billion
Tropical Storm	Nicholas	2021	LA, TX	>1.1b
Tropical Storm	Wanda	2021	Southern United States, Mid-Atlantic United States, Northeastern United States	>200 million
Wildfire	Bootleg Wildfire	7/17/21-8/6/21	Northwest of Beatty, Oregon	<1,000 million
Wildfire	Dixie Wildfire	7/14/21-10/5/21	Butte, Plumas, Tehama, Lassen and Shasta Counties, California	>1,000 million
Wildfire	Caldor Fire	8/14/21-10/5/21	El Dorado National Forest and other areas of the Sierra Nevada in El Dorado, Amador, and Alpine County, Calfornia	<1,000 million
Wildfire	Corkscrew Fire	8/15/21-8/30/21	Ford, WA; Tum Tum, Springdale, City of Deer Park, Loon Lake, Clayton, H395, Scoop Mt	<100 million
Wilfire	Marshall Fire	12/30/21-1/1/22	Boulder County, Colorado	~ 2 billion
Convective Storm		1/11/2021 - 1/13/2021	Western	<1,000m
Convective Storm		1/17/2021 - 1/20/2021	CA	<1,000m
Convective Storm		1/25/2021 - 1/26/2021	Southern	<100m
Convective Storm		1/24/2021 - 1/29/2021	AZ, CA	<1,000m
Convective Storm		2/25/2021 - 2/26/2021	TX	<1,000m
Convective Storm		3/9/2021 - 3/11/2021	MN	<100m
Convective Storm		3/9/2021 - 3/11/2021	Midwest, Southern	<1,000m
Convective Storm		3/22/2021 - 3/23/2021	TX	<1,000m
Convective Storm		3/24/2021 - 3/26/2021	Northeast, Midwest	>1,000m
Convective Storm		3/27/2021 - 3/29/2021	Northeast, Midwest, Southern	<1,000m
Convective Storm		4/6/2021 - 4/8/2021	TX	<1,000m
Convective Storm		4/9/2021 - 4/11/2021	Southern	<1,000m
Convective Storm		4/9/2021 - 4/14/2021	LA, TX	<1,000m
Convective Storm		4/15/2021 - 4/16/2021	TX	>1,000m
Convective Storm		4/27/2021 - 5/2/2021	Southern, Northeast	>1,000m
Convective Storm		5/3/2021 - 5/4/2021	Southern, Northeast	<1,000m
Convective Storm		5/7/2021 - 5/11/2021	Southern, Midwest	<1,000m
Convective Storm		5/14/2021 - 5/19/2021	Southern, Midwest	<1,000m
Convective Storm		5/26/2021 - 5/28/2021	South, Northeast	<1,000m
Convective Storm		5/25/2021 - 5/26/2021	Northeast	<1,000m
Convective Storm		5/29/2021 - 5/31/2021	Midwest	<1,000m
Convective Storm		6/7/2021 - 6/9/2021	TX	<100m
Convective Storm		6/11/2021 - 6/14/2021	Midwest, Northeast	<1,000m
Convective Storm		6/17/2021 - 6/20/2021	Midwest, Northeast	>1,000m
Convective Storm		6/24/2021 - 7/1/2021	Midwest	<1,000m
Convective Storm		7/8/2021 - 7/10/2021	Midwest	<1,000m
Convective Storm		7/9/2021 - 7/11/2021	Southern	<1,000m
Convective Storm		7/22/2021 - 7/25/2021	AZ, NM	<1,000m
Convective Storm		7/24/2021	MI	<100m
Convective Storm		7/26/2021 - 7/27/2021	MN, WI	<1,000m
Convective Storm		7/28/2021 - 7/29/2021	Midwest, Northeast	<1,000m
Convective Storm		8/1/2021	TX	<100m
Convective Storm		8/7/2021 -8/9/2021	Midwest	<100m
Convective Storm		8/10/2021 - 8/13/2021	Midwest, Northeast	<1,000m
Convective Storm		8/10/2021 - 8/16/2021	AZ	<1,000m
Convective Storm		8/17/2021 - 8/19/2021	Western	<1,000m
Convective Storm		8/21/2021 - 8/22/2021	TN	<100m
Convective Storm		8/26/2021 - 8/28/2021	Midwest	<1,000m
Convective Storm		9/6/2021 - 9/7/2021	Midwest	<1,000m
Convective Storm		9/15/2021 - 9/17/2021	Midwest	<100m
Convective Storm		9/24/2021 - 9/29/2021	Southern	<100m
Convective Storm		9/30/2021 - 10/2/2021	TX	<100m
Convective Storm		10/4/2021 - 10/7/2021	Southern	<1,000m
Convective Storm		10/10/2021 - 10/11/2021	Southern	<1,000m
Convective Storm		10/10/2021 - 10/12/2021	Western	<100m
Convective Storm		10/24/2021 - 10/28/2021	Western, Southern	<1,000m
Convective Storm		10/24/2021 - 10/25/2021	Midwest	<100m

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Type of Event	Name	Date	Location	Overall losses when occurred
Convective Storm		10/24/2021 - 10/25/2021	Northeast	<100m
Convective Storm		11/11/2021 - 11/13/2021	WA	<100m
Convective Storm		11/14/2021 - 11/16/2021	TX	<100m
Convective Storm		11/10/2021 - 11/11/2021	TX	<100m
Convective Storm		12/10/2021 - 12/11/2021	South, Eastern, Central	>1,000m
Convective Storm		12/13/2021 - 12/16/2021	TX	>1,000m
Convective Storm		12/17/2021 - 12/18/2021	TX	<100m
Convective Storm		12/21/2021	FL	<100m
Wildfire	Calf Canyon/Hermits Peak Fire	4/6/22-8/22/22	San Miguel County, Mora County, Taos County	> 25 million
Wildfire	McKinney Fire	7/29/22-9/7/222	Siskiyou County, Northern California	> 25 million
Wildfire	Cedar Creek Fire	8/1/22-present	Central Oregon	> 25 million
Wildfire	Mosquito Fire	9/6/22- present	Northern California, Placer County, El Dorado County	> 25 million
Hurricane	Hurricane Fiona	9/18/22-9/20/22	PR	>3 billion
Hurricane	Ian	9/23/22-10/2/22	Florida and the Carolinas, FL, GA, NC, SC, VA	>110 billion
Hurricane	Hurricane Nicole	11/9/22-11/11/22	FL, GA, SC	>1 billion
Convective Storm		1/21/2022 - 1/22/2022	GA, SC	>25m
Convective Storm		2/21/2022 - 2/22/2022	MO, KY	>500m
Convective Storm		3/5/2022 - 3/7/2022	MO, IA, IL, WI, IN	>250m
Convective Storm		3/11/2022 - 3/13/2022	FL, GA	>50m
Convective Storm		3/14/2022 - 3/16/2022	TX, FL, GA, SC	>100m
Convective Storm	New Orleans Tornado	3/21/2022 - 3/23/2022	TX, LA, MS, AL, OK	>250m
Convective Storm		3/29/2022 - 3/31/2022	TX, OK, AR, LA, AL, MS, FL, TN	>500m
Convective Storm		4/2/2022 - 4/4/2022	MS, LA, AR, TX, OK	>50m
Convective Storm		4/3/2022 - 4/7/2022	MS, AL, GA, FL, SC, NC, TN	>500m
Convective Storm		4/10/2022 - 4/14/2022	MO, AR, TX, LA, IA, NE, KS, MS, AL, TN, KY, MN, WI	>1b
Convective Storm		4/15/2022 - 4/17/2022	AR, MS, LA, FL, AL	>250m
Convective Storm		4/21/2022 - 4/24/2022	TX, OK, KS, NE, SD, IA	>250m
Convective Storm	Andover Tornado	4/26/2022 - 4/30/2022	NC, VA, KS, MO, NE, OK	>100m
Convective Storm	Tornadoes, Hail	5/1/2022 - 5/3/2022	TX, OK, AR, KS, KY, OH,	>500m
Convective Storm	Tornadoes, Hail	5/4/2022 - 5/6/2022	TX, OK, MS, FL, GA, SC, NC, VA, TN, KY	>250m
Convective Storm	Thunderstorms, Hail	5/9/2022 - 5/10/2022	MN, WI, TX	>1b
Convective Storm	Upper Midwest Derecho	5/11/2022 - 5/12/2022	ND, SD, MN, IA, NE	>1b
Convective Storm	Tornadoes, Hail	5/13/2022 - 5/16/2022	IL, MO, TX, OK, KA, NE, NC, NY, NH, CO	>250m
Convective Storm	Tornadoes, Hail	5/17/2022 - 5/19/2022	KS, NE, OK, MO, IL, KY	>25m
Convective Storm		5/19/2022 - 5/22/2022	MN, WI, MI, IN, OH, AR, TX	>1b
Convective Storm	Tornadoes, Hail	5/23/2022 - 5/25/2022	TX, NC, SC, MS, IL	>50m
Convective Storm	Tornadom, Hail	5/29/2022	NE, SD, MN	>25m
Convective Storm	Tornadoes, Hail	5/30/2022 - 6/2/2022	MN, IA, NE, SD, KS, OK, TX, VA, OH	>250m
Convective Storm		6/1/2022 - 6/3/2022	NM, CO, TX	>25m
Convective Storm	Tornadoes, Hail	6/4/2022 - 6/8/2022	KS, NE, MO, IN, OH, OK, AR, TX	>1b
Convective Storm	Tornadoes, Hail	6/11/2022 - 6/17/2022	KS, NE, SD, MN, OH, KY, MI, IN, WI, VA, NC, SC	>1b
Convective Storm	Tornadoes, Hail	6/22/2022 - 6/23/2022	OH, KS, MN, KY, ND, SD	>25m
Convective Storm	South Dakota Derecho	7/1/2022 - 7/7/2022		>250m
Convective Storm		7/7/2022 - 7/13/2022	MT, ND, SD, MN, NE, IA	>250m
Convective Storm		7/21/2022 - 7/25/2022	ND, SD, NE, KS, IL, IN, OH, WI, IA, MN, MI	>500m
Convective Storm		8/1/2022 - 8/4/2022	WV, PA, IL, WI, MN, MI, MD	>25m
Convective Storm		8/11/2022 - 8/12/2022	WA, OR, ID, MT	>25m
Convective Storm		8/20/2022 - 8/21/2022	IA, IL, IN, OH, MO	>250m
Convective Storm		8/27/2022 - 8/29/2022	MN, IA, IL, MI	>25m
Convective Storm		8/28/2022 - 9/6/2022	TX, OK, KS	>100m
Convective Storm		9/18/2022 - 9/21/2022	IL, MO, IA, WI, MI	>250m
Convective Storm		10/1/2022 - 10/4/2022	CO, UT, AZ	>25m
Convective Storm		10/15/2022 - 10/26/2022	OK, AR, NE, ND, MN	>100m
Convective Storm		10/24/2022 - 10/25/2022	TX	>100m
Convective Storm	Southern Plains Tornadoes	11/4/2022 - 11/5/2022	TX, LA, OK, AR	>100m
Convective Storm		11/4/2022 - 11/5/2022	WI, IA, IL	>25m
Convective Storm		11/11/2022	TX, VA	>25m

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Type of Event	Name	Date	Location	Overall losses when occurred
Convective Storm	Western PA Hail	11/27/2022	PA	>25m
Convective Storm		11/29/2022 - 11/30/2022	LA, MS, AL, GA, FL, AR, TN, KY	>25m
Convective Storm	Mid-December Tornadoes	12/13/2022 - 12/14/2022	TX, OK, LA, AR, MS, AL, FL, GA	>100m
Wildfire	Hawaii Wildfire	8/8/23-8/17/23	Hawaii	> 25 million
Hurricane	Hurricane Hilary	8/17/23-8/22/23	West, Southwest United States	> 25 million
Wildfire	Washington Wildfire	8/18/23-8/22/23	Washington	> 25 million
Hurricane	Hurricane Idalia	8/27/23-8/31/23	Southeastern United States	> 25 million
Hurricane	Hurricane Lee	9/14/23-9/17/23	Northeast United States	> 25 million
Tropical Storm	Ophelia	9/22/23-9/26/23	East Coast of the United States	> 25 million
Convective Storm	Selma Tornado	1/12/2023	MS, AL, GA, TN, KY, NC, SC	>250m
Convective Storm	Houston Tornado	1/24/2023	TX, LA	>100m
Convective Storm		2/7/2023	TX, LA, MS	>100m
Convective Storm		2/15/2023 - 2/17/2023	OK, AR, MO, MS, TN	>100m
Convective Storm	Southern Plains Derecho	2/26/2023 - 2/28/2023	TX, OK, KS, MO, IL, IN, OH	>250m
Convective Storm		3/1/2023 - 3/3/2023	TX, AR, OK, LA, KY, IN, OH	>1b
Convective Storm	Dallas Hail	3/16/2023 - 3/17/2023	TX, OK	>250m
Convective Storm	Mississippi Tornado	3/23/2023 - 3/28/2023	TX, OK, MO, IL, AR, TN, MS, AL, GA, LA	>1b
Convective Storm		3/30/2023 - 4/1/2023	NE, IA, MO, IL, WI, AR, TN, KY, IN, OH, MI, NJ, MD	>1b
Convective Storm		4/2/2023	TX, LA, MS	>25m
Convective Storm		4/3/2023 - 4/5/2023	IA, WI, IL, MO, KY, IN, OH, TX	>1b
Convective Storm	Missouri Tornadoes	4/14/2023 - 4/16/2023	KS, NE, MO, IL, AR, TX, LA	>250m
Convective Storm	Oklahoma Tornadoes	4/18/2023 - 4/22/2023	KS, NE, IA, WI, IL, OK, TX	>1b
Convective Storm		4/23/2023 - 4/27/2023	TX, FL	>500m
Convective Storm		4/28/2023 - 5/1/2023	TX	>500m
Convective Storm		5/2/2023 -5/9/2023	TX, NE, MO, IL, IA, IL, KY, KS	>1b
Convective Storm		5/9/2023 - 5/16/2023	CO, KS, TX, OK, LA, NE, IA, KY	>1b
Convective Storm		5/17/2023 - 5/20/2023	TX	>1b
Convective Storm		5/22/2023 - 5/26/2023	TX, NM, CO	>250m
Convective Storm		5/23/2023 - 5/25/2023	ID, MT	>25m
Convective Storm		5/31/2023 - 6/4/2023	NM, TX, TN, PA	>100m
Convective Storm		6/5/2023 - 6/8/2023	KS, TX, TN, VA	>100m
Convective Storm		6/9/2023 - 6/14/2023	TX, OK, AR, MS, AL, TN, GA, LA	>1b
Convective Storm		6/15/2023 - 6/19/2023	TX, OK, LA, AMS, AL, FL, KS, AR, MO	>1b
Convective Storm		6/15/2023 - 6/16/2023	OH, MI, VA	>250m
Convective Storm		6/21/2023 - 6/26/2023	TX, CO, NM, WY, NE, SD, IA, MN, AR, IN, KY	>3b
Convective Storm	Midwest Derecho	6/28/2023 - 7/4/2023	CO, KS, NE, IL, MO, IA, IN, KY, PA	>1b
Convective Storm		7/3/2023 - 7/9/2023	SC, NC, VA	>250m
Convective Storm		7/5/2023 - 7/10/2023	TX, OK, CO, KS, NE	>1b
Convective Storm	Illinois Tornadoes	7/9/2023 - 7/14/2023	NE, IA, SD, IL, MI, MN	>500m
Convective Storm		7/15/2023 - 7/19/2023	KS, MO, NE	>250m
Convective Storm		7/19/2023 - 7/21/2023	MI, OH, PA, TN, AL	>1b
Convective Storm		7/19/2023 - 7/20/2023	MN	>25m
Convective Storm		7/25/2023 - 7/31/2023	MN, WI, IA, IL, IN, OH, MO, KS, NE	>500m
Convective Storm	Arizona Duststorm	7/25/2023 - 7/30/2023	NY, NH, VT, PA, MA	>25m
Convective Storm		8/4/2023 - 8/8/2023	MO, KS, CO, IL, NC, PA, NE	>500m
Convective Storm		8/10/2023 - 8/11/2023	SD, NE, MN, IA, MO, WI, MI	>1b
Convective Storm		8/12/2023 - 8/15/2023	OH, PA, NY, KY, TN, NC, SC, GA	>25m
Convective Storm		8/22/2023 - 8/24/2023	MI, OH,PA	>250m
Convective Storm		8/31/2023 - 9/2/2023	AZ, CA, NV	>25m
Convective Storm		9/9/2023 - 9/11/2023	KS, NE, TX, OK	>250m
Convective Storm		9/12/2023 - 9/14/2023	TX	>25m
Convective Storm		9/23/2023 - 9/24/2023	MN, SD, NE, KS, MO, OK, TX	>500m
Convective Storm		9/26/2023 - 9/27/2023	MO, IL, KY	>25m
Convective Storm		10/2/2023 - 10/5/2023	TX, KS, NE, OK	>250m
Convective Storm		10/23/2023 - 10/24/2023	WI, MN	>100m
Convective Storm	Tornados	10/24/2023 - 10/26/2023	TX	>100m
Convective Storm	Tornadoes, Hail	12/8/2023 - 12/10/2023	LA, TN, KY, MS, AL, FL, NC	>250m

Attachment 2

Type of Event	Name	Date	Location	Overall losses when occurred
Severe Convective Storm		1/8/24-1/10/24	Multistate	> 25 million
Winter Storm		1/11/24-1/18/24	Multistate	> 25 million
Severe Convective Storm		1/19/24-1/22/24	Multistate	> 25 million
Severe Convective Storm	Jan Southern SCS	1/22/24-1/26/24	Multistate	> 25 million
Severe Convective Storm	Early Feb Outbreak	2/8/24-2/13/24	Midwest, Southeast	> 25 million
Severe Convective Storm	Polar Front & SCS	2/26/24-2/29/24	Multistate	> 25 million
Severe Convective Storm	Western US Storm	2/28/24-3/4/24	Multistate	> 25 million
Wildfire	Smokehouse Creek Fire	2/26/24-3/9/24	Texas	> 25 million
Severe Convective Storm		2/28/24-3/2/24	Ohio, Pennsylvania	> 25 million
Severe Convective Storm	Early March Storm Complex	3/6/24-3/11/24	Southeast, Midwest	> 25 million
Winter Storm	Colorado Snow Storm	3/13/24-3/15/24	Colorado	> 25 million
Severe Convective Storm	Mid-March SCS Outbreak	3/12/24-3/17/24	Northeast	> 25 million
Severe Convective Storm	San Antonio Hail & SCS	3/21/24-3/23/24	Texas	> 25 million
Severe Convective Storm	Late March Southern SCS	3/24/24-3/28/24	California, Southeast	> 25 million
Severe Convective Storm	Early April Outbreak	3/31/24-4/4/24	California, Midwest	> 25 million
Severe Convective Storm	Southern SCS & Floods	4/6/24-4/12/24	Multistate	> 25 million
Severe Convective Storm	April Mid-Atlantic SCS	4/14/24-4/16/24	US	> 25 million
Severe Convective Storm	April Plains & Midwest SCS	4/15/24-4/16/24	Texas, Missouri	> 25 million
Severe Convective Storm	Central & Eastern Outbreak	4/17/24-4/20/24	Southeast	> 25 million
Severe Convective Storm	Texas April SCS	4/19/24-4/21/24	Texas	> 25 million
Severe Convective Storm	Late April Central SCS	4/25/24-4/29/24	Midwest, Southwest	> 25 million
Severe Convective Storm	Early May Hail	4/30/24-5/2/24	Kansas, Oklahoma, Texas	> 25 million
Severe Convective Storm	Texas SCS	5/3/24-5/5/24	Texas	> 25 million
Severe Convective Storm	Early May SCS	5/6/24-5/10/24	Multistate	> 25 million
Severe Convective Storm	Southern SCS	5/11/24-5/14/24	Southwest, Southeast	> 25 million
Severe Convective Storm	Houston Derecho	5/15/24-5/19/24	Southwest, Southeast	> 25 million
Severe Convective Storm	Mid-May SCS	5/17/24-5/22/24	Multistate	> 25 million
Severe Convective Storm	Late May Plains Outbreak	5/23/24-5/24/24	Southwest, Midwest	> 25 million
Severe Convective Storm	Late May Central & East SCS	5/25/24-5/26/24	Multistate	> 25 million
Severe Convective Storm	Dallas SCS	5/27/24-5/29/24	Southwest	> 25 million
Severe Convective Storm	Denver SCS	5/30/24-6/1/24	Southwest, Southeast	> 25 million
Severe Convective Storm	TX Hail & MD Tornadoes	6/2/24-6/5/24	Multistate	> 25 million
Severe Convective Storm	Early June Outbreak	6/6/24-6/10/24	Multistate	> 25 million
Severe Convective Storm	Colorado June SCS	6/9/24-6/10/24	Colorado	> 25 million
Severe Convective Storm	Midwest Mid-June Outbreak	6/12/24-6/13/24	Southwest, Midwest	> 25 million
Severe Convective Storm	Central & East Mid-June SCS	6/14/24-6/18/24	Multistate	> 25 million
Wildfire	South Fork & Salt fires	6/17/24-6/25/24	New Mexico	> 25 million
Severe Convective Storm	Central & East Late-June SCS	6/19/24-6/23/24	Multistate	> 25 million
Tropical Storm	Trophical Storm Alberto	6/19/24-6/20/24	Texas, Louisiana	> 25 million
Severe Convective Storm		6/24/24-6/26/24	Multistate	> 25 million
Severe Convective Storm	US Lat-June Outbreak	6/27/24-6/30/24	Multistate	> 25 million
Severe Convective Storm	Early July Plains Outbreak	7/1/24-7/4/24	Multistate	> 25 million
Severe Convective Storm	Southeast SCS	7/1/24-7/4/24	Multistate	> 25 million
Hurricane	Hurricane Beryl	7/1/24-7/12/24	Texas, Louisiana, the Ohio Valley, and the Lower Peninsula of Michigan	> 25 million
Severe Convective Storm	Early July Central Outbreak	7/6/24-7/7/24	Multistate	> 25 million
Severe Convective Storm	Chicago Derecho & SCS	7/13/24-7/18/24	Multistate	> 25 million
Severe Convective Storm	Arizon Monsoon SCS	7/14/24-7/15/24	Arizona	> 25 million
Severe Convective Storm	Late July Central Outbreak	7/19/24-7/20/24	Multistate	> 25 million
Severe Convective Storm	July Southwest Monsoon	7/15/24-7/21/24	Multistate	> 25 million
Severe Convective Storm	Late July US SCS Outbreak	7/24/24-8/1/24	Multistate	> 25 million
Wildfire	Park Fire California	7/24/24-8/20/24	California	> 25 million
Severe Convective Storm	Early Aug Eastern Outbreak	8/2/24-8/3/24	Multistate	> 25 million
Severe Convective Storm	Minnesota Aug SCS	8/3/24-8/5/24	Minnesota	> 25 million
Hurricane	Hurricane Debby	8/3/24-8/14/24	Florida, Georgia, and the Carolinas	> 25 million
Severe Convective Storm	Northeast July SCS	8/4/24-8/6/24	Northeast	> 25 million
Severe Convective Storm	Mid August SCS	8/12/24-8/19/24	Multistate	> 25 million
Severe Convective Storm	August Northern Outbreak	8/22/24-8/30/24	Multistate	> 25 million

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Type of Event	Name	Date	Location	Overall losses when occurred
Hurricane	Hurricane Francine	9/9/24-9/14/24	Mississippi and Louisiana	> 25 million
Severe Convective Storm	Oklahoma City Hail & SCS	9/21/24-9/24/24	Oklahoma	> 25 million
Hurricane	Hurricane Helene	9/24/24-9/29/24	Florida, Carolinas, Georgia, Alabama, Tennessee, Kentucky, Virginia, West Virginia, Illinois, Indiana, Ohio	> 25 million
Hurricane	Hurricane Milton	10/5/24-10/12/24	Florida, Georgia	> 25 million
Severe Convective Storm		11/2/24-11/4/24	South Central US	>25 million
Wildfire	Wildland Fire Mountain Fire	11/6/24-11/14/24	California	>25 million
Winter storm		11/19/25-11/24/24	Multistate	>25 million
Wind and thunderstorm		12/13/24-12/16/24	Northeast, West Coast	>25 million
Wind and thunderstorm		12/26/24-12/29/24	South	>25 million
Wind, Thunderstorms, Tornadoes	SCS	1/5/2025	Arkansas, Louisiana, Alabama	>25 million
Wildfire	Palisades Fire	1/7/25-1/28/25	California	>1 billion
Wildfire	Eaton Fire	1/7/25-1/27/25	California	>1 billion
Wind	SCS	1/7/25-1/9/25	California	>25 million
Flooding, Freezing, Ice, Snow, Wind	SCS	1/9/25-1/11/25	Georgia, Texas	>25 million
Flooding, Snow, Wind	SCS	1/11/25-1/13/25	Alaska	>25 million
Flooding, Freezing, Ice, Snow, Wind	SCS	1/20/25-1/22/25	Florida, Georgia, Louisiana, Texas	>25 million
Flooding, Freezing, Ice, Snow, Wind	SCS	1/21/25-1/25/25	Illinois, Maryland, New Jersey, Pennsylvania, Ohio, Virginia	>25 million
Flooding, Snow, Wind	SCS	1/30/25-2/7/25	California, Nevada, Oregon, Washington	>25 million
Wind, Thunderstorms, Tornadoes	SCS	2/5/25-2/7/25	Kentucky, Tennesse	>25 million
Wind, Thunderstorms, Tornadoes	SCS	2/11/25-2/13/25	Virginia	>25 million
Wind, Thunderstorms, Tornadoes	SCS	2/12/25-2/17/25	Alabama, California, Conneticut, Georgia, Kentucky, Massachusetts, Maryland, North Carolina, New Jersey, New York, Pennsylvainia, Tennesse	>25 million
Wind, Thunderstorms, Tornadoes	SCS	2/15/25-2/16/25	Louisiana, Mississippi, Alabama, Georgia, Tennesse, North Carolina, South Carolina	>25 million
	SCS	2/21/25-2/25/25	California, Oregon, Washington	>25 million
Wind, Thunderstorms, Tornadoes	SCS	3/3/25-3/6/25	Oklahoma, Texas, Louisiana, Mississippi, Alabama, Georgia, Tennesse, North Carolina, Virginia	>25 million
	SCS	3/7/25-3/10/25	Florida, Georgia, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	3/14/25-3/17/25	Missouri, Iowa, Illinois, Indiana, Alabama, Louisiana, Mississippi, Tennesse, West Virginia, Pennsylvania, New York, Ohio	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	3/18/25-3/20/25	Arkansas, Illinois, Indiana, Missouri, Nebraska, New Mexico, Texas	>25 million
Hail	SCS	3/23/25-3/24/25	Texas, Louisiana, Mississippi, Alabama, Tennesse	>25 million
	SCS	3/25/25-3/27/25	Texas	>25 million
	SCS	3/28/25-3/31/25	Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Michigan, Missouri, Ohio, Tennesse, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS Outbreak	4/1/25-4/7/25	Texas, Oklahoma, Kansas, Nebraska, Missouri, Arkansas,Louisiana, Mississippi, Tennesse, Kentucky, Illinois, Indiana, Michigan, Ohio, West Virginia, Georgia, Alabama, South Carolina, North Carolina	>25 million
Wind, Hail	SCS	4/10/25-4/11/25	Tennesse, Alabama, Georgia	>25 million
Wind, Hail	SCS	4/14/25-4/15/25	Kentucky, West Virginia, Virginia	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS Outbreak	4/16/25-4/21/25	Nebraska, Iowa, Missouri, Wisconsin, Oklahoma, Texas, Illinois	>25 million
	SCS	4/21/25-4/26/25	Iowa, Kansas, Louisiana, Nebraska, New Mexico, Oklahoma, Texas	>25 million
	SCS	4/27/25-5/1/25	Kansas, Missouri, New York, Ohio, Oklahoma, Pennsylvania, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS Outbreak	5/1/25-5/3/25	Nebraska, Minnesota, Wisconsin, Texas, Oklahoma, Kansas, Missouri, Ohio, Pennsylvania, Illinois, Arkansas, Tennesse, Mississippi, Alabama, Kentucky, Georgia, New Jersey, New York, Massachusetts, Conneticut	>25 million
Wind, Thunderstorms, Hail	SCS	5/4/25-5/8/25	Texas, Louisiana	>25 million
Wind, Thunderstorms, Hail	SCS	5/9/25-5/14/25	Alabama, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia	>25 million
	SCS	5/15/25-5/16/25	Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, Texas, Virginia, Wisconsin	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS Outbreak	5/17/25-5/20/25	Alabama, Arkansas, Georgia, Kansas, Missouri, Mississippi, Oklahoma, Tennesse, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	5/22/25-5/27/25	Texas, Oklahoma, Mississippi Tennesse, Alabama, Georgia, Louisiana	>25 million
Wind, Thunderstorms, Tornadoes	SCS	5/28/25-5/30/25	West Virginia, Virginia, South Carolina	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	6/1/25-6/7/25	Texas, Colorado, Kansas, Oklahoma, Nebraska, Iowa, Minnesota, Missouri, Illinois	>25 million

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Type of Event	Name	Date	Location	Overall losses when occurred
Wind, Thunderstorms, Tornadoes, Hail	SCS	6/5/25-6/8/25	Texas, Oklahoma, Arkansas, Tennesse, Alabama, Mississippi, Georgia, South Carolina, Virginia, Missouri	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	6/8/25-6/12/25	Illinois, Texas	>25 million
Wildfire	Rowena Fire	6/11/25-6/30/25	Oregon	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	6/15/25-6/20/25	Montana, Minnesota, South Dakota, Nebraska, Kansas, Oklahoma, Illinois, Indiana, Ohio, West Virginia, Virginia, Maryland, North Dakota	>25 million
Wind, Thunderstorms, Hail	SCS	6/23/25-6/26/25	Georgia, South Carolina, North Carolina, Florida	>25 million
Wind, Thunderstorms, Hail	SCS	6/27/25-7/3/25	Pennsylvania, New York, New Jersey, Conneticut, Vermont, New Hampshire	>25 million
	SCS	7/3/25-7/7/25	Texas	>25 million
	SCS	7/4/25-7/7/25	Colorado	>25 million
Tropical Storm	Tropical Storm Chantal	7/5/25-7/7/25	Florida, North Carolina, Virginia	500 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	7/8/25-7/13/25	Texas, Oklahoma, Virginia, Maryland, Deleware, New Jersey, Pennsylvania, South Carolina, Niorth Dakota, South Dakota, Missouri, Iowa,Illinois	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	7/14/25-7/19/25	Nebraska, South Dakota	>25 million
	SCS	7/20/25-7/30/25	Florida, Georgia, Illinois, Maryland, Michigan, North Carolina, New Jersey, Ohio, Texas, Virginia	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	7/26/25-7/30/25	Minnesota, Iowa, South Dakota, Nebraska	>25 million
	SCS	7/31/25-8/3/25	Texas, Wyoming	>25 million
Wind, Thunderstorm, Hail	SCS	8/4/25-8/12/25	North Dakota, Montana, Nebraska, Kansas, Colorado, Wisconsin	>25 million
Wind, Thunderstorm, Hail	SCS	8/14/25-8/20/25	South Dakota, Minnesota, Iowa, Wisconsin, Illinois	>25 million
Wildfire	TCU September Lightning Complex	9/2/25-9/13/2025	California	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/3/25-9/5/25	Kansas, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/6/2025	Massachusetts, Conneticut, New Hampshire, New York	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/8/25-9/9/25	Texas, Oklahoma, Kansas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/14/2025	North Dakota, South Dakota, Nebraska	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/15/25-9/21/25	Minnesota, Nebraska, Texas	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	9/25/25-9/28/25	Arizona	>25 million
	SCS	10/11/25-10/13/25	Arizona	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	10/11/25-10/14/25	Conneticut, Massachusetts, North Carolina, New Jersey, New York, South Carolina, Virginia	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	10/18/2025	Louisiana, Mississippi	>25 million
Wind, Thunderstorms, Tornadoes, Hail	SCS	10/23/25-10/26/25	Texas, Oklahoma, Florida	>25 million

Attachment 2

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2016	Hurricane	08/28/16	09/06/16	Hurricane Hermine		Dominican Republic, Cuba, The Bahamas	N/A	N/A	> 25 million
2016	Tropical Cyclone	02/16/16	02/22/16	TC Winston		South Pacific Islands	N/A	N/A	> 25 million
2016	Earthquake	02/06/16		Earthquake	Taiwan	Asia	N/A	N/A	> 25 million
2016	Earthquake	01/03/16		Kaohsiung EQ	India, Bangladesh, Myanmar	Asia	N/A	N/A	> 25 million
2016	Earthquake	02/14/16		Christchurch EQ	New Zealand	Oceania	N/A	N/A	> 25 million
2016	Earthquake	04/14/16	04/16/16	Kumamoto EQs	Japan	Asia	N/A	N/A	> 25 million
2016	Earthquake	04/16/16		Ecuador EQ	Ecuador	South America	N/A	N/A	> 25 million
2016	Tropical Cyclone	05/14/16	05/23/16	CY Roanu	Sri Lanka, india, Bangladesh, China	Asia	N/A	N/A	> 25 million
2016	Earthquake	08/24/16		Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/14/16	09/16/16	STY Meranti	China, Taiwan, Philippines	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	07/08/16	07/12/16	STY Nepartak	China, Taiwan	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/26/16	09/29/16	TY Megi	Taiwan, China	Asia	N/A	N/A	> 25 million
2016	Earthquake	09/10/16		Kagera EQ	Tanzania, Uganda	Africa	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/29/16	09/01/16	TY Lionrock	China, Japan, South Korea	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/19/16	09/22/16	TY Malakas	Japan, China	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/18/16	08/20/16	TS Dianmu	China, Vietnam	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	07/31/16	08/03/16	TY Nidia	China, Phillippines Vietnam	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/02/16	08/10/16	HU Earl	Belize, Mexico, Carribbean Islands	Caribbean Islands, Mexico and Central America	N/A	N/A	> 25 million
2016	Tropical Cyclone	08/22/16	08/23/16	TS Mindulle	Japan	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	09/06/16	09/08/16	HU Newton	Mexico	North America (non-U.S.)	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/04/16	10/07/16	STY Chaba	Japan, Korea	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/16/16	10/22/16	STY Haima	Phillipines, China	Asia	N/A	N/A	> 25 million
2016	Tropical Cyclone	10/14/16	10/20/16	TY Sarika	Phillipines, China, Vietanm	Asia	N/A	N/A	> 25 million
2016	Earthquake	10/26/16		Central Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Earthquake	10/27/16		Central Italy EQ	Italy	Europe	N/A	N/A	> 25 million
2016	Earthquake	10/21/16		Tottori	Japan	Asia	N/A	N/A	> 25 million
2016	Hurricane	09/28/16	10/10/16	Hurricane Matthew		Carribbean Islands and Eastern Canada	N/A	N/A	> 25 million
2016	Hurricane	08/28/16	09/06/16	Hurricane Hermine		Dominican Republic, Cuba, The Bahamas	N/A	N/A	> 25 million
2016	Wildfire	01/06/16		Waroona-Yarloop Bushfire	Western Australia				~$71.25m
2016	Wildfire	05/01/16	05/26/16	Canada Wildfire	Canada	Fort McMurray			$3.52b
2016	Wildfire	11/22/16	11/27/16	November 2016 Israel Fires	Israel	Various regions in Israel, mainly in Haifa, Judaean Mountains and the Sharon Plain			>$25m
2016	Convective Storm	02/22/16	02/25/16	Thunderstorms, tornadoes	Canada				600m-1b
2016	Convective Storm	03/08/16	03/11/16	Thunderstorms, hail	UAE, Oman				100m
2016	Convective Storm	04/20/16	04/25/16	Thunderstorm, hail	China				25+m
2016	Convective Storm	06/23/16		Thunderstorm, hail, tornado	China				100+m
2016	Convective Storm	06/23/16		Thunderstorms, hail	Netherlands				527m
2016	Convective Storm	06/24/16	06/25/16	Thunderstorm, hail, flood	Germany				253m
2016	Convective Storm	06/28/16	06/30/16	Thunderstorms, hail, tornado, flood	Canada				64m
2016	Convective Storm	07/15/16	07/16/16	Thunderstorms, hail, flood	Canada				56m
2016	Convective Storm	07/18/16	07/20/16	Thunderstorm, hail, tornadoes	Canada				74m
2016	Convective Storm	07/30/16	08/01/16	Thunderstorms, hail, tornadoes, flood	Canada				327m
2016	Convective Storm	11/11/16		Thunderstorms, hail	Australia				197m
2016	Convective Storm	07/22/16		Hailstorm	Canada				56m
2017	Earthquake	01/18/17		Earthquake	Italy	Europe	N/A	N/A	> 25 million
2017	Earthquake	01/28/17		Earthquake	China	Asia	N/A	N/A	> 25 million

Attachment 2

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2017	Earthquake	02/10/17		Earthquake	Philippines	Asia	N/A	N/A	> 25 million
2017	Earthquake	03/27/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Cyclone	03/28/17	04/05/17	CY Debbie	Australia	Queensland, New South Wales, New Zealand	N/A	N/A	> 25 million
2017	Earthquake	05/11/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Typhoon	07/29/17	07/31/17	TY Nesat & TS Haitang	China, Taiwan, Philippines	Asia	N/A	N/A	> 25 million
2017	Typhoon	08/07/17	08/09/17	Typhoon Noru	Japan	Asia	N/A	N/A	> 25 million
2017	Earthquake	08/08/17		Earthquake	China	Asia	N/A	N/A	> 25 million
2017	Typhoon	08/23/17	08/24/17	TY Hato	China	Macau, Hong Kong	N/A	N/A	> 25 million
2017	Typhoon	08/25/17	08/28/17	TY Pakhar	China	Asia	N/A	N/A	> 25 million
2017	Hurricane	08/25/17	09/02/17	Hurricane Harvey		Caribbean Islands and Central America	N/A	N/A	> 25 million
2017	Hurricane	08/30/17	09/16/17	Hurricane Irma		Caribbean Islands and Cape Verde	N/A	N/A	> 25 million
2017	Hurricane	09/05/17	09/26/17	Hurricane Jose		Caribbean Islands and Eastern Canada	N/A	N/A	> 25 million
2017	Hurricane	09/16/17	10/03/17	Hurricane Maria		Caribbean Islands, UK, Francs and Spain	N/A	N/A	> 25 million
2017	Earthquake	09/07/17		Earthquake		Mexico, Guatemala	N/A	N/A	> 25 million
2017	Earthquake	09/19/17		Earthquake	Mexico	Mexico City	>200	N/A	> 25 million
2017	Hurricane	10/04/17		Hurricane Nate		Central America, Cayman Islands, Cuba Yucatan Peninsula	N/A	N/A	> 25 million
2017	Wildfire	06/06/17		Knysna Fires	South Africa	Knysna region of the Western Cape			~$146m
2017	Wildfire	07/01/17	08/01/17	British Columnbia Wildfires	Canada	British Columbia			>$78m
2017	Wildfire	10/15/17	10/16/17	Iberian Wildfires	Portugal	Northern Portugal and Northwestern Spain			~$210m
2017	Convective Storm	02/01/17	02/02/17	Windstorm Kurt, Live, Marcel	France, Spain				86m
2017	Convective Storm	02/23/17	02/24/17	Windstorm Thomas	UK, Germany, Belgium, Netherlands, Ireland				292m
2017	Convective Storm	03/06/17	03/07/17	Windstorm Zues	France				341m
2017	Convective Storm	03/08/17	03/09/17	Windstorm	Canada				84m
2017	Convective Storm	05/23/17	05/24/17	Thunderstorms, hail, flood	Canada				52m
2017	Convective Storm	08/06/17	08/10/17	Thunderstorms, hail, flood	Italy				168m
2017	Convective Storm	10/05/17		Windstorm Xavier	Germany, Poland, Czech Republic, Netherlands				420m
2017	Convective Storm	10/09/17	10/10/17	Thunderstorms, hail, flood	South Africa				81m
2017	Convective Storm	10/16/17	10/18/17	Windstorm	Canada				87m
2017	Convective Storm	10/29/17		Windstorm Herwart	Germany, Austria, Denmark, Poland, Czech Republic, Slovakia, Hungary				390m
2017	Convective Storm	12/19/17		Thunderstorms, hail, flood	Australia				296m
2017	Convective Storm	02/18/17		Hailstorm	Australia				400m
2017	Convective Storm	06/22/17	06/23/17	Hailstorm Paul, Hailstorm Rasmund	Germany, Hungary				721m
2017	Convective Storm	06/24/17	06/28/17	Thunderstorms, hail, flood	Italy				132m
2017	Convective Storm	07/21/17	07/27/17	Hailstorm	Switzerland				88m
2017	Convective Storm	07/27/17		Thunderstorms, hail, flood	Turkey				185m
2018	Earthquake	02/06/18		Earthquake	Taiwan				> 25 million
2018	Earthquake	02/16/18		Earthquake	Mexico				> 25 million
2018	Cyclone	02/09/18	02/20/18	CY Gita	Tonga, Fiji, Samoa, New Zealand				> 25 million
2018	Earthquake	02/26/18		Earthquake	Papua New Guinea				> 25 million
2018	Earthquake	03/05/18		Earthquake	Papua New Guinea				> 25 million
2018	Cyclone	03/17/18		CY Marcus					> 25 million
2018	Tropical Storm	05/23/18	05/27/18	Tropical Storm Mekunu	Yamen, Oman , Saudi Arabia				> 25 million
2018	Tropical Storm	06/02/18	06/07/18	Tropical Storm Ewiniar	Vietnam, China, Taiwan, Philippines and Ryukyu Islands	Guangdong Province, Jiangxi, Fujian, Zhejiang Provinces, and Hainan Island.			> 25 million
2018	Earthquake	06/18/18		Earthquake	Japan				> 25 million
2018	Super Typhoon	07/10/18	07/12/18	STY Maria	China, Taiwan, Guam and Japan	Fujian province, Yantze River Basin, Japan's Ryukyu Islands			> 25 million

Attachment 2

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2018	Tropical Storm	07/17/18	07/24/18	TS Sonh-Tinh	Vietnam, China, Loas	Japan, Russian Far East			> 25 million
2018	Tropical Storm	07/22/18	07/25/15	TS Ampil	China	Jiangsu, Zhejiang, Shandong, and Hebei			> 25 million
2018	Typhoon	07/27/18	08/03/18	TY Jongdari	Japan, China				> 25 million
2018	Earthquake	08/05/15	08/09/18	Earthquake	Indonesia				> 25 million
2018	Tropical Storm	08/09/18	08/15/18	TS Yagi	Philippines, China	Zhejiang, Anhui, Jiangsu and Shandong Provinces.			> 25 million
2018	Tropical Storm	08/13/18	08/19/18	TS Bebinca	China	Hong Kong, Guangdong and Hainan			> 25 million
2018	Typhoon	08/16/18	08/18/18	TY Rumbia	China	Shanghai, Jiangsu, Zhehiang, Anhui, Shandong and Henan			> 25 million
2018	Typhoon	08/23/18	08/25/18	TY Soulik	Japan, South Korea, China and Russia	Haenam County, South Jeolla Province			> 25 million
2018	Typhoon	09/04/18	09/05/18	RY Jebi	Japan, Mariana Islands, Taiwan, Japan, Russian Far East and Artic				> 25 million
2018	Earthquake	09/06/18		Earthquake	Japan	Hokkaido			> 25 million
2018	Super Typhoon	09/15/18	0918/18	STY Mangkhut	N. Mariana Islands, Philippines, China and Hong Kong				> 25 million
2018	Hurricane	Leslie	09/23/18	Hurricane Leslie	Azores, Bermuda, Europe	Azores, Bermuda, Madeira, Iberian Peninsula, France			> 25 million
2018	Hurricane	10/07/18	10/16/18	Hurricane Michael	Central American, Yucatan Peninsula, Cayman Islands, Cuba, Atlantic, Canad				> 25 million
2018	Wildfire	May-18	Aug-18	Sweden Wildfires	Sweden	ranging from north of Arctic Circle to the sourthern County of Scania.			>$87m
2018	Wildfire	Jul-18		Greece Wildfires	Greece	Attica, Greece			~38.1m
2018	Convective Storm	01/01/18		Windstorm Ingmar	France				<226m
2018	Convective Storm	01/03/18		Windstorm Burglind	Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands, Switzerland, U.K.				1020m
2018	Convective Storm	01/17/18	01/18/18	Windstorm Friederike	Belgium, France, Germany, Great Britain, Netherlands, Italy, Central Europe				2,100m
2018	Convective Storm	01/23/18	01/24/18	Windstorm Georgina	Ireland, Norway, U.K.				<226m
2018	Convective Storm	09/19/18	09/20/18	Windstorm Dorcas-Elena	Ireland, Norway, U.K.				<226m
2018	Convective Storm	09/23/18		Windstorm Fabienne	Germany, Austria, Switzerland				<226m
2018	Convective Storm	04/10/18	04/11/18	Tornadoes	New Zealand				51m
2018	Convective Storm	May	June		Central/western Europe				900m
2018	Convective Storm	12/20/18		Hailstorm	Australia				492m
2019	Cyclone	05/03/19	05/05/19	Cyclone Fani	India, Bangladesh				>500 million
2019	Earthquake	06/17/19		Earthquake	China				> 25 million
2019	Tropical Storm	08/01/19	08/08/19	Tropical Storm Wipha	China, Vietnam				> 25 million
2019	Typhoon	08/09/19	08/11/19	Typhoon Lekima	China				> 855 million
2019	Typhoon	08/15/19	08/16/19	Typhoon Krosa	Japan				>25 million
2019	Hurricane	08/31/19	09/07/19	Hurricane Dorian	Caribbean, Bahamas, Canada				>1 billion
2019	Typhoon	09/05/19	09/08/19	Typhoon Lingling	Japan, China, Korea				>5.78 billion
2019	Typhoon	09/08/19	09/09/19	Typhoon Faxai	Japan				> 7 billion
2019	Hurricane	09/19/19	09/22/19	Hurricane Humberto	Bermuda				>25+ million
2019	Hurricane	09/17/19	09/26/19	Hurricane Lorenzo	Portugal				>25+ million
2019	Earthquake	11/26/19		Earthquake	Albania				>25+ million
2019	Cyclone	11/08/19	11/11/19	Cyclone Matmo (Bulbul)	India, Bangladesh				>25+ million
2019	Typhoon	10/01/19	10/02/19	Typhoon Hagibis	Japan				> 7 billion
2019	Earthquake	12/18/19		Earthquake	Philippines				>25+ million
2019	Wildfire	Sep-19	Mar-20	Australian Bushfires	New South Wales, Queensland, Victoria, South Australia, Western Australia, Tasmania and Northern Territory				~910 million
2019	Convective Storm	03/09/19	03/10/19	Windstorm Dragi-Eberhard	Belgium. France, UK, Germany, Czech Republic, Poland, Slovakia, Netherlands, Luxembourg				851m
2019	Convective Storm	06/20/19	06/23/19	Windstorm	Italy				277m
2019	Convective Storm	07/08/19	07/10/19	Windstorm	Italy				165m
2019	Convective Storm	11/17/19		Sunshine Coast Hailstorm	Australia				112m

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2019	Convective Storm	12/10/19	12/22/19	Ewindstorm Elsa-Fabien	Spain, Portugal, France				149m
2019	Convective Storm	06/10/19	06/13/19	European Hailstorm	Germany, Poland, Slvenia, Czech Republic				830m
2020	Earthquake	03/22/20		Earthquake	Croatia				>25+ million
2020	Cyclone	04/01/20	04/11/20	Cyclone Harold	Solomon Islands, Canuatu, Fiji, Tonga				> 25+ million
2020	Tropical Storm	05/31/20		Tropical Storm Amanda	El Salvador, Guatemala, Honduras				> 25+ million
2020	Tropical Storm	06/01/20	06/05/20	Tropical Storm Cristobal	Mexico, Guatemala, El Salvador				150 million
2020	Hurricane	07/25/20	07/27/20	Hurricane Hanna	Mexico				350 million
2020	Hurricane	07/28/20	08/01/20	Hurricane Isaias	Caribbean, Canada				> 3 billion
2020	Hurricane	08/22/20	08/25/20	Hurricane Laura	Caribbean				> 4 billion
2020	Typhoon	05/15/20	05/22/20	Typhoon Amphan	India, Bangladesh, Sri Lanka				15 billion
2020	Tropical Storm	06/03/20	06/04/20	Tropical Storm Nisarga	India				> 25+ million
2020	Typhoon	08/03/20	08/04/20	Typhoon Hagupit	China, Taiwan				> 100+ million
2020	Hurricane	10/05/20	10/12/20	Hurricane Delta	Jamaica, Nicaragua, Cayman Island, Yucatan Peninsula				> 2 billion
2020	Hurricane	10/24/20	10/30/20	Hurricane Zeta	Cayman Islands, Jamaica, Central America, Yucatan Peninsula, Ireland, United Kingdom				> 1.5 billion
2020	Cyclone	04/01/20	04/11/20	Cyclone Harold	Solomon Islands, Canuatu, Fiji, Tonga				> 25+ million
2020	Hurricane	10/31/20	11/14/20	Hurricane Eta	Colombia, Jamaica, Central America, Cayman Islands, Cuba, The Bahamas				> 7.9 billion
2020	Hurricane	11/14/20	11/19/20	Hurricane Iota	ABC Islands, Colombia, Jamaica, Central America				> 1.4 billion
2020	Typhoon	11/22/20	11/23/20	Typhoon Goni	Philippines, Vietnam, Cambodia, Laos				> 400+ million
2020	Typhoon	11/08/20	11/15/20	Typhoon Vamco	Philippines, Vietnam, Laos, Thailand				> 400+ million
2020	Wildfire	10/04/20		Lake Ohau Fire	New Zealand	Northwest of Lake Ohau Village			~$25m
2020	Convective Storm	01/20/20		Hailstorm	Australia				1,250m
2020	Convective Storm	02/08/20	02/11/20	Windstorm Sabine/Ciara	Austria, Belgium, Switzerland. Germany, Denmark, France, UK, Ireland, Luxembourg, Netherlands, Norway, Sweden				2,200m
2020	Convective Storm	02/15/20	02/17/24	Windstorm Victoria-Dennis	Belgium, Demark, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Sweden, UK				372m
2020	Convective Storm	09/26/20	09/27/20	Windstorm Odette	Belgium				28+m
2020	Convective Storm	09/30/20	10/03/20	Windstorm Alex-Brigitte	UK, Spain, Portugal, France, Italy, Austria, Poland, Czech Republic				340m
2020	Convective Storm	10/31/20		South East Queensland Hailstorm	Australia				905m
2021	Wildfire	02/05/21		Perth Hills Wildfire	Australia	Shire of Mundaring, Shire of Chittering, Shire of Northam City of Swan			~$63m
2021	Earthquake	01/14/21	01/14/21	West Sulawesi	Indonesia				> 58.1 million
2021	Earthquake	02/13/21	02/13/21	Fukushima Prefecture Offshore	Japan				1.3 billion
2021	Tropical Cyclone	05/17/21		Toropical Cyclone Tautae	India				> 25+ million
2021	Tropical Storm	06/19/21	06/23/21	Trophical Storm Claudette	Oaxaca, Veracruz, Atlantic Canada				> 25+ million
2021	Earthquake	06/21/21	06/21/21	China	Yunnan Dali				> 25+ million
2021	Earthquake	06/21/21	06/21/21	China	Southern Qinghai				> 25+ million
2021	Hurricane	07/01/21	07/14/21	Elsa	Lesser Antilles, Greater Antilles, Venezuela, Colombia, Atlantic Canada, Greenland, Iceland				50 million
2021	Typhoon	07/16/21	07/31/21	In-fa (Fabian)	Philippines, Ryukyu Islands, Taiwan, China, North Korea				> 25+ million
2021	Trophical Storm	08/11/21	08/20/21	Fred	Lesser Antilles, Greater Antilles, Southern Quebec, The Maritimes				25 million
2021	Hurricane	08/13/21	08/21/21	Grace	Lesser Antilles, Greater Antilles, Yucatan Peninsula, Central Mexico				513 million
2021	Earthquake	08/14/21	08/14/21		Haiti				1 billion
2021	Hurricane	08/26/21	09/04/21	Ida	Venezuela, Colombia, Jamaica, Cayman Islands, Cuba, Atlantic Canada				> 250 million
2021	Earthquake	09/07/21	09/07/21	Guerrero	Mexico				200 million
2021	Earthquake	09/16/21			China				> 25+ million

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2021	Hurricane	09/12/21	09/18/21	Nicholas	Yucatan Peninsula, Tamaulipas				1.1 billion
2021	Hurricane	09/10/21	09/11/21	Larry	Canada				80 million
2021	Cyclone	10/02/21	10/04/21	Cyclone Shaheen	Oman, Iran, India, Pakistan, United Arab Emirates, Saudi Arabia, Yemen				> 25+ million
2021	Earthquake	10/07/21	10/07/21		Japan				> 25+ million
2021	Tropical Storm	10/10/21	10/14/21	Tropical Storm Kompasu	Philippines, Hong Kong, China				245 million
2021	Earthquake	10/16/21	10/16/21		Indonesia				> 25+ million
2021	Tropical Cyclone	10/24/21	11/02/21	Apollo	Italy, Malta, Tunisia, Algeria, Libya, Turkey				> 25+ million
2021	Tropical Storm	10/31/21	11/07/21	Wanda	Atlantic Canada, Bermuda, Azores				> 25+ million
2021	Earthquake	11/14/21	11/14/21		Iran				> 25+ million
2021	Tropical Cyclone	12/14/21	12/18/21	Rai (Odette)	Caroline Islands, Palau, Philippines				> 25+ million
2021	Convective Storm	01/08/21	01/10/21	Windstorm Filomena	Spain				259m
2021	Convective Storm	01/18/21	01/20/21	Windstorm Christoph	UK, Norway				106-159m
2021	Convective Storm	03/10/21	03/13/21	Windstorm Klaus-Luis	France, Belgium, UK, Ireland, Germany, Netherlaands, Luxembourg				192m
2021	Convective Storm	10/20/21	10/23/21	Windstorm Aurore	France, Belgium, Germany, Poland, Luxembourg, Czech Republic				362m
2021	Convective Storm	11/26/21	11/28/21	Windstorm Arwen	UK				330-396m
2021	Convective Storm	06/18/21	07/01/21	Europe Hailstorm	Austria, Czech Republic, Germany, Poland, Switzerland, Slovakia, France, Italy				2,132m
2021	Convective Storm	06/24/21		Tronado	Czech Republic				200m
2021	Convective Storm	10/28/21	10/29/21	Hail	Australia				733m
2022	Wildfire	01/15/22	02/28/22	Corrientes	Corrientes Province, Argentina				> 25+ million
2022	Earthquake	03/16/22		Fukushima Earthquake	Japan				2.8 billion
2022	Tropical Storm	04/08/22	04/12/22	Megi	Philippines				>25+ million
2022	Typhoon	08/28/22	09/07/22	Hinnamnor	Japan, Taiwan, Philippines, South Korea, Russian, Far East				>25+ million
2022	Earthquake	09/05/22		Luding Earthquake	Luding County in Sichuan province				>25+ million
2022	Hurricane	09/14/22	09/28/22	Fiona	Leeward Islands, Puerto Rico, Dominican Republic, Lucayan Archipelago, Bermuda, Eastern Canada, Saint Pierre and Miquelon, Greenland				660 million
2022	Hurricane	09/23/22	10/02/22	Ian	Trinidad and Tobago, Venezuela, Colombia, ABC Islands, Jamaica, Cayman Islands, Cuba				> 110 billion
2022	Hurricane	10/07/22	10/10/22	Julia	Trinidad and Tobago, Venezuela, ABC islands, Colombia, Nicaragua, El Salvador, Honduras, Guatemala, Panama, Mexico				>400 million
2022	Convective Storm	01/16/22	01/17/22	Windstorm Hannelore	Norway, Sweden, Denmark, Poland, Finland, Lithuania, Liechtenstein				>25m
2022	Convective Storm	01/29/22	01/30/22	Windstorms Malik, Nadia, Valtteri	Denmark, Germany, Sweden, Austria, Czech Republic, UK, Norway, Poland, Slovakia, Lithuania, Latvia				>100m
2022	Convective Storm	02/06/22	02/07/22	Windstorm Roxana	Germany, France, UK, Belgium				>25m
2022	Convective Storm	02/16/22	02/21/22	Windstorms Dudley, Eunice, Franklin	Germany, Belgium, Netherlands, Luxembourg, UK, Ireland, France, Poland, Czech Republic, Austria, Denmark, Switzerland				>1b
2022	Convective Storm	04/06/22	04/07/22	Windstorm Nasim	Germany, Belgium, France, UK, Netherlands				>25m
2022	Convective Storm	05/20/22		Emmelinde	France, Germany				>100m
2022	Convective Storm	05/22/22	05/25/22	Finja	France, Italy, Austria, Hungary, Switzerland, Slovenia				>100m
2022	Convective Storm	06/02/22	06/06/22	Leocardia, May	France, Switzerland, Germany, Slovenia, Austria, Czech Republic, Hungary				>250m
2022	Convective Storm	06/19/22	06/24/22	Petra, Qiara	France, Germany, Switzerland, Italy, Czech Republic, Poland				>1b
2022	Convective Storm	06/26/22	06/29/22	Rebecca, Scarlett	France, Czech Republic, Germany, Italy, Poland, Netherlands, Austria				>250m
2022	Convective Storm	06/30/22	07/01/22	Ulrike	France, Germany, Poland				>25m

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2022	Convective Storm	07/20/22		Carolin	Switzerland, France, Denmark, Austria, Poland				>25m
2022	Convective Storm	08/17/22	08/21/22	Karin, Lavinia	France, Italy, Austria, Switzerland, Slovenia,				>100m
2022	Convective Storm	05/21/22		Southern Canada Derecho	Canada				>250m
2022	Convective Storm	07/18/22	07/21/22		Canada				>25m
2023	Wildfire	02/01/23	03/06/23		Chile				>25 million
2023	Earthquake	02/06/23	02/20/23		Turkey, Syria				> 25 million
2023	Cyclone	02/12/23	02/17/23	Gabrielle	New Zealand				> 25 million
2023	Typhoon	05/23/23	05/31/23	Mawar	Guam				> 25 million
2023	Earthquake	06/16/23		France Earthquake	France				> 25 million
2023	Wildfire	08/15/23	09/21/23	Kelowna Wildfire	Canada				> 25 million
2023	Wildfire	08/24/23	09/30/23	Bush Creek Wildfire	Canada				> 25 million
2023	Earthquake	09/08/23			Morocco				> 25 million
2023	Typhoon	07/26/23	08/01/23	Doksuri	Philippines, Taiwan, China, Vietnam				> 25 million
2023	Typhoon	08/26/23	09/03/23	Saola	Eastern Asoa				> 25 million
2023	Typhoon	09/03/23	09/07/23	Haikui	Philippines, Taiwan, China				> 25 million
2023	Typhoon	09/27/23	10/11/23	Koinu	China, Japan, Philippines				>25 million
2023	Hurricane	10/22/23	10/25/23	Otis	Southern Mexico, primarily Guerrero				> 25 million
2023	Earthquake	12/18/23		Jishishan Earthquake	China				> 25 million
2023	Convective Storm	01/15/23	01/18/23	Windstorm Gerard/Gero	Belgium, Switzerland, Czech Republic, Germany, France, UK				>25m
2023	Convective Storm	02/16/23	02/18/23	Windstorm Otto/Ulf	Germany, Denmark, UK, Norway, Poland, Sweden				>25m
2023	Convective Storm	03/07/23	03/10/23	Windstorm Larisa/Diethelm	Austria, Belgium, Czech Republic, Germany,France, Ireland, UK, Netherlands, Luxembourg				>25m
2023	Convective Storm	03/30/23	03/31/23	Windstorm Mathis/Markus	Belgium, Swtzerland, Czech Republic, Germany, France, UK				>25m
2023	Convective Storm	07/04/23	07/06/23	Windstorm Poly	Germany, Italy, Netherlands				>25m
2023	Convective Storm	11/01/23	11/03/23	Windstorm Ciaran/Emir	Bulgaria, Germany, Spain, France, UK, Ireland, Italy, Netherlands				>1b
2023	Convective Storm	11/04/23	11/05/23	Windstorm Domingos/Fred	Spain, France				>100m
2023	Convective Storm	11/15/23	11/17/23	Windstorm Frederico/Linus	Germany, France, UK				>25m
2023	Convective Storm	12/20/23	12/22/23	Windstorm Pia/Zoltan	Austria, Belgium, Czech Republic, Germany, Denmark, France, UK, Netherlands,Norway				>100m
2023	Convective Storm	12/26/23	12/28/23	Windstorm Gerrit/Bodo	Ireland, UK				>25m
2023	Convective Storm	06/18/23	06/23/23	Lows Kay, Lambert	Austria, Belgium, Czech Republic, Germany, France, Slovakia				>250m
2023	Convective Storm	07/06/23		Zargoza	Spain, France				>25m
2023	Convective Storm	07/11/23	07/13/23		Austria, Czech Republic, France, Germany, Italy, Slovenia, Serbia				>250m
2023	Convective Storm	07/17/23	07/19/23		Austria, Bosnia, Croatia, Germany, Italy, Serbia, Slovakia, Slovenia				>1b
2023	Convective Storm	07/20/23	07/25/23		Bosnia, Switzerland, Germany, France, Serbia, Hungary, Italy, Serbia, Slovakia, Slovenia, Romania				>1b
2023	Convective Storm	08/12/23	08/16/23	Arend, Bernd	Austria, Czech Republic, Germany, France, Italy, Poland				>100m
2023	Convective Storm	08/24/23	08/30/23	Denis, Rae	Austria, Czech Republic, France, Germany, Italy, Lithuania, Latvia, Norway, Poland, Spain, Switzerland				>1b
2023	Convective Storm	07/01/23			Canada				>25m
2023	Convective Storm	07/13/23			Canada				>25m
2023	Convective Storm	07/15/23	07/16/23		Canada				>25m
2023	Convective Storm	07/20/23	07/21/23		Canada				>25m
2023	Convective Storm	08/03/23			Canada				>25m
2023	Convective Storm	08/23/23	08/25/23		Canada				>25m
2023	Convective Storm	08/24/23			Canada				>25m
2023	Convective Storm	05/23/23	05/26/23		Australia				>25m
2023	Convective Storm	12/23/23	12/26/23		Australia				>100m
2024	Earthquake	01/01/24		Noto Earthquake	Ishikawa Japan				>25 million

Attachment 2

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2024	Severe Convective Storm	01/20/24	01/22/24	Windstorm Isha	Belgium, Switzerland, Germany, Denmark France, Great Britain, Ireland, Netherlands, Norway				>25 million
2024	Severe Convective Storm	01/23/24	01/24/24	Windstorm Jocelyn	Great Britain, Ireland, Demark, Germany, Netherlands, Norway, Poland				>25 million
2024	Severe Convective Storm	01/31/24	02/01/24	Windstorm Ingunn	Norway, Great Britain, Ireland, Sweden				>25 million
2024	Wildfire	02/01/24	03/22/24	Chile Wildfires	Chile				>25 million
2024	Severe Convective Storm	02/12/24	02/23/24	Windstorm Louis	Western & Northern Europe				>25 million
2024	Severe Convective Storm	02/14/24		Victoria Valentine's Day SCS	Australia				>25 million
2024	Severe Convective Storm	02/21/24	02/23/24	Windstorm Nelson	France, Potgugal, Spain, Great Britain				>25 million
2024	Severe Convective Storm	03/30/24	04/03/24	Easter Weekend SCS	Czech Republic, France, Italy, Poland				>25 million
2024	Earthquake	04/03/24		Hualien Earthquake	Taiwan				>25 million
2024	Severe Convective Storm	04/03/24	04/08/24		Australia				>25 million
2024	Severe Convective Storm	04/04/24	04/07/24	Windstorm Olivia	Ireland, Great Britain, France, Spain, Portugal, Netherlands				>25 million
2024	Severe Convective Storm	04/16/24		Hyogo Hailstorm	Japan				>25 million
2024	Severe Convective Storm	05/14/24	05/17/24		Western & Central Europe				>25 million
2024	Severe Convective Storm	06/06/24	06/10/24	Storm Tina	Austria, Demark, Hungary, Switzerland, Slovakia, Romania				>25 million
2024	Severe Convective Storm	06/17/24	06/20/24	Storm Wibke	Denmark, France, Czech Republic, Poland, Switzerland, Beliguim				>25 million
2024	Severe Convective Storm	06/10/24	06/16/24		Chile				>25 million
2024	Tropical Storm	06/19/24	06/20/24	Tropical Storm Alberto	Mexico, Yucatan Peninsula				>25 million
2024	Severe Convective Storm	06/25/24	06/28/24		Central Europe				>25 million
2024	Severe Convective Storm	06/28/24	06/30/24	Storm Annelie	France, Italy, Switzerland				>25 million
2024	Hurricane	07/01/24	07/12/24	Hurricane Beryl	Barbados, Windward Islands, Trinidad and Tobago, Venezuela, Hispaniola, Jamaica, Cayman Islands, Yucatan Peninsula, Belize, Eastern Canada				>25 million
2024	Typhoon	07/23/24	07/28/24	Typhoon Gaemi	Taiwan, China, Philippines, Yaeyama Islands, Indonesia, Vietnam, North Korea				>25 million
2024	Hurricane	08/03/24	08/14/24	Hurricane Debby	Caribbean, Quebec, Atlantic Canada				>25 million
2024	Hurricane	08/13/24	08/19/24	Hurricane Ernesto	Bermuda, Puerto Rico, U.S. Virgin Islands, Antigua and Barbuda, Guadeloupe				>25 million
2024	Wildfire	08/23/24	09/06/24	Brazil/Sao Paulo Fires					
2024	Typhoon	08/28/24	08/31/24	Typhoon Shanshan	Japan, South Korea				>25 million
2024	Typhoon	09/01/24	09/12/24	Typhoon Yagi	China, Phillippines, Vietnam, Loas, Thailand, Myanmar, Hong Kong, Macau				>25 million
2024	Hurricane	09/09/24	09/14/24	Hurricane Francine	Mexico				>25 million
2024	Wildfire	09/15/24	09/20/24	Portugal Wildfires	Central and Northern Portugal				>25 million
2024	Typhoon	09/15/24	09/17/24	Typhoon Bebinca	China, Philippines, NorthMariana Islands, Ryukyu Islands				>25 million
2024	Hurricane	09/22/24	09/28/24	Hurricane John	Mexico				>25 million
2024	Hurricane	09/24/24	09/29/24	Hurricane Helene	Yucatan Peninsula, Honduras, Cayman Islands, Cuba				>25 million
2024	Typhoon	09/26/24	10/04/24	Typhoon Krathon (Julian)	Philippines, Taiwan				>25 million
2024	Hurricane	10/05/24	10/12/24	Hurricane Milton	Mexico, Yucatan Peninsula, Western Cuba, The Bahamas				>25 million
2024	Tropical Storm	10/25/24	10/27/24	Tropical Storm Trami	Philippines, Vietnam				>25 million
2024	Huricane	11/04/24	11/10/24	Huricane Rafeal	Cuba, Panama, Coast Rica, Columbia				>25 million
2024	Typhoon	11/01/24	11/07/24	Typhoon Kong-rey	Philippines, China, South Korea, Japan, Taiwan				>25 million
2024	Typhoon	11/09/24	11/20/24	Typhoon Man-yi	Philippines, Guam, Northern Mariana Islands				>25 million
2025	Earthquake	01/07/25			China, Nepal				>100 million
2025	Windstorm	01/23/25	01/25/25	Windstorm Eowyn (Gilles)	UK, Ireland				>500 million
2025	Cyclone	02/27/25	02/28/25	Cyclone Garance	Reunion, Mauritus				>100 million
2025	Cyclone	03/06/25	03/08/25	Cyclone Alfred	Australia				>100 million
2025	Earthquake	03/28/25			Myanmar, Thailand, Vietnam				>100 million
2025	Earthquake	04/23/25			Turkey				>25 million

Attachment 2

Year	Event Type	Begin	End	Event	Country	Affected Area (Detail)	Munich Re NatCATService Insured losses (in original values, US$m) Criteria: insured losses equal/greater US$ 25m. Tries to reflect non-US losses only	Swiss Re Sigma: Insured Loss Est. US$m (mid point shown if range given) Mostly reflect total US and nonUS losses combined.	
2025	SCS	05/02/25	05/04/25		Spain, France, Portugal, Germany, Austria, Czechia, Poland, Sebia, Bosnia, Romania, Bulgaria, Macedonia				>100 million
2025	SCS	05/13/25	05/14/25		China				>25 million
2025	Wildfire	May	June		Canada				>25 million
2025	SCS	06/13/25	06/15/25		France, Italy, Germany, Switzerland, Belgium, Austria, Czechia, Croatia				>100 million
2025	Typhoon Wutip	06/11/25	06/15/25		China, Philippines, Thailand, Veitnam				>25 million
2025	Hurricane Erick	06/16/25	06/21/25		Mexico, Guatemala, El Salvador, Honduras				>25 million
2025	SCS	06/21/25	06/27/25		France, Italy, Germany, Switzerland, Belgium, Austria, Czechia, Slovakia				>25 million
2025	Typhoon Danas	07/04/25	07/10/25		China, Taiwan, Philippines				>25 million
2025	Tropical Storm Wipha	07/18/25	07/24/25		China, Philippines, Vietnam,				>25 million
2025	Wildfire	07/01/25	07/31/25		Cyprese, Greece, Turkey, Bulgaria, Bosnia, Herzegovina				>25 million
2025	SCS	09/04/25	09/09/25		France, Switzerland, Germany, Italy, Austria, Belgium, Luxembourg, Poland				>25 million
2025	Super Typhoon Ragasa	09/22/25	09/26/25		China, Taiwan, Philippines				>25 million
2025	Windstorm Amy	10/03/25	10/04/25		UK, Ireland, France, Norway, Sweden				>25 million

Source: Munich Re's NAT CAT Service, Swiss Re Sigma and Aon Benfield

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: 11/12/25

CONTACT PERSON: Eva Yeung
TELEPHONE: 816-783-8407
EMAIL ADDRESS: eyeung@naic.org
ON BEHALF OF: Catastrophe Risk (E) Subgroup
NAME: Wanchin Chou
TITLE: Chair
AFFILIATION: Connecticut Department of Insurance
ADDRESS: 153 Market St., Hartford CT 06103

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Agenda Item #2025-19-CR
Year 2026

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

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)

The objective of this proposal is to differentiate hurricane and earthquake losses, following the methodology applied to wildfire and severe convective storm events. This distinction will enable the Subgroup and Working Group to more effectively manage and address each peril, considering their unique characteristics and impacts.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

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SCHEDULE P PART 1XX - XXXX PR100s (Option 2)

				Earthquake Catastrophe Experience*				Hurricane Catastrophe Experience*				Wildfire Catastrophe Experience*				
	(3)	(24)	(28)	(24AI)	(28AI)	(24BI)	(28BI)	(24AII)	(28AII)	(24BII)	(28BII)	(24AIII)	(28AIII)	(24BIII)	(28BIII)	(28C)
	Premiums Earned, Net	Total Net Losses and Expenses Unpaid	Total Losses and Expenses Incurred, Net	Total U.S. Net Losses Unpaid	Total U.S. Losses Incurred, Net	Total Non-U.S. Net Losses Unpaid	Total Non-U.S. Losses Incurred, Net	Total U.S. Net Losses Unpaid	Total U.S. Losses Incurred, Net	Total Non-U.S. Net Losses Unpaid	Total Non-U.S. Losses Incurred, Net	Total U.S. Net Losses Unpaid	Total U.S. Losses Incurred, Net	Total Non-U.S. Net Losses Unpaid	Total Non-U.S. Losses Incurred, Net	**Total Losses and Expenses Incurred, Net excluding Earthquake, Hurricane and Wildfire Losses**
(2) **2017**	0		0		0		0		0		0		0		0	0
(3) **2018**	0		0		0		0		0		0		0		0	0
(4) **2019**	0		0		0		0		0		0		0		0	0
(5) **2020**	0		0		0		0		0		0		0		0	0
(6) **2021**	0		0		0		0		0		0		0		0	0
(7) **2022**	0		0		0		0		0		0		0		0	0
(8) **2023**	0		0		0		0		0		0		0		0	0
(9) **2024**	0		0		0		0		0		0		0		0	0
(10) **2025**	0		0		0		0		0		0		0		0	0
(11) **2026**	0		0		0		0		0		0		0		0	0
(12) Totals		0		0		0		0		0		0		0		

	Convective Storms Catastrophe Experience*				
	(24III)	(28III)	(24IV)	(28IV)	(28V)
	Total U.S. Net Losses Unpaid	Total U.S. Losses Incurred, Net	Total Non-U.S. Net Losses Unpaid	Total Non-U.S. Losses Incurred, Net	Total Losses and Expenses Incurred, Net excluding Earthquake, Hurricane, Wildfire and Convective Storms Losses
(2) **2017**		0		0	0
(3) **2018**		0		0	0
(4) **2019**		0		0	0
(5) **2020**		0		0	0
(6) **2021**		0		0	0
(7) **2022**		0		0	0
(8) **2023**		0		0	0
(9) **2024**		0		0	0
(10) **2025**		0		0	0
(11) **2026**		0		0	0
(12) Totals	0		0		

vendor link items

manual data entry items

*Please provide losses only; no expenses. Catastrophe losses should 1.) be the net losses incurred for the reporting entity, not net losses incurred for the group; 2.) be a subset of, and therefore, less than, total net losses reported in Column (28); 3.) be reported in 000s to be consistent with all values reported in this exhibit; and 4.) not be reported as negative amounts.

If this line of business has incurred U.S. catastrophe losses arising from events either included on the list of U.S. catastrophe events approved by the Catastrophe Risk Subgroup as available on the NAIC's website or numbered and labeled by PCS as a hurricane, tropical storm, or earthquake, provide only the amount of those catastrophe losses in Catastrophe Experience columns (24AI), **(24AII), (24AIII), (28AI), **(28AII) and (28AIII)**.

***If this line of business has incurred non-U.S. catastrophe losses arising from a hurricane, tropical storm, or earthquake from an event included on the list of non-U.S. catastrophe events approved by the Catastrophe Risk Subgroup as available on the NAIC's website, provide only the amount of those catastrophe losses in Catastrophe Experience Columns (24BI),**(24BII), (24BIII),** (28BI), **(28BII) and (28BIII)**.

****Columns 24III through 28V are for informational purposes only.

Capital Adequacy (E) Task Force

RBC Proposal Form

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DATE: 11/12/25

CONTACT PERSON: Eva Yeung
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ON BEHALF OF: Catastrophe Risk (E) Subgroup
NAME: Wanchin Chou
TITLE: Chair
AFFILIATION: Connecticut Department of Insurance
ADDRESS: 153 Market St., Hartford CT 06103

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Agenda Item #2025-20-CR
Year 2026

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Building on the precedent set by the 2021 wildfire review, an ad hoc group was re-established and began a new evaluation cycle on March 18, guided by the Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling for All Practice Areas. This comprehensive process included high-level analysis, confidential assessments, and detailed impact studies. In addition to the original three vendors—Moody Risk Management Solutions (RMS), Verisk Extreme Event Solutions, and KCC—CoreLogic joined as a new participant for this review cycle. Starting in early June and July, the group collaborated with all four vendors to conduct a second round of impact analysis using consistent exposure inputs. On September 25, the group reconvened to address feedback from the impact analysis presentations. A comparative review of the initial 2022 assessment and the current evaluation revealed that model outputs have become increasingly consistent. As a result, the Subgroup now has greater confidence in the models and their suitability for risk management applications.

This proposal formally recommends adding wildfire peril to the Rcat component, reflecting the enhanced reliability and applicability of the catastrophe models.

Additional Staff Comments:

**** This section must be completed on all forms.** **Revised 2-2023**

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CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027BI, PR027BII, PR027BIII, PR027BIV PR027C, PR027CI, PR027CII, PR027CIII, PR027CIV, PR027D, PR027, PR027INT, AND PR027INTA

The catastrophe risk charge for earthquake (PR027A), hurricane (PR027B), wildfire (PR027C) and convective storms for informational purposes only (~~PR027C and~~ PR027D) 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 projected losses can be modeled using the following NAIC approved third-party commercial vendor catastrophe models: AIR, CoreLogic, RMS, KCC for earthquake, ~~and~~ hurricane, and wildfire only, ~~RMS, KCC,~~ the ARA HurLoss Model (hurricane ~~only~~), or the Florida Public Model for hurricane only, 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").

However, an insurer seeking to use an own model must first obtain written permission to do so by the domestic or lead state insurance regulator. In the situation where the model output is used to determine the catastrophe risk capital requirement for a single entity, the regulator granting permission to use the own model is the domestic state. In the situation where the model output is used to determine the catastrophe risk capital requirement for a group, the grantor is the lead state regulator. In the situation where the insurer seeking permission is a non-U.S. insurer, the grantor shall be the lead state regulator. Under all scenarios, the regulator that is granting permission should inform other domestic states that have a catastrophe risk exposure and share the results of the review.

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 nature, scale, and complexity of the insurer's catastrophe risk make it reasonable for the insurer to use its own model.
2. The own model is used for catastrophe risk management, capital assessment, and the capital allocation process.
3. The insurer has validated the own model(s) for each of the perils included in the RBC catastrophe risk charge. The insurer is including both U.S. and non-U.S. exposures in the calculation of the RBC charge.
4. The insurer has individuals with experience in developing, testing and validating internal models or engages third parties with such experience.
5. The own model was developed using reasonable data and assumptions.
6. The insurer must provide supporting model documentation and/or the differences from the vendor models if modified from the vendor models, supporting that the model was developed using reasonable data and assumptions. The insurer must provide a copy of the latest validation report and the insurer is solely responsible for the relevant cost. 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.
7. The results of the own model for each relevant peril should be compared with the results produced by at least one of the following models: AIR, CoreLogic, RMS, and KCC for earthquake, ~~and~~ hurricane and wildfire only, ~~RMS, KCC,~~ ARA HurLoss (hurricane ~~only~~), or the Florida Public Model for hurricane only. 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. Evidence that the own model produces reasonable results 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.

8. If the own model has been approved or accepted by the non-U.S. lead supervisor for use in the determination of regulatory capital, the insurer must submit evidence, if available, from the non-US lead 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 lead supervisor should also be provided for questions on the approval/acceptance process.

If the lead or domestic state determines that permission to use the own model cannot be granted, the insurer shall be required to determine the RBC Catastrophe Risk Charge through the use of one of the third-party commercial vendor models (AIR, CoreLogic, RMS, and KCC for earthquake, ~~and~~ hurricane, and wildfire only, ~~RMS, KCC,~~ ARA HurLoss (hurricane ~~only~~)), or the Florida Public Model for hurricane only, as advised by the lead state or domestic state.

If the lead or domestic state determines that permission to use the own model can be granted to determine the RBC Catastrophe Risk Charge, the model will be subject to additional review through the ongoing examination process. If, as a result of the examination, the lead or domestic state determines that permission to use the own model should be revoked, the insurer may be required to resubmit the risk-based capital filing and any past filings so impacted where own model was used, as directed by the lead state or domestic state.

If the insurer obtains permission to use the own model, it cannot revert back to using third-party commercial vendor models to determine the RBC Catastrophe Risk Charge in subsequent reporting periods, unless this is agreed with the lead or domestic state that granted permission.

The contingent credit risk charge should be calculated in a manner consistent with the way the company internally evaluates and manages its modeled net catastrophe risk.

Note that no tax effect offsets or reinstatement premiums should be included in the modeled losses. Further note that the catastrophe risk charge is for earthquake, ~~and~~ hurricane, and wildfire risks only.

As per the footnote on this page, modeled losses to be entered PR027A, PR027B PR027C and PR027D in Lines (1) through (4) are to be calculated using one of the **third-party** commercial **vendor** models – AIR, CoreLogic, RMS, and KCC for earthquake, ~~and~~ hurricane, and wildfire only, ~~RMS, KCC,~~ ARA HurLoss (hurricane ~~only~~); or the Florida Public Model ~~(~~for hurricane only~~)~~**or the insurer's own catastrophe model**; and using the insurance company's own insured property exposure information as inputs to the model. The insurance company may elect to use the modeled results from any one of the models, or any combination of 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 exposure data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. Any exceptions must be explained in the required *Attestation Re: Catastrophe Modeling Used in RBC Catastrophe Risk Charges* within this RBC Report.

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)	Worst Year in 1000 **(For Informational Purposes Only)**	Company Records				

		(5) Y/N
(6)	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)
(7)	Net Wildfire Risk	L(2) C(2)	0	1.000	0
(8)	Contingent Credit Risk for Wildfire Risk	L(2)(C(3) - C(4))	0	0.018	0
(9)	Total Wildfire Catastrophe Risk (AEP Basis)	If L(6) C(5) = "N", L(9) C(6) = L(7) C(7)+ L(8) C(7), otherwise "0"	0	1.000	0
(10)	Total Wildfire Catastrophe Risk (OEP Basis)	If L(6) C(5) = "Y", L(10) C(6) = L(7) C(7)+ L(8) C(7), otherwise "0"	0	1.000	0
(11)	Total Wildfire Catastrophe Risk	L(9) C(7) + L(10) C(7)			0

Disclosure in lieu of model-based reporting:

		(8) Direct and Assumed	(9) Net
(12)	For a company qualifying for the exemption under PR027INT C (10), complete 12a through 12c 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 12a.

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

Lines (1)-(5): 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, **Corelogic**~~,~~ 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).

CALCULATION OF CATASTROPHE RISK CHARGE PR027

		Reference	(1) RBC Amount
(1)	Total Earthquake Catastrophe Risk	PR027A L(10) C(7)	0
(2)	Total Hurricane Catastrophe Risk	PR027B L(11) C(7)	0
(3)	Total Wildfire Catastrophe Risk	PR027C L(11)C(7)	0
(4)	Total Convective Storms Catastrophe Risk	PR027D L(10)C(7)	0
(5)	Total Catastrophe Risk (R_{cat})	SQRT(L(1)^2 + L(2)^2 + **L(3)^2**)	0
(5a)	Total Catastrophe Risk (R_{cat} For Informational Purposes Only)	SQRT(L(1)^2 + L(2)^2 +L(3)^2+L(4)^2)	0

Lines ~~3,~~ 4, and 5a are for informational purposes only

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

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2026

2026 #	Owner	2026 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – P&C RBC							
P1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end ~~2025~~ 2027 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.	Referral from the Climate and Resiliency Task Force. March 2021		4/26/2021
P2	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.			3/23/2023
Carryover Items Currently being Addressed – P&C RBC							
P3	P&C RBC WG	~~1~~2	Year-end ~~2025~~ 2027 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 reinsures that do not trigger growth risk in their own right. *Referral to the Academy:* *https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2018%20Calls%20-%20PRBC/PCRBC/06_14/attC01_Growth%20Risk%20Referral%20to%20Academy.pdf*	Referral from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
P4	P&C RBC WG	1	~~2024~~ 2027 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.		11/16/23 The Academy provided a presentation on their Underwriting Risk Report at the Joint PCRBC And Cat Risk SG meeting. 3/17/23 Proposal 2024-11-P was exposed for a 30-day public comment period during the	6/10/2019

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						Spring National Meeting. 4/25/24 Proposal 2024-11-P was adopted during the PCRBCWG interim meeting. 11/12/25 The Academy provided a presentation on loss concentration factors report at the Joint PCRBC and Cat Risk SG meeting.	
P5	P&C RBC WG	1	~~2025~~ 2027 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
P6	Cat Risk SG	1	~~2025~~ 2026 Summer Meeting	Quantify the R5 Ex-cat Factors for wildfire peril ~~(for informational purposes only)~~ ~~Evaluate the possibility of adding PR018A~~ to determine the R5 excluding the wildfire peril in addition to earthquake, and hurricane.			3/21/2023
~~P7~~	~~Cat Risk SG~~	~~2~~	~~2026 Spring Meeting~~	~~Evaluate the impact of flood peril to the insurance market~~		6/30/25 The Working Group and Subgroup agreed to hold off on this issue until clear guidance is received from NAIC leadership.	~~3/21/2023~~
~~P8~~	~~Cat Risk SG~~	~~1~~	~~2025 Summer Meeting~~	~~Create additional Rcat pages to collect commercial Cat modelers product information known as "Climate Conditioned Catalogs", which would provide an estimate of climate change for hurricane and wildfire.~~	~~From Solvency Workstream of the Climate & Resiliency (EX) Task Force~~	~~1/29/24 Proposal 2023-17-CR was exposed for a 30-day public comment period at the Cat Risk SG Interim Meeting on Jan. 29.~~ ~~3/17/24 Proposal 2024-10-P was re-exposed for a 22-day public comment period during the Spring National Meeting.~~ ~~8/2/24 Proposal 2023-17-CR didn't get~~	~~1/29/2024~~

						~~adopted in Financial Condition (E) Committee. Instead, the Committee adopted industry proposal 2024-20-CR MOD on August 2.~~	
~~P9~~P7	Cat Risk SG	2	~~2025~~ 2026 Fall Meeting	Consider: 1) further investigating all geographic concentration related issues. possibly modifying the property and casualty (P/C) risk-based capital formulas		6/10/24 Exposed a referral from the Task Force for a 30-day comment period ending July 10.	
New Items – P&C RBC							
P8	Cat Risk SG	1	2026 Summer Meeting	Evaluate the possibility of adding Wildfire peril in the Rcat component		11/12/25 Proposal 2025-20-CR was exposed for a 60-day comment period ending 1/11/26.	11/12/25
P9	Cat Risk SG	1	2026 Summer Meeting	Evaluate the possibility of separating earthquake and hurricane loss experience data in PR100s.		11/12/25 Proposal 2025-19-CR was exposed for a 60-day comment period ending 1/11/26.	11/12/25
P10	P&C RBC WG	1	2026 Summer Meeting	Evaluate the possibility of updating the Loss and Premium concentration factors in PR017 and PR018			11/12/25

Historical Comments:

P1:

4/26/21 - The SG exposed the referral for a 30-day period.
6/1/21 - The SG forwarded the response to the Climate and Resiliency Task Force.
2/22/22 - The SG adopted proposal 2021-17-CR (adding the wildfire peril for informational purposes only). The SG continues reviewing other perils for possible inclusion in the Rcat.

8/11/22 – The TF adopted Proposal 2022-04-CR (2013-2021 Wildfire Event Lists)

9/26/22 – The SG formed an ad hoc group to conduct review on severe convective storm models.

7/18/23-The SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC, and Corelogic.

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12/2/23-Proposal 2023-15-CR (Convective Storm for Informational Purposes Only Structure) was exposed for a 30-day comment period at the Joint P/C RBC and Cat Risk SG meeting.

CA1:

1. Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023.
2. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting.
3. Proposal 2023-12-CA was adopted at the 2023 Fall Meeting.
4. Editorial Proposal 2024-08-CA will be exposed on 3/17/24 for a 30-day public comment.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Steve Drutz, Chair, Health Risk-Based Capital (E) Working Group
Matthew Richard, Vice Chair, Health Risk-Based Capital (E) Working Group

Tom Botsko, Chair, Property and Casualty Risk-Based Capital (E) Working Group
Wanchin Chou, Vice Chair, Property and Casualty Risk-Based Capital (E) Working Group

FROM: Philip Barlow, Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Thomas Reedy, Vice-Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: June 23, 2025

RE: Securities Valuation Office (SVO) Fund Risk Based Capital (RBC) Alignment Project

---

On June 23, 2025, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met and received nine comment letters (Attachment A) on the American Council of Life Insurers' (ACLI's) Risk Based Capital (RBC) Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings (Attachment B). The Working Group consented to expose Proposal 2025-12-IRE Securities Valuation Office (SVO) Fund Alignment Project (Attachment C) for a 30-day public comment period ending July 23, 2025. Note that this Proposal is specifically drafted for the Life RBC formula as directed by the Working Group during its 2025 Spring National Meeting.

In addition, the Working Group directed NAIC Staff to refer SVO Fund Alignment Project and its applicability to non-life RBC formulas to Health Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group. The Working Group would appreciate consideration by your Working Groups and should a formal RBC proposal be formulated for respective RBC formula at your Working Groups, the NAIC Staff stands ready to augment the scope of Proposal 2025-12-IRE to ensure coordinated adoption.

Please contact NAIC Staff of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group with any questions.

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Attachment A - Comment Letters Received on June 23, 2025

Attachment B - ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Attachment C - Proposal 2025-12-IRE

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

www.naic.org

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AmeriHealth Caritas
3875 West Chester Pike
Newtown Square, PA 19073

June 10, 2025

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force**:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.[1] However, for fixed income funds, as a Health insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a Health insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

Pamela Schmidt

Pamela Schmidt
Vice President Treasury & Chief Investment Officer
AmeriHealth Caritas

[1] Certain Bond funds reported in 2023 Annual Statement Filings

Amerisure Mutual Holdings, Inc.
Amerisure Mutual Insurance Company
Amerisure Insurance Company
Amerisure Partners Insurance Company

April 25, 2025

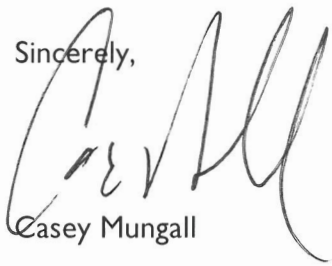
Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a Property & Casualty insurer, presently we are subject to punitive RBC charges, eg. Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a Property & Casualty insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets and fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,



Casey Mungall

Vice President, Enterprise Risk Management & Investments

Amerisure Insurance

BCS Insurance Company
2 Mid America Plaza, Suite 200 | Oakbrook Terrace, IL 60181
630.472.7700 | bcsf.com

April 25, 2025

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force**:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.1 However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

Alexander D Hudson

Alex Hudson
Vice President, Investment Services and Treasury
BCS Insurance Company

[1] Certain Bond funds reported in 2023 Annual Statement Filings

Docusign Envelope ID: 72817AFB-D017-4995-B361-B1136452DD26

CO/ACTION℠
SPECIALTY INSURANCE GROUP

Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

April 29, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.[1] However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

DocuSigned by:
William Sloan
403B1A6472D1484...
William Sloan, Chief Financial Officer

Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

[1] Certain Bond funds reported in 2023 Annual Statement Filings

412 Mount Kemble Ave, Suite 300C Morristown, NJ 07960
Tel: 800-774-2755 - Fax: 855-200-1158
inquiries@coactionspecialty.com

PREMERA BLUE CROSS

Attachment 6

Premera Blue Cross
PO Box 327 – MS 341
Seattle, WA 98111-0327

April 28, 2025

NAIC
1101 K Street, N.W., Suite 650
Washington, DC 20005

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force**:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.[1] However, for fixed income funds, as a P&C (Health) insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C (Health) insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,

David Ratliff, CFA
VP, Treasury & Investments

[1] Certain Bond funds reported in 2023 Annual Statement Filings

THE DOCTORS COMPANY
medical ~~mal~~practice insurance

T.C. Wilson III
Chief Investment Officer

May 23, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

We utilize fund vehicles such as ETFs and mutual funds extensively for certain fixed income exposures due to their liquidity, diversification, operational and expense efficiencies. In our view, the ability to invest in fixed income funds and to receive fair RBC treatment commensurate with the associated SVO designation risk level is critical for leveling market access across all insurers regardless of size.

Sincerely,

TC Wilson
Chief Investment Officer
The Doctors Company Group

NAPA, CALIFORNIA
MAILING ADDRESS PO Box 2900, Napa, CA 94558 | **LOCAL ADDRESS** 185 Greenwood Road, Napa, CA 94558
P 800.421.2368, x1193 . 707.226.0193 | **F** 707.226.0111 | thedoctors.com | tc.wilson@thedoctors.com

PineBridge® INVESTMENTS

June 18, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), Valuation of Securities (E) Task Force, and Risk-Based Capital (RBC) Model Governance (EX) Task Force:

We commend the working groups for your efforts in harmonizing in the risk-based capital (RBC) treatment for bond funds. In our March 2025 comment letter, we proposed allowing non-life insurers to apply the Securities Valuation Office (SVO) fund designation for RBC purposes for mutual funds and private funds. This harmonization will accomplish several important objectives:

- Creating consistent RBC treatment across fund types (ETF, mutual fund, private fund) and insurer types (Life, P&C, and Health).
- Leveling the playing field for small insurers regarding market access and diversification. Small insurers, for instance, represent over 90% of the P&C industry by insurer count.
- In addition to funds, applying bond-like RBC treatment to tens of billions of non-bond debt obligations that were reclassified as Schedule BA assets and moved out of Schedule D-1 under the Principles-Based Bond Definition (PBBD). This is another area for harmonization across life and non-life.

P&C Industry is Built on Small Insurers

Over 90% of the P&C industry by insurer count is comprised of small insurers that have less than $5 billion in assets under management (AUM) per entity, totaling $375 billion in aggregate.[1] These small insurers are a key part of the industry, yet they currently face structural disadvantages. They are subject to an onerous capital charge of 20% on fixed-income funds except for ETFs; and the same treatment is applied to assets held by health insurers. In contrast, life insurers in the same funds would receive bond-like RBC treatment commensurate with their SVO designations.

	Aggregate Small Insurers AUM ($ billion)	Small Insurer Count	Industry Insurer Count	%Count
Life/Fraternal	$207	281	387	73%
P&C	$375	1035	1151	**90%**
Health	$92	280	428	65%

Source: PineBridge Investments. Based on 2024 Annual Statutory Flings retrieved from S&P Capital IQ

[1] Insurer counts are based on S&P Capital IQ's consolidated subgroups. **Without the subgrouping, 94% of total 2679 P&C entities fall into <$5 billion in assets.** AUM represents total cash and invested assets of general account.

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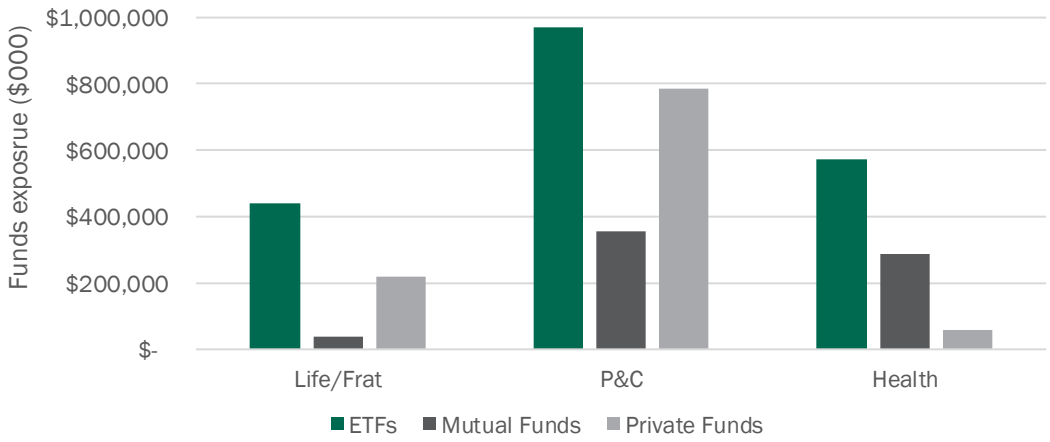
Investment Funds: A Critical Tool for Market Access and Diversification

Investment funds are essential tools for small insurers. They offer efficient market access, diversification, and asset management expertise that would otherwise be out of reach. For these reasons, small non-life insurers with under $5 billion in assets, are the most prolific users of funds across all categories including ETFs, mutual funds, and private funds, as indicated in the chart below.



Source: PineBridge Investments. Based on 2024 annual statutory filings data retrieved from S&P Capital IQ

A Disproportionate Burden for Non-Life Insurers

Despite their importance, non-life insurers who purchase interests in non-ETF, fixed-income funds are penalized under the current RBC framework. Using P&C insurers as an example, these funds can be subject to RBC charges as much as twenty times those for life insurers.[2]

SVO Fund Designation	Non-life Funds RBC	Bond-Like RBC (for P&C Insurers)	**Multiplier**
NAIC 1.E (A+)	20.0%	1.0%	**20.0x**
NAIC 2.B (BBB)	20.0%	2.1%	**9.5x**
NAIC 3.B (BB)	20.0%	6.0%	**3.3x**

Source: PineBridge Investments. Based on NAIC P&P manual and public materials

These onerous capital charges discourage small, non-life insurers to invest in funds, limit diversification, and disproportionately harm the insurers who need these tools the most. While covariance adjustments may dampen the unfavorable RBC impact illustrated above, for small insurers overall, we expect covariance adjustment will fall short of correcting the significant imbalance illustrated above. For example, assuming covariance adjustment would reduce P&C funds RBC charge by half from 20% to 10%, the multiples would be lowered to 10x, 4.8x, and 1.7x respectively, which remain materially in excess of the investment risk commensurate with a bond-like profile.

[2] Assuming the American Council of Life Insurers' (ACLI) proposal on harmonizing mutual fund treatment is adopted for the life insurance industry.

PineBridge® INVESTMENTS

Treatment for Non-Bond Debt with SVO Designation

Given the implementation of the PBBD, tens of billions of non-bond debt were reclassified as Schedule BA assets and moved out of D-1, increasing the size of the Schedule BA bucket materially for certain insurers.[3] Currently, for life insurers, bond-like treatment is applied to the non-bond debt with SVO designation, but not for non-life insurers. Furthermore, the larger reportable Schedule BA allocation due to non-bond debt can be a challenge for non-life insurers that face tight state regulatory limits on Schedule BA assets in addition to the penal fund RBC charges, further constraining their ability to invest in funds. For non-life insurers, applying the same bond-like treatment for non-bond debt is another area for harmonization.

A Call for Consistency and Harmonization

We are encouraged by the recent launch of the NAIC RBC Model Governance Task Force by the NAIC Executive Committee to promote RBC consistency. We believe aligning asset RBC charge with appropriate investment risk will improve the accuracy of regulatory capital assessment and promote leveled market access to diverse investment strategies–all of which goes to support a sound solvency framework.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

[3] "Q1 bond definition change nets billions of dollars in reclassifications," published by S&P Capital IQ on May 19, 2025.

1100 15th Street, NW
Washington, DC 2005

June 18, 2025

aima.org

Chairman Phil Barlow
NAIC Risk-Based Capital Investment Risk and Evaluation (RBC-IRE) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Subject: Second Comment Letter on the Proposed Principles for Bond Funds

Dear Chairman Barlow and Members of the RBC-IRE Working Group,

The Alternative Credit Council[1], the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to provide a supplemental comment on the ACLI's proposed RBC Principles for Bond Funds ("bond fund principles").[2]

In our March 6th comment letter, we strongly supported the ACLI's proposed bond fund

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

[2] National Association of Insurance Commissioners, *RBC Principles for Bond Funds* (February 2025), available at https://content.naic.org/sites/default/files/inline-files/Attn%202%20Principles%20for%20Bond%20Funds%20%201-9-2025%20%28ACLI%20revised%20deck%29.pdf.

AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.

principles, because they appropriately "address inconsistencies in the risk-based capital (RBC) treatment of bond funds, which arise due to differences in legal structures and accounting standards despite the economic risks being fundamentally similar." Given that the ACLI volunteered to take the initiative in response to your request, they naturally focused on life insurers.

We urge the RBC-IRE to expand its consideration of more equitable capital treatment for mutual and private bond funds across all insurer types, including property & casualty and health insurance companies. Current RBC rules place an outsized burden on small insurers – who make up the overwhelming majority of the P&C sector – by subjecting them to higher capital charges when investing in bonds via mutual and private funds. Extending the proposed principles to all insurers would enable both large and small insurers to benefit from more appropriate, risk-aligned treatment based on Securities Valuation Office (SVO) determinations.

Over 90% of P&C insurers manage less than $5 billion in assets. For these smaller firms, pooled investment vehicles such as bond funds are a vital tool. They provide affordable access to diversified fixed income exposures and professional management that would otherwise be operationally or economically out of reach. Yet under the current RBC framework, these funds attract disproportionately high capital charges, discouraging use of the very vehicles that could strengthen portfolio resilience and solvency.

To rectify these imbalances and improve capital efficiency, we recommend extending SVO-based RBC recognition to non-life insurers' bond fund holdings. This would bring much-needed consistency to capital standards, support prudent diversification, and ensure that solvency rules reflect actual investment risk, regardless of how the bond exposure is accessed or which type of insurer holds it.

We commend the RBC-IRE Working Group and the other related committees for their leadership and commitment to regulatory consistency and capital adequacy. Please contact me at Jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org if you have any questions or would like to discuss these topics in more detail.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council

CC:
NAIC Capital Adequacy (E) Task Force
Property and Casualty Risk-Based Capital Working Group
Health Risk-Based Capital Working Group
Valuation of Securities Task Force
Risk-Based Capital (RBC) Model Governance Task Force

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June 23, 2025

Philip Barlow, Chairman
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Risk-Based Capital (RBC) Principles for Bond Funds Presentation

Dear Mr. Barlow:

Thank you and the NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group (the Working Group) for the opportunity to comment on the proposed RBC Principles for Bond Funds that was presented to the Working Group during its meeting in December 2024.

We offer the following comments.

We believe that a change to the property & casualty (P&C) RBC to accomplish a greater "look-through" for investment risk charges is unnecessary, and if pursued should be done with the knowledge that P&C RBC is an approximate tool, is not meant to differentiate the relative strength of financially viable insurers and is not (and never has been) designed as a mechanism for evaluating or optimizing an insurer's investment strategy.

Purpose of the formula

As stated in Section 8E of the NAIC's Risk-Based Capital Model Act, the RBC formula "is not intended as a means to rank insurers generally". It is meant to identify troubled companies, not to rank financially viable insurers. Additionally, it was not designed as a means of evaluating or optimizing an insurers' investment strategy or internal compensation metrics. Therefore

modifications (such as a Schedule D or Schedule BA look-through) designed to better evaluate financially strong insurers are not furthering the purpose of the RBC formulae.

RBC was designed to identify troubled companies and the differences between the life and property casualty formulas were intentionally structured to emphasize the primary risks of each business model.

For example, the P&C RBC formula is structured to emphasize underwriting risk for the 6-month to one-year policies written by P&C insurers, with a much lesser emphasis on asset risk. In contrast, the life RBC formula is structured to emphasize asset risk due to the longer-term nature (measured in years) of a life insurer's insurance products. Additionally, life insurers have the risk that policyholders may cancel and withdraw accumulated balances associated with their products which can occur at the same time that negative market conditions occur, making the asset risk associated with such products much greater than the products offered by P&C insurers.

Covariance impacts

The NAIC's P&C RBC formula currently has six elements within the square root ("covariance") component of the formula. As has been discussed before, the largest elements within the covariance part of the formula drive the final result, with the impact of the smaller elements becoming smaller or immaterial after covariance. For P&C insurers, the biggest elements are from insurance operations (i.e., premiums, reserves, cat risk, reinsurance credit risk), not investment operations. This is borne out by the risk factors for those items being comparable to or above the risk factors applied to equity items, all of which are well above the average risk factors existing for bond investments.

To isolate the impact of the various risk factors, we analyzed the reduction in total RBC ratio after covariance if an RBC component were to be completely eliminated. For the P&C formula, the risk factors are:

- R*0* Subsidiary Insurance Companies and Miscellaneous Other Amounts (Off Balance Sheet)
- R*1* Asset Risk - Fixed Income
- R*2* Asset Risk - Equity
- R*3* Asset Risk - Credit (including 1/2 reinsurance)
- R*4* Underwriting Risk - Reserves (and 1/2 reinsurance)
- R*5* Underwriting Risk - Net Written Premium
- R*cat* Catastrophe Risk

Not surprisingly, the largest impact comes from R*4* – Underwriting Risk – Reserves and ½ reinsurance, followed by R*cat* – Catastrophe Risk, and R*5* – Underwriting Risk – Net Written Premium. The elimination of any of the remaining RBC components resulted in a less than 1% change in the RBC ratio.

For an insurer with a balanced portfolio of directly held investments that are within the

limitations imposed by state investment statutes, the impact of a look-through approach for RBC is minor to negligible. In contrast, the impact of going from a 30% equity risk charge to a look-through approach for RBC can have a meaningful impact for an insurer that relies on an external investment advisor that placed a significant portion of the insurer's investment portfolio in open-ended investment company funds.

As a result, the impact of a look-through approach is generally very small for the property casualty industry overall. This conclusion is consistent with the analysis that was performed by the NAIC staff when the topic of changing the RBC treatment of Schedule BA assets to provide a look-through approach was previously discussed by the Property Casualty Risk-Based Capital (E) Working Group[1] where the following summary was provided:

> There is no significant difference on RBC ratios between Scenario 1 and Scenario 2. Most companies with difference in RBC ratio of 2% or less. Only 2 companies with difference between 2% and 5%. No company with difference greater than 5%.

P&C versus Life RBC differences

The above-described situations for the covariance formula are very different for the NAIC Life RBC formula. While most of the information underlying the NAIC P&C RBC formula is public, the same is not true for the life formula. This restricts the ability of rating agencies to rely on proprietary capital strength models vis-a-vis reliance on the NAIC formula.

With regard to the covariance formula, the largest element in the NAIC Life RBC formula is asset risk, with fixed income and asset risk combined into a single element. That fact makes changes to the asset risk factors a material item for the Life RBC formula and resulting RBC ratio, in stark contrast to the situation for the P&C formula.

Rating Agency approaches

The NAIC P&C RBC formula is not utilized by the major rating agencies in their evaluation of capital strength, and as a result, for reflection of financial strength ratings. The rating agencies all have their own proprietary formulas to determine capital strength and to differentiate among well capitalized companies. Accordingly, any look-through added to the NAIC P&C formula will have no impact on a P&C insurer's rating. There is also nothing to prevent these rating agencies from performing a Schedule D or Schedule BA look-through in their proprietary formulas, regardless of what happens to the NAIC's formulas.

The Use of NAIC RBC Formulas in Determining an Investment Strategy

It is generally agreed that any business decision should reflect the risks associated with that decision, and, for those with outside stakeholders, the external view of that

[1] See Attachment F to the Agenda and meeting materials of the Property Casualty Risk-Based Capital (E) Working Group for its meeting on Thursday, April 26, 2018.

risk. For investment decisions, the internal risk evaluation would include some level of due diligence beyond the use of a single external rating. For an evaluation of external views, that evaluation would look at the most relevant constraint or comparison.

For these reasons, we do not believe an investment look-through approach is necessary or relevant for an insurer's investment strategy to be appropriately managed.

* * * *

In summary, we do not believe it's necessary or impactful to change the P&C RBC formula to provide a look-through. However, if the Working Group concludes that such a change should be made, we recommend that it be optional for property casualty insurers as it may not have a significant impact on an insurer and it may not be cost effective as it requires either the insurer or others to file such investments with the NAIC Securities and Valuation Office (SVO.

Thank you for considering our comments. We look forward to working with you and the Working Group on this topic. If you have any questions in the interim, please do not hesitate to contact me.

Sincerely,

D. Keith Bell

cc: Julie Gann, NAIC staff

ACLI
Financial Security for Life

RBC Principles for Bond Funds

December 2024

Background

- Operating under a regulatory regime where funds with slightly different structures but same economic risks receive different RBC treatment

- (9/27/2017) VOSTF directed NAIC staff to develop a comprehensive proposal to ensure consistent treatment for investments that involved funds that invest in bond portfolios (history included in Appendix)

- (5/10/2019) VOSTF requested that CATF consider formally integrating the comprehensive instructions for mutual funds recently adopted for the P&P Manual into the NAIC RBC framework

- ACLI has agreed with RBC IRE to begin looking at three types of bond funds that get different treatment in RBC calculation. ACLI has been looking at these to determine whether the risk profiles are similar or different to warrant different treatment for different types of bond funds. While this work focuses on these three types of bond funds, ACLI is identifying principles that can be used to expand treatment from these types of bond funds to other similar bond fund types.

Focus on Bond Funds – Current State

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Equity RBC	Bond RBC
RBC Charge Methodology	SVO WARF	30% equity charge (can file and SVO can apply WARF but cannot be used for RBC)	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
SIRI[3] Top 10 Exposure Disclosure	Excluded[2]	Excluded[2]	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely

[1] *For funds meeting SVO criteria*
[2] *For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]*
[3] *Supplementary Investment Risks Interrogatories*

Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	**Bond RBC**	Bond RBC
RBC Charge Methodology	SVO WARF	**SVO WARF**	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
SIRI[3] Top 10 Exposure Disclosure	Excluded[2]	Excluded[2]	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

[1] For funds meeting SVO criteria
[2] For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]
[3] Supplementary Investment Risks Interrogatories

Assumptions / Constraints for Principles

- Develop principles for consistent RBC treatment for Bond ETFs, Bond Mutual Funds, and Bond Private Funds that bear substantially the same economic risks regardless of legal form.

- The accounting for the aforementioned Bond Funds will/should not be changed because each different fund type is governed by different SSAPs.

Application of Principles

- Candidate principles developed to evaluate and ensure consistent RBC treatment between various fund types where the underlying holdings are bonds and currently meet the criteria for the SVO WARF methodology.

- Candidate principles could be applied for substantially similar bond fund investments to Bond ETFs, Bond Mutual Funds, and Bond Private Funds (currently meet the criteria for SVO WARF methodology) that the SVO could also apply their WARF as they become known.

- Candidate principles are intended to focus on the C-1 factor exclusively (i.e., excludes concentration factors).

- Principles could be leveraged for addressing similar situations where industry or regulators note similar significantly inconsistent RBC treatment for substantially similar investments. While the principles can potentially be leveraged, they will need to be tailored, as other fund types are likely not subject to the SVO WARF methodology.

Candidate Principles

1. Meets qualifications for SVO to apply WARF methodology
2. RBC is based on underlying economic risk
   - Regardless of accounting method applied, fund risk depends on the collateral pool
   - Differences between fund types are considered immaterial where such differences are deemed not to contribute risks captured by RBC (e.g., illiquidity is not measured by C-1)
3. Economic risk of fund investment is materially similar to the collateral pool
   - There are no support tranches
   - All fund investors have equal ownership status (i.e., no fund investors are more senior nor junior than others)
4. Included within an SSAP in AP&P Manual

Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF)[1]	SEC Registered Bond Mutual Funds	Private Bond Funds[1]
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	**Bond RBC**	Bond RBC
RBC Charge Methodology	SVO WARF	**SVO WARF**	SVO WARF
RBC Asset Concentration Factors	Excluded[2]	Excluded[2]	Look through for inclusion
SIRI[3] Top 10 Exposure Disclosure	Excluded[2]	Excluded[2]	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

[1] For funds meeting SVO criteria
[2] For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]
[3] Supplementary Investment Risks Interrogatories

Key Questions for Regulators

- Which candidate-principles do regulators support?
- Are there additional principles not outlined herein that also ought to be incorporated into RBC for funds?

Appendix: History of VOSTF Treatment of Funds Investing in Bonds

- 1991 – Money market mutual funds that hold short-term U.S. Treasuries - exempted from reserve
- 1992 – Funds holding U.S. direct and full faith and credit obligations - exempted from reserving
- 1992 – Funds holding high quality corporate bonds & U.S. Government obligations - reserve as NAIC 1 bonds
- 1995 – Short-term bond funds - holding high quality corporate & U.S./GSO obligations) - Schedule D; market value & reserved as bonds for AVR and RBC
- 2003 – Exchange Traded Funds that held bonds – report as bonds
- 2005 – BA assets with fixed income characteristics can be assigned NAIC Designations
- 2017 – SVO authorized to assign NAIC Designations to private Schedule BA funds, joint ventures or partnership interests if underlying investments are fixed-income like to align with Annual Reporting Instruction

Source: September 21, 2018 Referral to the Capital Adequacy Task Force – Comprehensive Fund Proposal from VOSTF

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: January 6, 2025

RE: Certain Bond funds reported in 2023 Annual Statement Filings

Background

On October 22, 2024, the Working Group met and discussed the status of the Working Agenda #2 & #4 (collectively the "Fund Review Project"). Representatives from the American Council of Life Insurers (ACLI) proposed, and the Working Group agreed, to narrow the scope of the project with the intent to achieve convergence in RBC treatment among three types of funds when they predominantly invest in bonds and receive SVO-assigned designations: 1) exchange-traded funds (ETFs), 2) U.S. Securities and Exchange Commission (SEC)-registered mutual funds; and 3) private funds.

NAIC staff was directed to summarize herein the amount of respective fund types reported on insurers' 2023 annual statement filings to facilitate the Working Group's discussions.

	Bond Exchange Traded Fund (SVO-identified) Schedule D – part 1 Bonds Line 1619999999 **(as % of Total Invested Assets)**	**SEC Registered Bond Mutual Funds (SVO-identified)** Schedule D – part 2 – Section 2 Common Stock Line 5319999999, 5519999999, 5719999999 **(as % of Total Invested Assets)**	**Private Bond Funds (SVO-identified)** Schedule BA, Part 1, Line 079999999, 0899999999, 13999999, 14999999, 15999999999, 1699999999 Note A **(as % of Total Invested Assets)**	**Total Invested Assets** 2023 Asset Page Line 12
2023 Life	$5,844,611,923 **(0.11%)**	$95,524,695 **(0.00%)**	$5,858,319,676 **(0.11%)**	$5,470,188,985,349
2023 P/C	$4,934,503,172 **(0.19%)**	$1,652,371,654 **(0.06%)**	$905,395,147 **(0.03%)**	$ 2,662,293,397,830
2023 Health	$1,292,501,879 **(0.36%)**	$877,352,361 **(0.24%)**	$118,990,522 **(0.03%)**	$360,699,408,453

Note A, per 2023 AVR instruction, "… the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0799999 and 0899999 **and the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to bonds) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*** …" should be reported on Line 22 through 28 of AVR Equity Component table, thereby afforded RBC charge based on NAIC Designation. As there is no AVR reporting for P/C and Health, the statistics are obtained directly from lines 0799999, 0899999,1399999, 1499999, 1599999, and 1699999 of Schedule BA, Part 1. As such, overstatement is expected.

Please contact NAIC Staff of Risk-Based Capital Investment Risk and Evaluation (E) Working Group with any questions.

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

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

DATE: 5/29/2025

CONTACT PERSON: Maggie Chang
TELEPHONE: 816-783-8976
EMAIL ADDRESS: mchang@naic.org
ON BEHALF OF: RBC Investment Risk and Evaluation (E) Working Group
NAME: Philip Barlow, Chair
TITLE: Associate Commissioner of Insurance
AFFILIATION: District of Columbia
ADDRESS: 1050 First Street NE Suite 801
Washington, DC 20002

FOR NAIC USE ONLY

Agenda Item # 2025-12-IRE
Year 2026 or later

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____
EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____
REJECTED:
☐ TF ☐ WG ☐ SG _____
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)

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussions, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. Proposal 2025-12-IRE is drafted in response to the Working Group's direction.

Note that the proposed changes to LR005 Unaffiliated Preferred and Common Stock page are predicated on the changes proposed to the Annual Statement Blanks Asset Valuation Reserve (AVR) instruction. The Working Group will need to sponsor the AVR instruction changes at NAIC Blanks (E) Working Group should the Proposal 2025-12-IRE be supported by the Working Group.

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Additional Staff Comments:

5/28/25 NAIC Staff had prepared a drafting notes memo that memorialized decision points in the proposal drafting process.

** **This section must be completed on all forms.** **Revised 2-2023**

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: NAIC Staff

DATE: May 28, 2025

RE: Drafting Notes – Proposal 2025-12-IRE SVO-identified funds alignment project

Background

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussion, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. This memo memorializes the decision points when drafting the proposal.

Staff drafting notes:

(1) As seen in summary below, there is no complete alignment among three types of funds in scope, with the following justifications:

- **a)** Classification, measurement convention and reporting of these fund types are under purview of other working groups. With the current reporting of SVO's Fixed Income-Like SEC-Registered Funds reported as stocks, grafting these funds into LR002 Bonds would be inappropriate.
- **b)** NAIC Staff noted that funds in scope of SVO's Fixed Income-Like SEC-Registered Funds predominantly own bonds and/or preferred stocks. As such, grafting these funds into current LR005's preferred stock section would be justifiable, especially after considering the hybrid nature of these fixed income-like funds and the potential alignment that the proposed changes created.
- **c)** Given the relatively more opaque structure of the private funds, complete alignment among all 3 types is not preferrable.
- **d)** Operational efficiencies (e.g. structure of the forecasting files, ease of maintenance) are also factored into the drafting consideration.

(2) Upon review, the NAIC staff believe the Asset Concentration instructions for LR010 and LR011 could be further enhanced to provide the following guidance:

a) Whether or not SVO identified ETFs and SVO's fixed income-like SEC-registered funds should be considered in LR010 Asset Concentration page or LR011 Common Stock Concentration page?

b) How would diversification status of the funds impact the asset concentration exposure ranking?

The proposed edits addressed the above questions and to the extent possible, aligned LR010 and LR011 instructions with Supplemental Investment Risk Interrogatory (SIRI) Line 2 and/or Line 13 instructions.

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Summary of key similarities/differences among the various types of SVO designated fund, should the proposal be adopted (yellow highlighted):

	SVO-identified Bond ETFs	SVO-identified Preferred Stock ETFs	SVO-identified Fixed Income-Like SEC-Registered Funds	SVO-identified Private Bond Funds
Description	SEC registered	SEC registered	SEC registered	Non-SEC registered
Accounting Standard	SSAP 26	SSAP 32	SSAP 30	SSAP 48
Reporting Schedule	Schedule D –1 Bonds	Schedule D – 2- 1 Preferred Stock	Schedule D – 2 – 2 Common Stock	Schedule BA – Other Long-Term Assets
Measurement Convention	Fair Value unless Systematic Value elected	Fair Value	Fair Value	Equity Method
RBC Reporting	LR002	LR005	LR005	LR008
RBC Risk Component	C-1o	C-1o	C-1o	C-1o
RBC Charge Methodology	Driven by SVO Designation – 20 Designation Categories Same as Bond charges	Driven by SVO Designation – 6 Designations Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges
Tax effect	0.168 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6
AVR Component	Default Component	Default Component	Default Component	Equity Component
AVR factors	Bond AVR Factors	Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely	Entirely

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds. Starting (2026 tentatively), NAIC fixed income-like SEC registered funds designated by SVO are included in the preferred stock section.

Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16 plus sum of Schedule D, Part 2, Section 2 Column 6, Line 5319999999, Line 5519999999 and Line 5719999999. Column (2) should equal Schedule D Summary by Country, Column 1, Line 22 less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in Line (11) of this page.

Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

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~~Line (17)~~
~~Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line 25~~ 29 ~~less Schedule D Summary by Country, Column 1, Line 24~~ 28 ~~less line (13).~~

Lines (19) and (20)
To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.

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ASSET CONCENTRATION FACTOR

LR010

Basis of Factors

The purpose of the asset concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1.A to 1.G bonds, NAIC 1 unaffiliated preferred stock, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.85% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash, certain cash equivalents and short-term investments) and SVO-identified exchange-traded funds (ETFs) and SVO designated fixed income-like SEC registered funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. For SVO-identified ETFs and SVO designated fixed income-like SEC registered funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual exposures (unless excluded categories as above) and aggregate those exposures with directly held investments to determine the 10 largest exposures. .

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such assets. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Investments held within SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds") that are not diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)] ~~Securities held within Schedule BA joint ventures partnerships limited liability and other fund structures~~ should be aggregated by issuer as if the ~~securities~~ underlying investments are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1.A to 1.G bonds or NAIC 1 unaffiliated preferred stock, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

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The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the 'Other Invested Assets with Underlying Characteristics of Bonds' AVR category, use the NAIC Designation and NAIC Designation Modifier from the 'NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol' column as reported on Schedule BA – Part 1. The RBC filing software automatically allows for an overall 45% RBC cap.

Lines (17) through (22)

The Asset Concentration RBC Requirement for a particular property plus the Real Estate RBC Requirement for a particular property cannot exceed the book/adjusted carrying value of the property. Any properties exceeding the book/adjusted carrying value must be adjusted down to the book/adjusted carrying value in Column (6) of the Asset Concentration.

Line (18), Column (4) is calculated as Line (17), Column (2) multiplied by 0.1100 plus Line (18), Column (2) multiplied by 0.0925, but not greater than Line (17), Column (2).

Line (20), Column (4) is calculated as Line (19), Column (2) multiplied by 0.1100 plus Line (20), Column (2) multiplied by 0.0925, but not greater than Line (19), Column (2).

Line (22), Column (4) is calculated as Line (21), Column (2) multiplied by 0.1300 plus Line (22), Column (2) multiplied by 0.1125, but not greater than Line (21), Column (2).

Lines (23) through (54)

The Asset Concentration RBC Requirement for a particular mortgage plus the LR004 Mortgages RBC Requirement or LR009 Schedule BA Mortgages RBC Requirement for a particular mortgage cannot exceed 45% of the book/adjusted carrying value of the mortgage. Any mortgages exceeding 45% of the book/adjusted carrying value must be adjusted down in Column (6) of the Asset Concentration.

Line (32), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (31) plus Line (32)] less Line (32) or Line (31) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (34), Column (4) is calculated as the greater of 0.0140 multiplied by [(Line (33) plus Line (34)] less Line (34) or Line (33) multiplied by 0.0068.

Line (36), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (35) plus Line (36)] less Line (36) or Line (35) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (38), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (37) plus Line (38)] less Line (38) or Line (37) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (40), Column (4) is calculated as the greater of 0.0270 multiplied by [(Line (39) plus Line (40)] less Line (40) or Line (39) multiplied by 0.0068.

Line (42), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (41) plus Line (42)] less Line (42) or Line (41) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (43), Column (4) is calculated as Line (43) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (52), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (51) plus Line (52)] less Line (52) or Line (51) multiplied by the appropriate factor for the CM class to which the loan is assigned.

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Line (54), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (53) plus Line (54)] less Line (54) or Line (53) multiplied by the appropriate factor for the CM class to which the loan is assigned.

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COMMON STOCK CONCENTRATION FACTOR

LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, ~~investment companies (mutual funds) and common trust funds,~~ SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds") that are diversified with the meaning of the Investment Company Act of 1940 [Section 5(b) (1)], and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code 3 on LR044 (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code 9 (other subsidiaries), the total stock investment including both preferred and common stock should be used. For funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual common stock exposures and aggregate those exposures with directly held common stock to determine the 5 largest exposures. For example, if a reporting entity directly holds common stocks in Exxon Mobil and holds a non-diversified closed-end fund with common stock in Exxon Mobil, the reporting entity shall aggregate the directly held common stock investments with the common stock investments held in the closed-end funds to determine the aggregate exposure to Exxon Mobil.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

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UNAFFILIATED PREFERRED AND COMMON STOCK

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Less Affiliated Preferred Stock Without AVR	(3) RBC Subtotal	(4) Factor	(5) RBC Requirement
	Unaffiliated Preferred Stock **and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO**						
(1)	Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10	$0	$0	$0 X	0.0039 =	$0
(2)	Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11	$0	$0	$0 X	0.0126 =	$0
(3)	Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12	$0	$0	$0 X	0.0446 =	$0
(4)	Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13	$0	$0	$0 X	0.0970 =	$0
(5)	Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14	$0	$0	$0 X	0.2231 =	$0
(6)	Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15	$0	$0	$0 X	0.300 =	$0
(7)	Total Unaffiliated Preferred Stock **and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO** (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (6)	$0	$0	$0		$0
	(Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16 **plus Schedule D, Part 2, Section 2 Column 6, Line 5319999999 + Line 5519999999 + 5719999999**)						
	(Column (2) should equal Schedule D Summary by Country Column 1 Line 22 less Asset Valuation Reserve Default Component Column 1 Line 16.)						
(8)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					$0
(9)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					$0
(10)	Total Unaffiliated Preferred Stock **and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO** (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					$0
	Unaffiliated Common Stock, **excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO**						
(11)	Total Common Stock, **excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO**	**AVR Equity Component Column 1 Line 17 ~~Schedule D Summary Column 1 Line 29~~**	$0				
(12)	Less Affiliated Common Stock	**AVR Equity Component Column 1 Line ~~4+5+6+7+8+9+10+11+12+13+14+15+16 Schedule D Summary Column 1 Line 28~~**	$0				
(13)	Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records	$0				
(14)	Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3	$0		$0 X	0.011 =	$0
(15)	Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2	$0		$0 X	0.300 =	$0
(16)	Net Other Unaffiliated Public Common Stock	Lines (11) - (12) - (13) - (14) - (15)	$0		$0 X	0.450 † =	$0
(17)	Total Admitted Unaffiliated Common Stock, **excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO** (pre-MODCO/Funds Withheld)	Lines (14) + (15) + (16)	$0		$0		$0
	(Column 1 should equal Schedule D Summary by Country Column 1 Line 29 less Line 28 less Line (13))						
(18)	Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line **(**0299999**)**					$0
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					$0
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					$0
(21)	Total Admitted Unaffiliated Common Stock, **excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO** (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					$0

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

ASSET VALUATION RESERVE

This exhibit and its supporting calculations are designed to address the non-interest-related (default) and equity risks of the company's assets by calculating a basic contribution, a reserve objective and a maximum reserve amount and controlling the flow of the reserve from/into surplus. These instructions cover the Asset Valuation Reserve (AVR) for both the General Account Statement and the Separate Account Statement. If an AVR is required for investments in the Separate Accounts Statement, it is combined with the General Account AVR and accounted for in the General Accounts statement. Worksheets supporting the separate accounts portion of the reserve are included with the Separate Accounts Statement. The criteria for determining when an AVR is required for separate accounts are described in the Separate Accounts AVR Worksheet instructions.

Line 1 – Reserve as of December 31, Prior Year

Enter amounts from Line 16 of the prior year's Reserve Calculation.

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stock (regardless if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding asset-backed securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than on NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43—Asset-Backed Securities*, for asset-backed securities only:

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DEFAULT COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factor

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Lines 1 through 7 – Long-Term Bonds

Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4. Categorize the bonds and other fixed income instruments into NAIC designations 1 through 6 as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, except that, exempt obligations should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 8 – Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion

"Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion" are securities acquired through the conversion of a portion of the company's assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

For instructions for completing this line, refer to "Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion."

Line 9 – Total Long-Term Bonds

Column 1 should agree with Page 2, Line 1, Column 3 plus Schedule DL Part 1, Column 6, Line 2009999999.

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Lines 10 through 15 – Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all preferred stocks, mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively "SVO-identified mutual funds, unit investment trusts and closed-end funds") owned in Columns 1 and 4. Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. Categorize the preferred stocks and SVO-identified mutual funds, unit investment trusts and closed-end funds into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 16 – Affiliated Life Insurer with AVR

Report the book/adjusted carrying value of all preferred stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the preferred stocks are not required to be included in the asset valuation reserve of an affiliated company.

Line 17 – Total Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.1, Column 3 plus Schedule DL, Part 1, Column 6, Line 4509999999 plus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999.

Lines 18 through 24 – Short-Term Bonds

Report the book/adjusted carrying value of all short-term bonds and other short-term fixed-income investments (Schedule DA, Part 1 (Line 0509999999) and short-term bonds included on Schedule DL, Part 1, Line 9509999999 owned in Columns 1 and 4. Categorize the short-term bonds and other fixed-income instruments listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* into NAIC designations 1 through 6 as directed by the Securities Valuation Office instructions, except that exempt obligations listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Lines 26 through 32 – Derivative Instruments

Report the book/adjusted carrying value exposure to counterparty credit risk associated with the use of derivative instruments, net of acceptable collateral, for all counterparties by each SVO designation, from Schedule DB, Part D, Section 1, Column 8. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 34 – Total

Column 6 must be reported on Page 29, Line 7, Column 1.

Column 8 must be reported on Page 29, Line 10, Column 1.

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EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factors

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Line 1 – Unaffiliated Common Stocks – Public, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds, unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. Exclude money market mutual funds appropriately reported on Schedule E, Part 2 and exclude mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively "SVO-identified mutual funds, unit investment trusts and closed-end funds"). Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. ~~.~~ Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

See Footnote (a) on the Annual Statement Blank for reference on the minimum and maximum reserve factors for Line 1, Column 7 and 9.

The reserve factor is equal to 15.8% times the company's weighted average portfolio beta. The weighted average portfolio beta is the market value weighted average of four (4) portfolio betas, one from the end of the prior year and the remaining from the first three (3) quarters of the current year. Calculation of this weighted average portfolio beta is illustrated in the following worksheet:

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Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 17 – Total Common Stocks, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.2, Column 3 plus Schedule DL, Part 1, Column 6, Line 5989999999 minus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999. The Columns 6, 8 and 10 amounts, respectively, must be reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, respectively, Column 4.

Lines 18 through 20 – Real Estate

Categorize the real estate as indicated on Lines 18 through 20. Real estate reported in Schedule DL, Part 1, Line 9209999999 would also be included in this section. Report the sum of Columns 1, 2 and 3 in Column 4. Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

NOTE: Related party encumbrances are loans from the reporting entity and the amount reflected in Column 2 should be deducted in Column 2 in the corresponding section of the AVR worksheet. If the real estate entity to which the loan was made is not wholly owned by the reporting entity, the related party encumbrance amount reflected in Column 2 should be based on the reporting entity's ownership percentage. The amount of the third-party encumbrances without recourse to be reflected in Column 3 is limited to the extent that the maximum reserve (Column 6) should not exceed the sum of the book/adjusted carrying value (Column 1) plus related party encumbrances (Column 2) and third-party encumbrances with recourse which are included in Column 3.

Line 21 – Total Real Estate

The Columns 6, 8 and 10 amounts must be combined with Line 83, Columns 6, 8 and 10 amounts and reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, Column 5.

Lines 22 through 28 – Other Invested Assets with Underlying Characteristics of Bonds

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.

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Draft: 6/30/25

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
June 23, 2025

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met June 23, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Ray Spudeck and Carolyn Morgan (FL); Carrie Mears, Kevin Clark, and Mike Yanacheak (IA); Matt Cheung (IL); Roy Eft (IN); Ben Slutsker (MN); William Leung and Danielle Smith (MO); Andrea Johnson (NE); Jennifer Li (NH); Bob Kasinow and William B. Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI).

1. Adopted its Spring National Meeting Minutes

Drutz made a motion, seconded by Reedy, to adopt the Working Group's March 24 minutes *(see NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force, Attachment Five).* The motion passed unanimously.

2. Received Comments on the ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Barlow said that during the Working Group's Feb. 11 meeting, the Working Group exposed the American Council of Life Insurers' (ACLI's) risk-based capital (RBC) principles for bond funds presentation and the NAIC's memorandum of bond funds reported in 2023 annual statement filings. The Working Group received three comment letters, which were discussed during the Spring National Meeting. As a result of the discussions, the Working Group directed NAIC staff to draft a formal RBC proposal for the life RBC formula only. Since then, the Working Group has received nine additional comment letters. The majority of the commenters support aligning the RBC treatment of Securities Valuation Office (SVO)-designated funds across all types of businesses.

Siddharth Chakravarty (Coaction Specialty Insurance) presented his comment letter (Attachment XX). Chakravarty said Coaction Specialty Insurance is a small insurance company that commonly uses funds as investment vehicles. The comment letter expressed support for the alignment of RBC treatment as in the ACLI's presentation but requested that such treatment be applied for both life and non-life insurers.

Matt Hill (Premera Blue Cross) presented his comment letter (Attachment XX). Hill said Premea Blue Cross is a small insurance company with less than $5 billion in assets under management. He said his company commonly uses funds to gain access to certain asset classes and views the current RBC treatment for funds as less advantageous for non-life insurance companies. As such, his comment letter expressed support for the alignment of RBC treatment for fund types across all types of business.

Jeannine Heal (PineBridge Investments—PineBridge) presented a comment letter on behalf of Helen Remeza (PineBridge) (Attachment XX). Heal said PineBridge Investments manages 120 insurer portfolios globally, with $45 billion in assets under management. She said the topic of bond fund RBC alignment is important to her clients. Heal pointed out how this topic is especially important to her property/casualty (P/C) insurer clients, who are primarily small insurance companies that heavily use funds as investment vehicles. The letter expanded on PineBridge's initial comment letter presented in March and provided further details on how the current RBC treatment has created a disproportionate burden for non-life insurers, and therefore, PineBridge expressed support for promoting consistent RBC treatment for bond funds across all insurer types.

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Joe Engelhard (Alternative Credit Council—ACC) presented his comment letter (Attachment XX). Engelhard said the ACC represents over 250 asset managers globally who oversee over $2 trillion in assets under management. The ACC's March comment letter presented during the Spring National Meeting strongly supported the ACLI's presentation. Engelhard said the ACC believes the principles identified by the ACLI are equally applicable to non-life insurers and submitted another comment letter to express support for broadening the scope of the harmonization to all insurer types.

Keith Bell (Travelers) presented his comment letter (Attachment XX). Bell said the comment letter laid out differences between life and P/C RBC formulas and presented impact analysis for a non-life insurer with a well-balanced portfolio of directly held investments. He concluded that the proposed RBC alignment for this insurer would be minor or even negligible. Due to this finding, Travelers does not support the presentation. That said, Bell acknowledged that the RBC impact would be meaningful should the company own its investments through fund structures, which is typically the case for smaller insurers who rely on asset managers to manage their portfolios. Given this, Bell requested that the Working Group allow optionality should the alignment project be applied to all types of business.

Chou said that while he understood the current RBC disparity may have more impact on the smaller insurers, he believed cost and benefit analysis should be performed to ensure changes are truly justifiable. He recalled that this topic was first discussed in 2018, and an analysis was performed at that time that suggested alignment was unnecessary. He requested a refreshed analysis to help the Working Group proceed.

Barlow asked if Bell could provide examples of optionality in RBC formulas. Bell said the catastrophe risk charge calculation allows filers' discretion. Bell said Travelers would like to have optionality because it interpreted the proposal as mandating insurers to file investments with the SVO. Mears clarified that mandatory filing with the SVO is neither the intent of the proposal nor the current practice with life insurers. Mears said filing with the SVO is optional, and the proposal for life insurers is to allow risk charges commensurate with the risk as represented by the SVO designations. Without any SVO designations, the investment will simply be treated as it currently is. Julie Gann (NAIC) concurred. She supplemented with another scenario of optionality: NAIC staff were made aware in the past that certain insurers did not report their investments as SVO-designated, even though SVO designations were obtained. Despite potential inconsistencies in reporting, it is not likely that anything will be enforced against that, as the filers potentially face more conservative capital charges and, therefore, do not pose a concern for the regulators.

Barlow asked Bell if the clarifications helped. Bell said the optionality helps, and his company can also rely on others' SVO filings to obtain better RBC treatment. He said the extra work to identify those instances and ensure correct filing is also manageable.

3. Exposed Proposal 2025-12-IRE (SVO Funds Alignment Project)

Barlow said a formal proposal 2025-12-IRE was drafted for life RBC only. He asked if the Working Group has an opinion on expanding the scope to include non-life formulas. Leung stated his support. Chou expressed reservations, especially because the proposal was drafted specifically for life. Barlow said he is indifferent about having referral(s) sent to health and P/C RBC working groups versus a centralized effort, and he sought Working Group members' opinions. Drutz said that as the chair of Health Risk-Based Capital (E) Working Group, he has no issue with exposure, but he seeks to ensure the health RBC changes are aligned with life's, preferably with the Health Risk-Based Capital (E) Working Group's participation. Botsko agreed. He said that as chair of the Property and Casualty Risk-Based Capital (E) Working Group, he would appreciate the Working Group's participation in weighing up all the positive and negative feedback gathered so far.

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Hearing no objection from the Working Group members, interested regulators, or interested parties, Barlow exposed proposal 2025-12-IRE for a 30-day public comment period ending July 23. He also directed NAIC staff to send formal referrals to the Health Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group, which will go through due processes when deliberating the applicability of the RBC alignment project to the respective RBC formulas.

4. Discussed Other Matters

Barlow said the Working Group is not planning to meet in person at the Summer National Meeting. The Working Group plans to receive an update from the American Academy of Actuaries (Academy) on the topic of the collateralized loan obligation (CLO) RBC project Sept. 8.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2025-2-Summer/IRE/RBCIREWG 06-23-25 SPGNM Minutes TPR'd.docx

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PREMERA | BLUE CROSS

Attachment 6
Premera Blue Cross
PO Box 327 – MS 341
Seattle, WA 98111-0327

NAIC
1101 K Street, N.W., Suite 650
Washington, DC 20005

August 5, 2025

Dear Chair and members of Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group),

While we support the principle of developing a proposal for harmonization that includes assigning bond-like treatment to SVO designated funds, we urge the Working Group to expand this from Life companies only to all insurer types.

Industry research notes that 96% of SVO-designated mutual funds and a significant amount of private funds reside on non-life insurance balance sheets. However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. At the same time, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C (Health).

There are capital efficiency considerations to our investment decisions. We utilize fund vehicles such as ETFs and mutual funds for certain fixed income exposures due to their liquidity, diversification, operational and expense efficiencies. We also invest in private funds for access to other types of private fixed income exposure. In our view, the ability to invest in fixed income funds and to receive fair RBC treatment commensurate with the associated SVO designation is critical for leveling market access. This is primarily true for smaller insurers, where cost or complexity issues render funds as the only reasonable vehicle, but also impacts larger insurers seeking to access more niche strategies for similar benefit.

In our opinion, this movement furthers the guiding RBC principle of "equal capital for equal risk" and agrees with the recent Principles-Based Bond Definition initiative that stressed "substance over form." Aligning these metrics improves solvency assessments for all insurance lines, not just Life companies where this has been exposed.

Sincerely,

David Ratliff, CFA
VP, Treasury & Investments

Premera Blue Cross is an Independent Licensee of the Blue Cross Blue Shield Association
042313 (06-01-2017)

PineBridge® INVESTMENTS

September 29, 2025

TO: NAIC Property and Casualty Risk-Based Capital (E) Working Group ("P&C RBC WG")
CC: NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("IRE WG"); Valuation of Securities (E) Task Force

Subject: Harmonization of RBC Treatment for Investment Funds for P&C Insurers

Dear Chair and members of Property and Casualty Risk-Based Capital (E) Working Group,

We commend the NAIC for its continued efforts to align the Risk-Based Capital ("RBC") treatment of investment funds. We are grateful to the P&C RBC WG for addressing the referral from the IRE WG regarding the harmonization across life and non-life insurers.

We appreciate the time and effort the NAIC has dedicated to this important issue. Over the last decade, investment funds have increasingly enabled insurers to access a broader and more diversified range of asset classes, many of which were previously difficult for insurers to access, especially smaller insurers. Notable examples include insurer participation in loan markets and infrastructure projects, which are now more accessible through fund structures due to their operational efficiencies and diversification benefits.

The initiative to harmonize RBC treatment for funds aligns funds risk assessment with the NAIC's Securities Valuation Office ("SVO") designation and supports certain NAIC guiding principles:

- **Substance Over Form**: Regardless of the legal form (e.g., ETF, mutual fund, or private fund), if the underlying portfolio carries the same investment risk as measured by SVO designation, the RBC charge should be applied consistently.
- **Equal Capital for Equal Risk**: RBC charges for fixed income funds should reflect the credit risk of the aggregate underlying portfolio on a look-through basis. Accordingly, fixed income funds should receive bond-like RBC treatment.

The NAIC noted that non-life insurers currently face more conservative RBC charges for funds; and non-life insurers, if aligned with life insurers, would have the option to use SVO designation for RBC relief at their discretion.[1] Specifically,

- **Mutual funds and private funds with an existing designation**. A non-life insurer would apply a bond-like RBC commensurate with the SVO designation, which is more accurate than the existing framework that assigns a flat 15% or 20% RBC charge. We also believe covariance adjustments do not fully mitigate the current punitive RBC charges to these funds.
- **Other funds.** If a fund lacks an SVO designation, the insurer or the fund manager may seek one. If no action is taken, the existing RBC charge remains unchanged and conservatively applied.

[1] The NAIC RBC IRE Working Group June 23, 2025 meeting minutes stated "filers potentially face more conservative capital charges," and "filing with the SVO is optional, and the proposal for life insurers is to allow risk charges commensurate with the risk as represented by the SVO designations."

- **Asset Concentration Factor**. Applying look-through treatment for asset concentration, consistent with the life insurance industry's implementation proposal, would also be beneficial for non-life insurers.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

United Educators

7700 Wisconsin Ave #500
Bethesda, MD 20814

(301) 907-4908
www.ue.org

United Educators Insurance, A Reciprocal Risk Retention Group

October 6, 2025

Dear Chair and members of **Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group)**,

I am the Chief Financial Officer and Chief Investment Officer of United Educators, a Reciprocal Risk Retention Group writing general and specialty liability products for the education space. UE supports developing a proposal for granting bond-like treatment to SVO designated funds for RBC purposes. However, we urge the Working Group to expand this treatment beyond Life companies to all insurer types, including P&C insurers like United Educators.

According to industry research, that 96% of SVO-designated mutual funds and a significant percentage of private funds reside on non-life insurance balance sheets. However, as a P&C carrier, for fixed income funds UE is presently subject to punitive RBC charges related to these funds, *i.e.*, Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. By contrast, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and are on track to apply the same to mutual funds. This inconsistency disadvantages us as a P&C carrier, and we do not believe there is any fundamental difference that would justify this unequal treatment.

There are capital efficiency considerations to our investment decisions. We utilize fund vehicles for certain fixed income exposures due to their liquidity, diversification, operational and expense efficiencies. In our view, the ability to invest in fixed income funds and to receive fair RBC treatment commensurate with the associated SVO designation is critical for leveling market access. This is primarily true for smaller insurers like United Educators, where cost or complexity issues render funds as the only reasonable vehicle. However, it also impacts larger insurers seeking to access certain investment strategies for similar benefits.

In our view, expanding the favorable treatment of SVO designed funds for RBC purposes would be consistent with NAIC's guiding principles of "equal capital for equal risk" and "substance over form." Aligning non-life funds' RBC treatment with the life industry improves the consistency and accuracy of solvency assessments for all insurance lines, not just life insurers.

Sincerely yours,

Sean Barnes
Chief Investment Officer & Chief Financial Officer
United Educators Insurance, A Reciprocal Risk Retention Group

167 Fleet Street, London
EC4A 2EA, United Kingdom
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aima.org

October 6, 2025

NAIC Property and Casualty Risk-Based Capital (E) Working Group ("P&C RBC WG")
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Via Electronic Submission

Subject: Letter in support of IRE referral regarding the Securities Valuation Office (SVO) Fund Risk-Based Capital (RBC) Alignment Project

Dear Chair and Members of the P&C RBC WG,

The Alternative Credit Council1, the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to comment on the NAIC's continuing work to improve the consistency of Risk-Based Capital ("RBC") treatment for investment funds across the insurance industry.

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.

We commend the P&C RBC WG, the NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("IRE WG"), and the Valuation of Securities (E) Task Force for their thoughtful engagement on this important issue. This initiative is commendable as it aims to enhance regulatory consistency, align economic risk, and ensure capital adequacy across bond exchange-traded funds (ETFs), SEC-registered bond mutual funds, and private bond funds.

This change is necessary because the current RBC framework applies different charges to bond funds with substantially similar economic risks. For instance, bond ETFs receive the appropriate bond charges, whereas bond mutual funds and private funds held by P&C insurers face higher equity or Schedule BA RBC charges, despite investing in bonds. These discrepancies disincentivize efficient capital allocation. The proposed unified treatment eliminates this disparity, ensuring that RBC charges reflect the underlying economic risks inside the fund.

We believe several core principles should guide RBC treatment of investment funds. First, the framework should reflect substance over form. Regardless of whether a fund is structured as a mutual fund, ETF, or private fund, if the underlying portfolio carries the same investment risk the RBC charge should be applied consistently. Second, the principle of equal capital for equal risk should apply, with RBC charges reflecting the credit risk of the aggregate underlying portfolio on a look-through basis. Funds investing primarily in fixed income instruments should receive bond-like RBC treatment. The current approach imposes disproportionately conservative charges on P&C companies – for example, flat 15%–20% factors – that do not align with the actual investment risks of the underlying bonds. Finally, we support the IRE WG proposed approach where funds eligible for SVO analysis using a WARF methodology can receive consistent capital treatment across legal forms.

Applying these principles in practice would mean that where a mutual fund, ETF, or private fund has an SVO designation, non-life insurers should be permitted to apply bond-like RBC charges consistent with that designation, rather than the current non-economic equity or Schedule BA RBC factor. Look-through treatment for asset concentration should also be extended to P&C insurers so that risk assessment is proportional and accurate. Importantly, adopting the proposed framework will allow the NAIC to apply consistent RBC treatment to substantially similar risks.

The ACC strongly supports the NAIC's initiative to modernize and harmonize RBC treatment of funds across fund types and across life and non-life insurers. By applying consistent, risk-based principles that reflect underlying economic substance, the NAIC can reduce unnecessary capital charges, improve comparability, and foster a more robust insurance investment framework.

We welcome the opportunity to engage further with the Working Group as you refine these proposals. Please contact me at Jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org if you have any questions or would like to discuss these topics in more detail.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council

American Property Casualty Insurance Association
INSURING AMERICA apci.org

November 7, 2025

Tom Botsko, Chair
Wanchin Chou, Vice Chair
National Association of Insurance Commissioners

VIA ELECTRONIC SUBMISSION

Eva Yeung
NAIC
EYeung@naic.org

RE: Securities Valuation Office (SVO) Fund Risk Based Capital (RBC) Alignment Project

Dear Mr Botsko and Mr. Chou:

The American Property Casualty Insurance Association (APCIA)[1] appreciates the opportunity to comment on the referral, *Securities Valuation Office (SVO) Fund Risk Based Capital (RBC) Alignment Project*.

APCIA supports consideration of the proposal to align the RBC requirements for SVO-designated bond funds, including ETFs, mutual funds, and private funds (collectively "bond funds") by the Property and Casualty Risk-Based Capital (E) Working Group (PCRBCWG). APCIA also thinks that this might be an excellent opportunity to test the draft principles developed by the Risk-Based Capital Model Governance (E) Task Force.

We believe that any benefits of the proposal will likely accrue to smaller companies that don't have the portfolio size of larger companies that can invest in the bonds directly and bond funds offer them the opportunity to achieve a more diversified portfolio without a change in risk. As the benefits of the proposal are likely dependent on the individual facts and circumstances of each company, we request that if the PCRCWG decides to move forward with the proposal that any final rule be optional, so that insurers can file the investments with the Securities Valuation Office.

Should you have any questions, please contact us. Thank you for your consideration.

Sincerely,

John (Jay) Muska, CFA, CPA
Vice President of Accounting and Financial Issues
American Property and Casualty Insurance Association

[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 include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

cc: D. Keith Bell
Chair, APCIA Financial Management and Risk Committee

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Tom Botsko, Chair
Wanchin Chou, Vice Chair
National Association of Insurance Commissioners
Via Email: EYeung@naic.org, mchang@naic.org

RE: SVO Fund RBC Alignment Project Referral

Dear Mr. Botsko and Mr. Chou,

Thank you for the opportunity to comment on the continued consideration of proposals related to the potential RBC alignment for SVO-designated bond funds, including ETFs, mutual funds, and private funds ("bond funds"). The National Association of Mutual Insurance Companies (NAMIC)[1] appreciates the opportunity to engage in solvency-related issues important to our members and the overall strength of the regulatory system.

We write to express support for the current two-step approach[2] that allows issuers and insurers to file such investment fund holdings with the NAIC Securities Valuation Office (SVO) in order to obtain NAIC Designations for certain bond funds. This process ensures that only investments actually held by insurers receive NAIC Designations.

That said, we suggest the Working Group leverage SVO and NAIC expertise to conduct a risk assessment analysis to determine if the risks present in SEC-Registered Mutual Funds or Private Funds (i.e., default risk and recoverability) are similar to bonds. Before moving forward with a formal proposal, it is important to analyze the underlying risks associated with these funds before making any RBC change.

The RBC formula was established to serve as an early warning tool for identifying insurers that may be weakly capitalized. Maintaining that primary purpose must remain a top priority. As the working group considers its project priorities, we respectfully suggest continuing to focus on enhancements that

[1] The National Association of Mutual Insurance Companies consists of nearly 1,500 member companies, including six of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

[2] First, the issuer of the fund must register the security with the SVO and refile it annually to maintain its status. Second, an insurer must file the security with the SVO to obtain an NAIC Designation. If another insurer has already filed for the same security, the designation becomes available to others.

directly improve solvency monitoring for regulators, while recognizing the potential benefits to companies who invest in bond funds. NAMIC believes that modifications to RBC that require additional regulatory infrastructure or company expense – without any corresponding benefit to solvency oversight – should be carefully analyzed.

In summary, we advocate for warranted fair and consistent treatment across investment types in the P/C RBC formula while leveraging existing SVO processes and expertise. We believe it is important that the Working Group remain focused on the core purpose of RBC: to help regulators identify weakly capitalized companies.

Thank you again for your leadership and for the opportunity to share these perspectives. Please don't hesitate to contact me with any questions or if further discussion would be helpful.

Sincerely,

Jonathan Rodgers, Policy Vice President – Solvency
National Association of Mutual Insurance Companies

D. Keith Bell
Senior Vice President
Accounting Policy - Finance
Plaza Building, 6th Floor

Phone: (860) 277-0537
Email: d.keith.bell@travelers.com

One Tower Square
Hartford, CT 06183

November 7, 2025

Tom Botsko, Chair
Wanchin Chou, Vice Chair
National Association of Insurance Commissioners
National Association of Insurance Commissioners
Property and Casualty Risk-Based Capital Working Group
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

VIA ELECTRONIC SUBMISSION

Eva Yeung
NAIC
EYeung@naic.org

RE: Securities Valuation Office (SVO) Fund Risk Based Capital (RBC) Alignment Project

Dear Mr. Botsko and Mr. Chou:

Thank you for the opportunity to comment on the referral, *Securities Valuation Office (SVO) Fund Risk Based Capital (RBC) Alignment Project*.

Travelers offers the following comments to supplement the comments we provided in our letter to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group dated June 23 of this year:

We believe it would be useful to evaluate the proposal to align the RBC requirements for SVO-designated bond funds, including ETFs, mutual funds, and private funds (collectively "bond funds") by the Property and Casualty Risk-Based Capital Investment Risk and Evaluation (E) Working Group (PCRBCWG).

Evaluating the Proposal

In evaluating the proposal, we caution against using aggregate industry data as the basis for

assessing the impact of changes to the risk factors applied to the underlying investments. As the size of an insurer's equity holdings increases, the sensitivity of the total RBC after covariance to changes in the R2 risk charge increases. Industry data masks the impact on individual property casualty insurers as the aggregate R2 risk charge is driven by the equity holdings of a couple very large insurers.

An alternative approach that would better evaluate the impact on individual insurers within the industry would involve having the NAIC staff, who have access to confidential company-level RBC data, conduct an analysis on the actual impact on RBC charges and ratios at the individual company level and then aggregate the impacts within pre-identified ranges for various scenarios of changes in R2 factors. This would allow the creation of a histogram that provides a graphical representation of the data where the frequency of insurers falling within each range would provide a better understanding of the distribution of impact.

Investment Risks

The other consideration that should be addressed in the evaluation is the consideration and discussion of the additional risk that occurs when investing in mutual funds and bond funds versus directly investing in a bond(s). Generally, there is more risk to an insurer investing in the funds than holding the bond investments directly. While there can less risk in investing in a fund due to the diversification of credit exposure over several bond issuers (the investor effectively has a pro rata ownership interest in a pool of bonds), the returns that an insurer receives from these funds are more at risk due to the impact of the investment actions of other investors in the funds whose investment objectives and strategies may not align with the insurer. For example, in a period of rising interest rates, other investors may cash out of the funds as the fair value of bonds decrease in order to reinvest in higher yield investments, causing a reduced return for the fund due to the realized losses or smaller realized gains that occur in the fund as the other investors leave the fund. If the insurer had invested directly in the underlying bonds, it could opt to hold the bonds to maturity and receive the full amount of contractual cashflows and not be impacted by the actions of the other investors.

* * * *

Thank you for considering our comments. We look forward to working with you and the Working Group on this topic. If you have any questions in the interim, please do not hesitate to contact me.

Sincerely,

D. Keith Bell

cc: Julie Gann, NAIC staff

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: 11/4/2025	**FOR NAIC USE ONLY**
CONTACT PERSON: Derek Noe	Agenda Item # 2025-15-CA
TELEPHONE: 816-783-8973	Year 2026
EMAIL ADDRESS: dnoe@naic.org	**DISPOSITION**
ON BEHALF OF: Health Risk-Based Capital (E) Working Group	**ADOPTED:**
NAME: Steve Drutz	☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
TITLE: Chief Financial Analyst/Chair	**EXPOSED:**
AFFILIATION: WA Office of Insurance Commissioner	☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) 11/6/2025 ☐ SUBGROUP (SG)
ADDRESS: 5000 Capital Blvd SE Tumwater, WA 98501	**REJECTED:** ☐ TF ☐ WG ☐ SG **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)

Changes to the structure of pages XR013, XR014, PR019, PR020, PR022, PR025, LR019, and LR020 based on the recommendations from the Academy's H-2 Underwriting Risk Report.

The Academy presented their *H2-Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula Report* to the Health Risk-Based Capital Working Group at their April 30, 2025 meeting. The report presented a revised structure to more closely align the underwriting risk pages with the lines of business as presented in the Analysis of Operations of the Health Annual Statement. The report also advised to change the implementation in the Life and Property and Casualty RBC to mirror the line of business changes in Health.

This proposal also implements a new alternative risk charge based on the recommendation from the Academy that the multiple of maximum individual risk be eliminated.

Additional Staff Comments:

LR029 Line (42) and PR022 Line (5) now include Title XVIII Medicare and Title XIX Medicaid as part of total health premium.

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Income adjustment factor instructions and values will be updated during the annual Investment Income Adjustment review.

** **This section must be completed on all forms.** **Revised 2-2023**

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LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS
PR019 – PR026

If the reporting company writes 5% or more of its premiums in A&H lines in 2023, 2024 or 2025, this section of the formula must be completed. To determine if that applies, take the sum of Lines 13, 14 and 15 of the Underwriting and Investment Exhibit Part 1B Column 6 and divide by Line 35 Column 6, and round to three decimals for each individual year. If the result is at least 0.050 in any year, this exhibit and the appropriate Schedule P adjustment must be completed.

If the company writes less than 5% of its premiums in A&H lines in 2023, 2024 and 2025, disregard this section.

PR019 - Health Premiums

Basis of Factors

Risk-based capital factors for health insurance are applied to medical, disability income, long-term care insurance and other types of health insurance premiums and claim reserves with an offset for premium stabilization reserves. For health coverage that does not fit into one of the defined categories for risk-based capital, the "Other Health" category is to be used.

Medical Insurance Premium

The business is subdivided by product into categories for individual coverages and for group and credit coverages depending on the risk related to volatility of claims. The factors were developed from a model that determines the minimum amount of surplus needed to protect the company against a worst-case scenario for each type of coverage. The results of the model were then translated into either a uniform percentage or a two-tier formula to be applied to premium. The two-tier formula reflects the decreased risk of a larger in-force block. The formula includes several changes starting in 1999 for some types of health insurance. These changes add several additional worksheets and are designed to keep the RBC amounts for health coverage consistent regardless of the RBC formula used. If the company has Comprehensive Medical business, Medicare Supplement, Dental & Vision business, or Stand-Alone Medicare Part D coverage through a PDP arrangement, it will be directed to these additional worksheets. The instructions for including paid health claims in the various categories of the Managed Care Discount Factor Calculation can be found in the instructions to PR021 Underwriting Risk – Managed Care Credit. Appendix 1 - Commonly Used Health Insurance Terms has been added to these instructions. Appendix 2 of these instructions lists commonly used terms of Stand-Alone Medicare Part D coverage. If the company has any of the three mentioned types of medical insurance, it will also be required to complete additional parts of the formula for Health Credit Risk (PR013) and Health Administrative Expenses portion in PR022.

Disability Income Premium

Prior to 2001, the individual disability income factors were based on models of the disability risk completed by several companies with significant experience in this line. The group long-term disability income risk was modeled based on methodology similar to that used by one of the largest writers of this business. The pricing risk was addressed principally as the delayed reaction to increases in incidence of new claims and to the lengthening of claims from slower recoveries than assumed.

Starting in 2001, new categories and new factors are applicable to all types of disability income premiums. These factors are based on new data and apply a model similar to that used for other health premium risk to that data.

All premium should be reported on a net of reinsurance basis.

Specific Instructions for Application of the Formula

The total of all earned premium categories PR019 Health Premiums, Line (3626), Column (1) should equal the total in ~~Schedule H~~ Underwriting and Investment Exhibit, Part 1, Line 13.1 through 15.92, Column ~~41~~ of the Annual Statement. Earned premium for each of these coverages should be from underlying company records. Earned premium may be reported in ~~Schedule H~~Underwriting and Investment Exhibit for Administrative Services Contract (ASC) and/or the Federal Employees Health Benefit Program (FEHBP) which are included in order that Line (3626) will equal the total in ~~Schedule H~~Underwriting and Investment Exhibit. As such, there is no RBC factor applied to any premium reported on lines (2214), (3223)

or (3424). For some of the coverages, two tier formulas apply. The calculations for these coverages shown below will not appear on the RBC filing software but will automatically be calculated by the software.

Line (1)
Health premiums for comprehensive (medical and hospital), which includes expense reimbursement hospital/medical coverage) written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (1) Line (1.1). ~~Medicaid Pass-Through Payments reported as premium in the annual statement filing should be excluded from the premium amounts reported in Line 1 and reported in Line (3.3) and (10.3), respectively.~~

Line (2)
Health premiums for Title XVIII Medicare written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.1).

Line (3)
Health premiums for Title XIX Medicaid written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (4) Line (1.1).

Line (42)
Health premiums for Medicare supplement written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (52) Line (1.1).

Line (53)
Health premiums for ~~dental or~~ vision coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (63) Line (1.1).

Line (6)
Health premiums for Dental coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (7) Line (1.1).

Line (73.1)
Health premium for Stand-Alone Medicare Part D coverage written on individual contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor payment adjustments. See Appendix 2 for definition of these terms. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (21). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (84) Line (1.1).

Line (73.2)
Health incurred claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on individual contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible. This does not include the low-income subsidy (cost sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Stand-Alone Medicare Part D Coverage on PR019.

Line (73.3)
Medicaid pass-through payments reported as premium ~~and excluded from Line (1) should be reported in Line (3.3)~~.

Line (84) and Line (191)
There is a factor for certain types of limited benefit coverage (Hospital Indemnity, which includes a per diem for intensive care facility stays, and Specified Disease) which includes both a percent of earned premium on such insurance (3.5%) and a flat dollar amount ($50,000) to reflect the higher variability of small amounts of business.

Line (95) and Line (2012)
There is a factor for accidental death and dismemberment (AD&D) insurance (where a single lump sum is paid) which depends on several items:

1. The maximum amount of retained risk for any single claim;
2. $300,000 if three times the maximum amount of retained risk is larger than $300,000;
3. 5.5% of earned premium to the extent the premium for AD&D is less than or equal to $10,000,000; and
4. 1.5% of earned premium in excess of $10,000,000.

There are places for reporting the total amount of earned premium and the maximum retained risk on any single claim. The actual RBC amount will be calculated automatically as the sum of (a) the lesser of items 1 and 2; plus (b) items 3 plus 4.

Line (106) and Line (2113)
A 5% factor for Other Accident coverage provides for any accident based contingency other than those contained in Lines (95) or (2012). For example, this line should contain all the premium for policies that provide coverage for accident only disability or accident only hospital indemnity. The premium for policies that contain AD&D in addition to other accident only benefits should be shown on this line.

Line (117)
Health premiums for comprehensive (medical and hospital), which includes expense reimbursement hospital/medical coverage) written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (21) Line (1.2).

Line (12)
Health premiums for Title XVIII Medicare written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.2).

Line (13)
Health premiums for Title XIX Medicaid written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (4) Line (1.2).

Line (148)
Health premiums for ~~dental or~~ vision coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (63) Line (1.2).

Line (15)
Health premiums for dental coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (7) Line (1.2).

Line (169)
The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Line (25)). It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop-Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35% will be applied to the first $25,000,000 in premium and a factor of 25% will be applied to the premium in excess of $25,000,000. Stop-loss premiums should be reported on a net basis.

Line (170)
Health premiums for Medicare supplement written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (52) Line (1.2).

Line (180.1)
Health premium for Stand-Alone Medicare Part D coverage written on group contracts only if the plan sponsor has risk corridor protection for the contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor protection payments. See Appendix 2 for definition of these terms. Stand-Alone Medicare Part D coverage written on group contracts without risk corridor protection is reported in Line (325) Other Health. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (169). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (84) Line (1.2).

Line (180.2)
Health Incurred Claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on group contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible where the plan sponsor has risk corridor protection for the group contract's standard benefit design coverage. This does not include the low-income subsidy (cost-sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Part D Coverage on PR019.

Line (180.3)
Medicaid pass-through payments reported as premium ~~and excluded from Line (7) should be reported in Line (10.3)~~.

Lines (2315) through (3424)

Disability income premiums are to be separately entered depending on category (Individual and Group). For Individual, a further split is between noncancellable (NC) or other (GR, etc.) For Group, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). For long-term care insurance, premiums are reported separately for Individual noncancellable, Individual (other than NC) and Group LTCI. The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below $50,000,000 for similar types. Starting in 2001, in determining the premiums subject to the higher factors, individual disability income noncancellable and other is combined. All types of Group and Credit are combined in a different category from Individual. For long-term care, all types (Individual and Group) are combined.

The following table describes the calculation process used to assign RBC charges to disability income business. The reference to line numbers (e.g., Line 815) represent the actual line numbers used in the formula page, but the subdivisions of those lines [e.g., a), b), etc.] do not exist in the formula page. The total RBC Requirement shown in the last (Total) subdivision of each line will be included in Column (2) for that line in the formula page.

		Annual Statement Source	Statement Value	Factor	RBC Requirement
	Disability Income Premium				
Line (2315)	Noncancellable Disability Income - Individual Morbidity	Earned Premium included in U&I Part 1, Column 4 Line 15.3 ~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	First $50 Million Earned Premium of Line (2315)	Company Records		X 0.350 =	
b)	Over $50 Million Earned Premium of Line (2315)	Company Records		X 0.150 =	
c)	Total Noncancellable Disability Income - Individual Morbidity	a) of Line (2315) + b) of Line (2315), Column (2)			
Line (2416)	Other Disability Income – Individual Morbidity	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	Earned Premium in Line (2416) [up to $50 million less premium in a) of Line (2315)]	Company Records		X 0.250 =	
b)	Earned Premium in Line (2416) not included in a) of Line (2416)	Company Records		X 0.070 =	
c)	Total Other Disability Income - Individual Morbidity	a) of Line (2416) + b) of Line (2416), Column (2)			
Line (2517)	Disability Income - Credit Monthly Balance	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	First $50 Million Earned Premium of Line (2517)	Company Records		X 0.200 =	
b)	Over $50 Million Earned Premium of Line (2517)	Company Records		X 0.030 =	
c)	Total Disability Income - Credit Monthly Balance	a) of Line (2517) + b) of Line (2517), Column (2)			
Line (2618)	Disability Income – Group Long Term	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	Earned Premium in Line (2618) [up to $50 million less premium in a) of Line (2517)]	Company Records		X 0.150 =	
b)	Earned Premium in Line (2618) not included in a) of Line (2618)	Company Records		X 0.030 =	
c)	Total Disability Income – Group Long Term	a) of Line (2618) + b) of Line (2618), Column (2)			

		Annual Statement Source	Statement Value	Factor	RBC Requirement
	Disability Income Premium				
Line (27~~19~~)	Disability Income - Credit Single Premium with Additional Reserves	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part. This amount to be reported on Health Premiums, Line (27~~19~~)			
a)	Additional Reserves for Credit Disability Plans	PR019 Health Premiums Column (1) Line (37~~27~~)			
b)	Additional Reserves for Credit Disability Plans, Prior Year	PR019 Health Premiums Column (1) Line (38~~28~~)			
c)	Subtotal Disability Income - Credit Single Premium with Additional Reserves	Line (27~~19~~) - a) of Line (27~~19~~) + b) of Line (27~~19~~)			
d)	Earned Premium in c) [up to $50 million less premium in a) of Line (25~~17~~) + a) of Line (26~~18~~)]	Company Records		X 0.100 =	
e)	Earned Premium in c) of Line (27~~19~~) not included in d) of Line (27~~19~~)	Company Records		X 0.030 =	
f)	Total Disability Income - Credit Single Premium with Additional Reserves	d) of Line (27~~19~~) + e) of Line (27~~19~~), Column (2)			
Line (28~~0~~)	Disability Income – Credit Single Premium without Additional Reserves	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	Earned Premium in Line (28~~0~~) [up to $50 million less premium in a) of Line (25~~17~~) + a) of Line (26~~18~~) + d) of Line (27~~19~~)]	Company Records		X 0.150 =	
b)	Earned Premium in Line (28~~0~~) not included in a) of Line (28~~0~~)	Company Records		X 0.030 =	
c)	Total Disability Income – Credit Single Premium without Additional Reserves	a) of Line (28~~0~~) + b) of Line (28~~0~~), Column (2)			
Line (29~~1~~)	Disability Income – Group Short Term	Earned Premium included in U&I Part 1, Column 4 Line 15.3~~Schedule H, Part 1, Column 21, Line 2,~~ in part			
a)	Earned Premium in Line (29~~1~~) [up to $50 million less premium in a) of Line (25~~17~~) + a) of Line (26~~18~~) + d) of Line (27~~19~~) + a) of Line (28~~0~~)]	Company Records		X 0.050 =	
b)	Earned Premium in Line (29~~1~~) not included in a) of Line (29~~1~~)	Company Records		X 0.030 =	
c)	Total Disability Income – Group Short Term	a) of Line (29~~1~~) + b) of Line (29~~1~~), Column (2)			
Line (31~~22~~)	Noncancellable Long-Term Care Premium – Rate risk	Earned Premium (U&I Part 1, Column 4 Line 15.7~~Schedule H, Part 1, Column 23, Line 2~~, in part)		X 0.100 =	

Line (~~2~~35)

Most Health Premium will have been included in one of the prior lines. In the event that some coverage does not fit into any of these categories, "Other Health" category is applied with a 12% factor, which is from 1998 formula for Other Limited Benefits Anticipating Rate Increases. Stop-loss premiums are addressed separately in Line (16~~9~~).

Stop-Loss Electronic-Only Tables

The Health Risk-Based Capital (E) Working Group revised the stop-loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop-loss factors as a result of the changes to life-time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop-Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go-forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end **2018**, will reflect the incurred data for calendar year **2017** run-out through December 31, **2018**.

For those insurers where the stop-loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop-Loss (including aggregating specific) = This coverage was included in the 1998 to 2008 factor development.
Aggregate Stop-Loss = This coverage was included in the 1998 to 2008 factor development.
HMO Reinsurance = Specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.
Provider Excess = Specific excess written on Providers including IPAs, hospitals, clinics. This coverage was not included in the 1998 to 2008 factor development.
Medical Excess Reinsurance = Specific reinsurance of an insurance company's medical business (first dollar or self-insured). This coverage was not included in the 1998 to 2008 factor development.

Please do not include quota share or excess reinsurance written on stop-loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed; e.g., the RBC report filed for **2019** should provide experience information for calendar year **2018** with run-out through December 31, **2019**. If the contract year does not follow a calendar year (e.g., 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Contract 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.
Total Gross Claims + Expenses =

Total Gross Claims - These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability. .

+

Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims - These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

+

Expenses – These are the net incurred expenses during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Net Combined Ratio – This is equal to (Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Table 2a – Calendar Year Specific Stop-Loss Contracts by Group Size and Table 2b – Calendar Year Aggregate Stop-Loss Contract by Group Size

For those insurers where the stop-loss gross premium written is both under $2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop-loss data and Table 2b should reflect the aggregate stop-loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (e.g. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

The number of covered lives in a group (group size) should be based on the size of the group as of December 31 of the calendar year. The number of covered lives counted should include all enrolled members (that is, total number of lives insured, including dependents).

Number of Groups – list the number of groups for each stop-loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) - The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point ($) (Table 2a, 50-99 Covered Lives in Group) =

(Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Number of Lives	Include Exclude	Reason to Exclude
1	$ 200,000	115%	90	Include	
2	$ 100,000	120%	60	Include	
3	$ 50,000	140%	40	Exclude	Not in Group Size Band
4	$ 120,000	N/A	50	Include	

Calculation: (200,000 x 90 + 100,000 x 60 + 120,000 x 50) / (90 + 60 + 50)

= $150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop-loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the expected claims within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =
(Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

Insured Group	Specific Att Point ($)	Aggregate Att (%)	Expected Claims	Number of Lives	Include Exclude
1	$ 200,000	115%	$ 500,000	90	Include
2	$ 100,000	120%	$ 300,000	60	Include
3	$ 50,000	140%	$ 200,000	40	Exclude
4	$ 120,000	N/A	$ 400,000	50	Exclude

Calculation: (500,000 x 115% + 300,000 x 120%) / (500,000 + 300,000)
= 116.7%

Footnote – The number of covered lives for stop-loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 13, Section C. Other Business, Line 2.

If stop-loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

PR020 - Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental and Vision

(Underwriting Risk – Experience Fluctuation Factor in the LRBC Formula)

The underwriting risk generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this worksheet comes from PR021 Underwriting Risk - Managed Care Credit.

The columns are as follows:

Column (1) – Comprehensive (Hospital & Medical) Individual Policies that provide fully insured indemnity, HMO, PPO, or Fee for Service coverage for hospital, medical, and surgical expenses. This category excludes Short-Term Medical Insurance, the Federal Employees Health Benefit Program and non-comprehensive coverage such as basic hospital only, medical only, hospital confinement indemnity, surgical, outpatient indemnity, specified disease, intensive care, and organ and tissue transplant coverage as well as any other coverage described in the other categories of this exhibit.

Column (2) – Comprehensive (Hospital & Medical) Group Policies that provide fully insured indemnity, HMO, PPO, or Fee for Service coverage for hospital, medical, and surgical expenses. This category excludes Short-Term Medical Insurance, the Federal Employees Health Benefit Program and non-comprehensive coverage such as basic hospital only, medical only, hospital confinement indemnity, surgical, outpatient indemnity, specified disease, intensive care, and organ and tissue transplant coverage as well as any other coverage described in the other categories of this exhibit.

Column (3) – Title XVIII Medicare Policies issued as Medicare Advantage Plans providing Medicare benefits to Medicare eligible beneficiaries created by title XVIII of the Social Security Act of 1965. This includes Medicare Managed Care Plans (i.e., HMO and PPO) and Medicare Private Fee-for-Service Plans. This also includes all Medicare Part D Prescription Drug Coverage through a Medicare Advantage product and whether sold directly to an individual or through a group.

Column (4) – Title XIX Medicaid Policies issued in association with the Federal/State entitlement program created by Title XIX of the Social Security Act of 1965 that pays for medical assistance for certain individuals and families with low incomes and resources.

Column (5) – Medicare Supplement. Policies that qualify as Medicare Supplement policy forms as defined in the NAIC Medicare Supplement Insurance Minimum Standards Model Act. This includes standardized plans, pre-standardized plans and Medicare select. Does not include Medicare (Title XVIII) or Medicaid (Title XIX) risk contracts.

Column (6) – Vision Policies providing for vision only coverage issued as stand-alone vision or as a rider to a medical policy that is not related to the medical policy through premiums, deductibles or out-of-pocket limits. Does not include self-insured business, federal employees health benefit plans (FEHBP), or Medicare and Medicaid programs.

Column (7) – Dental Policies providing for dental only coverage (dental treatment benefits such as routine dental examinations, preventive dental work, and dental procedures needed to treat tooth decay and diseases of the teeth and jaw) issued as stand-alone dental or as a rider to a medical policy that is not related to the medical policy through premiums, deductibles or out-of-pocket limits. If dental benefits are part of a comprehensive medical plan, then include data under comprehensive/major medical category. Does not include self-insured business, as well as federal employee's health benefits plans (FEHBP), or Medicare and Medicaid programs.

Column (8) – Stand-Alone Medicare Part D Coverage. This includes both individual coverage and group coverage of Medicare Part D coverage where the plan sponsor has risk corridor protection. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. Medicare drug benefits included in major medical plans or benefits that do not meet the above criteria are not to be included in this line. Supplemental benefits within Medicare Part D (benefits in excess of the standard benefit design) are addressed separately on page PR019. Employer-based Part D coverage that is in an uninsured plan as defined in *SSAP No. 47—Uninsured Plans* is not to be included here

Description from *Life Risk-Based Capital Report Including Overview & Instructions*:

Underwriting risk is present when the next dollar of unexpected claims payments comes directly out of the company's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, an insurer may charge an individual $100 in premium in exchange for a guaranty that all medical costs will be paid by the insurer. If the individual incurs $101 in claims costs, the company's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the insurer is not at risk for excessive claims payments, such as when an insurer agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claims costs, so the risk of excessive claims experience is borne by the self-insured employer, not the insurer. The underwriting risk section of the RBC formula, therefore, requires some adjustments to remove non-risk business (both premiums and claims) before the RBC requirement is calculated.

For Stand-Alone Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10.1) through (10.4) of PR021 will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

Claims Experience Fluctuation

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

A. Underwriting risk revenue times the underwriting risk claims ratio times a set of factors.

or

B. An alternate risk charge that addresses the risk of catastrophic claims on any single individual. The alternate risk charge is calculated for each type of health coverage~~, but only the largest value is compared to the value from A. above for that type~~. ~~The alternate risk charge is equal to a multiple of the maximum retained risk on any single individual in a claims year. The maximum retained risk (level of potential claim exposure) is capped at two times the maximum or $1,500,000 for Comprehensive Medical; two times the maximum or $50,000 for each of Medicare Supplement business and dental coverage and six times the maximum or $1,500,000 for Stand-Alone Medicare Part D coverage.~~ The maximum retained risk (level of potential claim exposure) is $500,000 per line for medical coverage; $50,000 for all other coverage except Medicare Part D coverage and $150,000 for Medicare Part D coverage.

Line (1) through Line (19~~8~~)

There are ~~four~~ eight lines of business used in the property/casualty RBC formula for calculating the RBC requirement in this worksheet. Other health coverages will continue to use the factors on PR019 Health Premiums. The four lines of business are Column (1) Comprehensive Medical ~~and Hospital~~Individual; Column (2) Comprehensive Medical Group; Column (3) Title XVIII Medicare; Column (4) Title XIX Medicaid; Column (5~~2~~) Medicare Supplement; Column (6~~3~~) ~~Dental &~~ Vision; Column (7) Dental; and Column (8~~4~~) Stand-Alone Medicare Part D coverage. Each of the ~~four~~ eight lines of business has its own column in the Underwriting Risk – Premium Risk table. The categories listed in the columns of this worksheet include premiums plus all risk revenue that is received from another health entity in exchange for medical services provided to such Health entity's members. ~~The descriptions of the items are as follows:~~

~~Comprehensive Medical & Hospital~~
~~Includes policies providing for medical coverages including hospital, surgical, major medical, Medicare risk coverage (but NOT Medicare Supplement), and Medicaid risk coverage. This includes Medicare Advantage, with or without prescription drug benefits. This category DOES NOT include administrative services contracts (ASC) or administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in PR022 Underwriting Risk – Other, Business Risk section of the formula. Neither does it include Federal Employees Health Benefit Program (FEHBP) business, which is reported on Line (3) of PR022 Underwriting Risk – Other. The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed $1,500,000.~~

~~Medical Only (non-hospital professional services)~~
~~Include in Comprehensive Medical.~~

~~Medicare Supplement~~
~~This is business reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement. Medicare risk business is reported under comprehensive medical and hospital.~~

~~Dental & Vision~~
~~These are premiums for policies providing for dental or vision only coverage issued as stand-alone dental or vision or as a rider to a medical policy that is not related to the medical policy through deductibles or out-of-pocket limits.~~

~~Stand-Alone Medicare Part D Coverage~~
~~Includes policies and contracts providing the standard coverage for individuals enrolled in Stand-Alone Medicare Part D and the insurance is a federally approved PDP with risk corridor protection. It does not include risk revenue for Supplemental benefits within Stand-Alone Medicare Part D coverage that is a portion of the PDP's approved package. It does not include employer coverage unless the coverage meets the above criteria. Where there is a federal subsidy to the employer in lieu of risk corridor protection, the premiums are to be reported as "Other Health."~~

~~Other Health Coverages~~
~~Include in the appropriate line on PR019 Health Premiums.~~

The following paragraphs explain the meaning of each line of the worksheet table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium

This is the amount of money charged by the insurer for the specified benefit plan. It is the earned premium, net of reinsurance. It does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-risk business; or premium for the Federal Employees Health Benefit Programs (FEHBP), which has a risk factor relating to incurred claims reported separately under PR022 Underwriting Risk – Other, Line (3).

NOTE: Where premiums are paid on a monthly basis, they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

For Stand-Alone Medicare Part D Coverage, this will include only certain amounts paid by the individual, an employer or CMS. See Appendix 2 for details of what is and is not premium income.

The Line 1.3 sources for each column are given in the table below:

PR020 Column	**Annual Statement Source**
Comprehensive Medical Individual	U&I Part 1, Column 4 Line 13.1
Comprehensive Medical Group	U&I Part 1, Column 4 Line 13.2
Title XVIII Medicare	U&I Part 1, Column 4 Line 15.6
Title XIX Medicaid	U&I Part 1, Column 4 Line 15.5
Medicare Supplement	U&I Part 1, Column 4 Line 15.4
Vision	U&I Part 1, Column 4 Line 15.1
Dental	U&I Part 1, Column 4 Line 15.2
Stand-Alone Medicare Part D Coverage	Company Records, Earned Premium Net of Reinsurance

~~Line (2) Title XVIII Medicare~~
~~This is the earned amount of money charged by the insurer (net of reinsurance) for Medicare risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans.~~

~~Line (3) Title XIX Medicaid~~
~~This is the earned amount of money charged by the insurer for Medicaid risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicaid subscribers. Revenue from Stand-Alone Medicare Part D coverage under the low-income subsidy (cost sharing portion) and low-income subsidy (premium portion) are not included in this line.~~

Line (24) Other Health Risk Revenue
Earned amounts charged by the reporting company as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders or members of another insurer or health insurance company (Health). Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health insurance company to the company in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the company from a health entity. This revenue is reported in the business risk section of the formula as health ASO/ASC and limited risk revenue.

Line (3) Medicaid Pass-Through Payments Reported as Premiums.
Amount is equal to the total amount reported in PR019 Lines 7.3 and Line 18.3

Line (~~4~~5) Underwriting Risk Revenue
~~The sum of~~ Line~~s~~ (1~~.3~~)~~+~~ Lines (2) – Line (3)~~through (4)~~.

Line (~~5~~6) Net Incurred Claims

Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the insurer. Paid claims include capitation and all other payments to providers for services to covered lives, as well as reimbursement directly to insureds (or their providers) for covered services. Paid claims also include salaries paid to company employees that provide medical services to covered lives and related expenses. This line does not include ASC payments or Federal Employees Health Benefit Program (FEHBP) claims.

PR020 Column	**Annual Statement Source**
Comprehensive Medical Individual	U&I Part 2, Column 7 Line 13.1
Comprehensive Medical Group	U&I Part 2, Column 7 Line 13.2
Title XVIII Medicare	U&I Part 2, Column 7 Line 15.6
Title XIX Medicaid	U&I Part 2, Column 7 Line 15.5
Medicare Supplement	U&I Part 2, Column 7 Line 15.4
Vision	U&I Part 2, Column 7 Line 15.1
Dental	U&I Part 2, Column 7 Line 15.2
Stand-Alone Medicare Part D Coverage	Company Records

~~Column (1) claims come from Annual Statement, Schedule H, Part 5 Column 1+2+7+8 Line D1 less the amounts reported as incurred claims for Administrative Services Contracts (ASC) in Line (8) of PR013 and Federal Employee Health Benefit Plan (FEHBP) in Line (3) of PR022. Column (2) claims come from Schedule H, Part 5, Column 3, Line D1. Column (3) dental and vision claims come from Schedule H, Part 5, Columns 4+5, Line D11.)~~

For Stand-Alone Medicare Part D Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in Appendix 2). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claim liabilities should reflect expected recoveries from the reinsurance coverage – for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS.

Line (6) Medicaid Pass-Through Payments Reported as Claims.
Medicaid pass-through payments that were included as claims reported in Line (5)

Line (7) Fee-for-Service Offset
Report fee-for-service revenue that is directly related to medical expense payments. The fee-for-service line does not include revenue where there is no associated claim payment (e.g., fees or charges to nonmember/insured of the company where the provider of the service receives no additional compensation from the company) and when such revenue was excluded from the pricing of medical benefits.

Line (8) Underwriting Risk Incurred Claims
Line (5~~6~~) – Line (6) – ~~minus~~ Line (7).

Line (9) Underwriting Risk Claims Ratio
Line (8) / Line (4~~5~~). If either Line (4~~5~~) or Line (8) is zero or negative, Line (9) is zero.

Line (10) Underwriting Risk Factor for Initial Amounts of Premium. Factor applied to the first $25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to the first $3,000,000 in premium for columns (5), (6), (7),

Line (11) Underwriting Risk Factor for Excess of Initial Amount. Factor applied to premium in excess of $25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to premium in excess of $3,000,000 in premium for columns (5), (6), (7),

Line (12) Income Adjustment Factor

~~Line (10) Underwriting Risk Factor~~
~~A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.~~

	~~$0 - $3 Million~~	~~$3 - $25 Million~~	~~Over $25 Million~~
~~Comprehensive Medical~~	~~0.1427~~0.1440	~~0.1427~~0.1440	~~0.0832~~0.0844
~~Medicare Supplement~~	~~0.0973~~0.0987	~~0.0596~~0.0609	~~0.0596~~0.0609
~~Dental & Vision~~	~~0.1143~~0.1153	~~0.0706~~0.0716	~~0.0706~~0.0716
~~Stand-Alone Medicare Part D Coverage~~	~~0.251~~	~~0.251~~	~~0.151~~

Line (13) Composite Underwriting Risk Factor
A weighted average factor based on the amount reported in Line (4), Underwriting Risk Revenue.

Line (14~~1~~) Base Underwriting Risk RBC
Line (4~~5~~) x Line (9) x Line (13~~0.3~~).

Line (15~~2~~) Managed Care Discount
For Comprehensive Medical & Hospital Individual, Comprehensive Medical & Hospital Group, Title XVIII Medicare, Title XIX Medicaid, Medicare Supplement (including Medicare Select), Vision, and Dental, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the uncertainty about future claims payments attributable to the managed care arrangements. The discount factor is from Column (3), Line (12) of PR021 Underwriting Risk - Managed Care Credit. An average factor based on the combined results of these ~~three~~ categories ~~is used for all three~~.

For Stand-Alone Medicare Part D Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (12) of PR021 Underwriting Risk - Managed Care Credit.

Line (16~~3~~) Base RBC After Managed Care Discount
Line (14~~1~~) x Line (15~~2~~).

~~Line (14) RBC Adjustment for Individual~~
~~The average Experience Fluctuation Risk charge is increased by 20% for the portion relating to Individual Medical Expense premiums in Column (1). Other types of health coverage do not differentiate between Individual and Group. The additional time necessary to develop sufficient data to make a premium filing with states and then to implement the premium increase was modeled to calculate this factor.~~

~~Line (15) Maximum Per-Individual Risk After Reinsurance~~
~~This is the maximum loss after reinsurance for any single individual. Where specific stop-loss reinsurance protection is in place, the maximum per individual risk after reinsurance is equal to the highest attachment point on such stop-loss reinsurance, subject to the following:~~

- ~~Where coverage under non-proportional reinsurance or stop-loss protection with the highest attachment point is capped at less than $750,000 per insured for Comprehensive Medical and $25,000 for the other three lines, the maximum retained loss will be equal to such attachment point plus the difference between the coverage maximum per claim and $750,000 or $25,000, whichever is applicable.~~

- ~~Where the non-proportional reinsurance or stop-loss protection is subject to participation by the company, the maximum retained risk as calculated above will be increased by the company's participation in claims in excess of the attachment point, but not to exceed $750,000 for Comprehensive Medical and $25,000 for the other three coverages.~~

~~If there is no specific stop-loss or reinsurance in place, enter the largest amount payable (within a calendar year) or $9,999,999 if there is no limit.~~

~~Examples of the calculation are presented below:~~

~~EXAMPLE 1 (Insurer provides Comprehensive Care):~~

~~Highest Attachment Point (Retention)~~	~~$100,000~~	
~~Reinsurance Coverage~~	~~90% of $500,000 in excess of $100,000~~	
~~Maximum Reinsured Coverage~~	~~$600,000 ($100,000 + $500,000)~~	
~~Maximum Retained Risk =~~	~~$100,000~~	~~deductible~~
	~~+$150,000~~	~~($750,000 - $600,000)~~
	~~+$50,000~~	~~(10% of $500,000 coverage layer)~~
	~~=$300,000~~	

~~EXAMPLE 2 (Insurer provides Comprehensive Care):~~

~~Highest Attachment Point (Retention)~~	~~$75,000~~	
~~Reinsurance Coverage~~	~~90% of $1,000,000 in excess of $75,000~~	
~~Maximum Reinsured Coverage~~	~~$1,075,000 ($75,000 + $1,000,000)~~	
~~Maximum Retained Risk =~~	~~$75,000~~	~~deductible~~
	~~+$0~~	~~($750,000 - $1,075,000)~~
	~~+$67,500~~	~~(10% of $675,000 coverage layer)~~
	~~=$142,500~~	

Line (17~~6~~) Alternate Risk Charge

$500,000 for Columns (1), (2), (3), and (4); $50,000 for Columns (5), (6), and (7); and $150,000 for Column (8).~~Twice the amount in Line (15), subject to a maximum of $1,500,000 for comprehensive medical and $50,000 for Medicare Supplement and Dental. Six times the amount in Line (15), subject to maximum of $150,000 for Stand-Alone Medicare Part D Coverage.~~

Line (18~~7~~) Net Alternate Risk Charge

~~The largest value from Line (16) is retained for that column in line (17) and all others are ignored.~~ Columns (1), (2), (3), and (4) equal to Line (17); Column (5) is Max[0, $50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18)]; Columns (6) and (7) are Max[0, $50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18)]; and Column (8) is Max[0, $150,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18)]

Line (19~~8~~) Net Underwriting Risk RBC

The maximum of Line (164) and Line (187).

HEALTH PREMIUMS PR019

			(1)		(2) RBC Requirement
	Medical Insurance Premium - Individual	Annual Statement Source	Statement Value	Factor	
(1)	Comprehensive (Medical and Hospital)	Earned Premium (U&I Part 1, Column 4 Line 13.1)	0	†	XXX
(2)	Title XVIII Medicare	Earned Premium (U&I Part 1, Column 4 Line 15.6 in part)	0	†	XXX
(3)	Title XIX Medicaid	Earned Premium (U&I Part 1, Column 4 Line 15.5 in part)	0	†	XXX
(4)	Medicare Supplement	Earned Premium (U&I Part 1, Column 4 Line 15.4 in part)	0	†	XXX
(5)	Vision	Earned Premium (U&I Part 1, Column 4 Line 15.1 in part)	0	†	XXX
(6)	Dental	Earned Premium (U&I Part 1, Column 4 Line 15.2 in part)	0	†	XXX
(7.1)	Stand-Alone Medicare Part D Coverage	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	†	XXX
(7.2)	Supplemental Benefits within Stand-Alone Part D Coverage (Claims Incurred)	Company Records	0	0.500	0
(7.3)	Medicaid Pass-Through Payments Reported as Premium	Company Records	0	0.020	0
(8)	Hospital Indemnity and Specified Disease	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	0.035 *	0
(9)	AD&D (Maximum Retained Risk Per Life 0)	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	‡	0
(10)	Other Accident	Earned Premium (U&I Part 1, Column 4 Line 15 in part)	0	0.050	0
	Medical Insurance Premium - Group and Credit				
(11)	Comprehensive (Medical and Hospital)	Earned Premium (U&I Part 1, Column 4 Line 13.2)	0	†	XXX
(12)	Title XVIII Medicare	Earned Premium (U&I Part 1, Column 4 Line 15.6 in part)	0	†	XXX
(13)	Title XIX Medicaid	Earned Premium (U&I Part 1, Column 4 Line 15.5 in part)	0	†	XXX
(14)	Vision	Earned Premium (U&I Part 1, Column 4 Line 15.1 in part)	0	†	XXX
(15)	Dental	Earned Premium (U&I Part 1, Column 4 Line 15.2 in part)	0	†	XXX
(16)	Stop Loss and Minimum Premium	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	¥	0
(17)	Medicare Supplement	Earned Premium (U&I Part 1, Column 4 Line 15.4 in part)	0	†	XXX
(18.1)	Stand-Alone Medicare Part D Coverage (see instructions for limits)	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	†	XXX
(18.2)	Supplemental benefits within Stand-Alone Part D Coverage (Claims Incurred)	Company Records	0	0.500	0
(18.3)	Medicaid Pass-Through Payments Reported as Premium	Company Records	0	0.020	0
(19)	Hospital Indemnity and Specified Disease	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	0.035 *	0
(20)	AD&D (Maximum Retained Risk Per Life 0)	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	‡	0
(21)	Other Accident	Earned Premium (U&I Part 1, Column 4 Line 15 in Part)	0	0.050	0
(22)	Federal Employee Health Benefit Plan	Earned Premium (U&I Part 1, Column 4 Line 15.8)	0	0.000	0
	Disability Income Premium				
(23)	Noncancellable Disability Income - Individual Morbidity	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(24)	Other Disability Income - Individual Morbidity	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(25)	Disability Income - Credit Monthly Balance Plans	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	
(26)	Disability Income - Group Long-Term	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(27)	Disability Income - Credit Single Premium with Additional Reserve	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(28)	Disability Income - Credit Single Premium without Additional Reserve	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(29)	Disability Income - Group Short-Term	Earned Premium (U&I Part 1, Column 4 Line 15.3 in part)	0	‡	0
(30)	Total Disability Income	Earned Premium (U&I Part 1, Column 4 Line 15.3)	0		
	Long-Term Care				
(31)	Noncancellable Long-Term Care Premium - Rate Risk**	Earned Premium (U&I Part 1, Column 4 Line 15.7 in part)	0	0.100	0
(32)	Other Long-Term Care Premium ‡ ‡	Earned Premium (U&I Part 1, Column 4 Line 15.7 in part)	0	0.000	0 ‡ ‡
(33)	Total Long-Term Care	Earned Premium (U&I Part 1, Column 4 Line 15.7)	0		
	Health Premium with Limited Underwriting Risk				
(34)	ASC Business with Premium Revenue	Earned Premium (U&I Part 1, Column 4 Line 15.9 in part)	0	0.000	0
	Other Health				
(35)	Other Health	Earned Premium (U&I Part 1, Column 4 Line 14 and 15.9 in part)	0	0.120	0
(36)	Total Earned Premiums	Sum of Lines (1) through (22), Line (30), and Lines (33) through (35) minus Lines (7.3) and (18.3)	0		0
	C(1), L(36) should equal U&I Part 1 Column 4 Lines 13.1 through 15.9				
(37)	Additional Reserves for Credit Disability Plans	Company records	0	§	
(38)	Additional Reserves for Credit Disability Plans, prior year	Company records	0	§	

† The premium amounts in these lines are transferred to PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement, Dental & Vision and Stand-Alone Medicare Part D Coverage Lines (1.1) and (1.2) for the calculation of risk-based capital. The premium amounts are included here to assist in the balancing of total health premium. If managed care arrangements have been entered into, the company may also complete PR021 Underwriting Risk – Managed Care Credit. In which case, the company will also need to complete PR012 Health Credit Risk in the formula. If there are amounts in any of lines (1), (2), (3), (7), (8) or (10) on page PR019 Health Premiums, the company will also be directed to complete the Health Administrative Expense portion of PR023.

‡ The two tiered calculation is illustrated in the risk-based capital instructions for PR019 Health Premiums.

‡ ‡ The balance of the RBC requirement for Long Term Care - Morbidity Risk is calculated on Page PR023. The premium is shown to allow totals to check to U&I Part 1.

* If there is premium included on either or both of these lines, the RBC value in Column (2) will include 3.5% of such premium and $50,000 (included in the line with the larger premium).

** The factor applies to all Noncancellable premium.

§ These amounts are used to adjust the premium base for single premium credit disability plans that carry additional tabular reserves.

¥ A factor of .350 will be applied to the first $25,000,000 in Column (1), Line (16) and a factor of .250 will be applied to the remaining premium in excess of $25,000,000.

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

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR020

(Experience Fluctuation Risk in Life RBC Formula)

		(1) Comprehensive Medical Individual	(2) Comprehensive Medical Group	(3) Title XVIII-Medicare	(4) Title XIX-Medicaid	(5) Medicare Supplement	(6) Vision	(7) Dental	(8) Stand-Alone Medicare Part D Coverage	(9) TOTAL
(1.1)	Individual Premium	0	0	0	0	0	0	0	0	0
(1.2)	Group Premium	0	0	0	0	0	0	0	0	0
(1.3)	Total Premium	0	0	0	0	0	0	0	0	0
(2)	Other Health Risk Revenue†	0	0	0	0	XXX	0	0	0	0
(3)	Medicaid Pass-Through Payments Reported as Premium	XXX	XXX	XXX	0	XXX	XXX	XXX	XXX	0
(4)	Underwriting Risk Revenue = Lines (1.3) + (2) - (3)	0	0	0	0	0	0	0	0	0
(5)	Net Incurred Claims	0	0	0	0	0	0	0	0	0
(6)	Medicaid Pass-Through Payments Reported as Claims	XXX	XXX	XXX	0	XXX	XXX	XXX	XXX	0
(7)	Fee-for-Service Offset†	0	0	0	0	XXX	0	0	0	0
(8)	Underwriting Risk Incurred Claims = Lines (5) – (6) – (7)	0	0	0	0	0	0	0	0	0
(9)	Underwriting Risk Claim Ratio (8)/(4)	0	0	0	0	0	0	0	0	XXX
(10)	Underwriting Risk Factor for Initial Amounts Of Premium‡	0.1440	0.1440	0.1440	0.1440	0.0987	0.1153	0.1153	0.251	XXX
(11)	Underwriting Risk Factor for Excess of Initial Amount‡	0.0844	0.0844	0.0844	0.0844	0.0609	0.0716	0.0716	0.151	XXX
(12)	Income Adjustment Factor	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	XXX	XXX
(13)	Composite Underwriting Risk Factor	A1	A1	A1	A1	A2	A2	A2	A1	XXX
(14)	Base Underwriting Risk RBC = Line (4) x Line (9) x Line (13)	0	0	0	0	0	0	0	0	XXX
(15)	Managed Care Discount Factor = PR021 Line (12)	0	0	0	0	0	0	0	0	XXX
(16)	Base RBC After Managed Care Discount = Line (14) x Line (15)	0	0	0	0	0	0	0	0	0
(17)	Alternate Risk Charge*	0	0	0	0	0	0	0	0	XXX
(18)	Net Alternate Risk Charge	0	0	0	0	B1	B2	B2	B3	0
(19)	Net Underwriting Risk RBC (Maximum of Line (16) or Line (18))	0	0	0	0	0	0	0	0	0

† Source is company records unless already included in premiums.

Initial Premium Amount‡							
Comprehensive (Hospital & Medical) - Individual	Comprehensive (Hospital & Medical) - Group	Title XVIII - Medicare	Title XIX - Medicaid	Medicare Supplement	Vision	Dental	Stand-Alone Medicare Part D Coverage
$25,000,000	$25,000,000	$25,000,000	$25,000,000	$3,000,000	$3,000,000	$3,000,000	$25,000,000

~~§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).~~

* The Line (17) Alternate Risk Charge is calculated as follows:

Alternate Risk Charge*							
Comprehensive (Hospital & Medical) - Individual	Comprehensive (Hospital & Medical) - Group	Title XVIII - Medicare	Title XIX - Medicaid	Medicare Supplement	Vision	Dental	Stand-Alone Medicare Part D Coverage
$500,000	$500,000	$500,000	$500,000	$50,000	$50,000	$50,000	$150,000

~~£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.~~

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

PR020 Formulas

Cell Label	Formula
A1	=Line 12 x {Min[Line (4) x Line (10), 25,000,000 x Line (1)] + Max[0, (Line (4) - 25,000,000) x Line (11)] } / Line (4)
A2	=Line 12 x {Min[Line (4) x Line (10), 3,000,000 x Line (1)] + Max[0, (Line (4) - 3,000,000) x Line (11)] } / Line (4)
B1	=Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18)]
B2	=Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18)]
B3	=Max[0, 150,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18)]

UNDERWRITING RISK - OTHER AND TOTAL NET HEALTH PREMIUM RBC PR022

			(1) Amount	Factor	(2) RBC Requirement
	Rate Guarantees & Federal Employees Health Benefits	Data Source			
(1)	Business with Rate Guarantees Between 15-36 Months	Company Records	0	0.024	0
(2)	Business with Rate Guarantees Over 36 Months	Company Records	0	0.064	0
(3)	Federal Employees Health Benefit Program (FEHBP) Claims Incurred	Company Records	0	0.020	0
(4)	Total, Rate Guarantees & Federal Employees Health Benefits	L(1) + L(2) + L(3)	0		0
	Administrative Expenses for Certain A&H Coverages				
(5)	Total Accident and Health Premiums	PR019 Health Premiums Column (1) Line (**36**)	0		
(6)	Accident and Health Premiums from Underwriting Risk	PR020 Underwriting Risk Column (**9**) Line (**1.3**)	0		
(7)	Accident and Health Premiums Factor	L(6)/L(5)	0.000		
(8)	Administrative Expenses for Health Insurance	Company Records	0		
(9)	Less Administrative Expenses for Administrative Service Contracts (ASC) included in Line (8)	Company Records	0		
(10)	Less Administrative Expenses for Administrative Services Only (ASO) Business included in Line (8)	Company Records	0		
(11)	Less Administrative Expenses for Commissions and Premium Taxes	Company Records	0		
(12)	Net Administrative Expenses	L(8) - L(9) - L(10) - L(11)	0		
(13)	Composite Health Administrative Expense Risk Factor	(7% of L(6) up to $25 million + 4% of excess)/L(6)	0.000		
(14)	Administrative Expense Component for Health	L(12) x L(7) x L(13)			0
	Health ASO/ASC				
(15)	Administrative Expenses for ASC Business	Company Records*	0	0.020	0
(16)	Administrative Expenses for ASO Business	Company Records*	0	0.020	0
(17)	Total Health ASO/ASC	L(15) + L(16)	0		0
(18)	Total Underwriting Risk - Other	L(4) + L(14) + L(17)			0
	Total Net Health Premium RBC				
(19)	Total Health Premium RBC	L(18) + PR019 C(2) L(**36**) + PR020 C(**9**) L(**19**)			
(20)	Premium Concentration Factor	PR018 C(20) L(14)			1.000
(21)	Total Net Health Premium RBC	L(19) x L(20)			0

* Line (15) should be greater than or equal to Line (9). Line (16) should be greater than or equal to Line (10).

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

PREMIUM STABILIZATION RESERVES PR025

		Data Source	(1) Statement Value	Factor	(2) RBC Requirement
	Group & Credit Health Premium Stabilization Reserves Reported				
(1)	Stabilization Reserves and Experience Rating Refunds	Company Records	0	0.500	0
(2)	Provision for Experience Rating Refunds	Company Records	0	0.500	0
(3)	Reserve for Group Rate Credits	Company Records	0	0.500	0
(4)	Reserve for Credit Rate Credits	Company Records	0	0.500	0
(5)	Premium Stabilization Reserves	Company Records	0	0.500	0
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)	0		0
	Group & Credit Health Risk-Based Capital				
(7)	Maximum Risk-Based Capital	PR024 Health Claim Reserves Column (2) Line (2) + PR019 Health Premiums Column (2) Lines **(16), (19), (20), (21), (25), (26), (27), (28) and (29)** + [PR020 Underwriting Risk- Premiums Risk **Column (9) Line (19) - Column (8) Line (19)** x **Column (9) Line (1.2) / Column (9) Line (1.3)**]	0		
(8)	Final Premium Stabilization Reserve Credit	Column (2) Line (6), but not more than Column (1) Line (7)	0	-1.000	0

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

Property and Casualty Risk-Based Capital
Premium and Loss Concentration Factors

American Academy of Actuaries Risk Based Capital Committee

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Introduction

- This Report is presented by the American Academy of Actuaries (Academy) Risk Based Capital (RBC) Committee (The Committee)
- This Report is presented to the National Association of Insurance Commissioners (NAIC) Property/Casualty Risk Based Capital Working Group
- The Report addresses the Premium and Loss Concentration Factors (PCF/LCF) in the RBC Formula.

This presentation is a high-level summary. Refer to the final report for explanations of the methodology and implications of the analysis that produced the results presented here.

The analysis and conclusions in this Report reflect the opinions of the committee members and do not necessarily reflect the views of their employers or the actuarial organizations in which they are members.

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Key Terms:
Concentration and Diversification Credit in RBC Formula

- Concentration Ratio:

  The Premium/Reserve amount in the "largest" Line of Business (LOB) divided by the total Premium/Reserve amount. We call this the **CoMaxLine%.**

- Degree of diversification = 100% – concentration ratio%

  Company with 2 LOB (75% and 25% LOB Premium)
  Concentration = 75% (largest LOB)
  Diversification = 25% (100% – 75%)

- PCF/LCF depends on a parameter we call the **Maximum Diversification Credit (MDC), currently 30%**

  PCF/LCF = (1.0-MDC) + MDC*CoMaxLine%
  Diversification Credit = 1.0- PCF/LCF

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Scope of Analysis

The scope of our work is:

- Evaluate the MDC:
  - It determines the total diversification credit, and
  - It is a key parameter in the diversification by company.
- Assess whether the linear relationship of diversification credit to CoMaxLine% is reasonable.
- Evaluate other issues arising.

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IMPACT

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Findings

Finding 1:

The committee believes that MDCs of **45% for premium and 65%** for reserves are reasonable selections that are better supported by the data than the **current 30% MDC**. We refer to these as the indicated MDCs.

There are reasonable alternative MDC selections, which we discuss later in this presentation.

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Impact of revised MDC—45% and 65%

Part 1

Indicated Change in RBC Value by Type of Company					
(1)	(2)	(3)	(4)	(5)	(6)
Row	Type of Company	ACL - $ Billions (2022)	% Change		
			Premium Risk Charge	Reserve Risk Charge	ACL
1	Commercial	84.4	-11.7%	-21.6%	-13.4%
2	Med Prof Liab	2.9	-3.4%	-8.0%	-1.9%
3	NOC	0.7	-3.1%	-6.5%	-2.2%
4	Personal	100.2	-9.2%	-18.2%	-2.1%
5	Reinsurance	9.5	-11.4%	-22.3%	-2.4%
6	Workers Comp	7.5	-4.5%	-10.0%	-5.7%
7	Total	205.3	-10.0%	-20.0%	-6.9%

Part 2

Number and % Cos by Size of Change		
(7)	(8)	(9)
% Change in ACL	# Cos.	% Cos
Less than -50%	0	0%
-35% to -50%	0	0%
-25% to -35%	46	3%
-15% to -25%	202	11%
-5% to -15%	500	28%
0% to -5%	676	37%
0%	393	22%
Greater than 0%	0	0%
Total	1,817	100%

59%

Part 3

Div Band	% Chng
(10)	(11)
0	0.0%
1	-0.7%
2	-3.2%
3	-7.1%
4	-10.5%
5	-16.6%
All	-6.4%

Impact is higher for more diversified companies.

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DATA

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Companies by Size and Diversification Level—Premium-1

Number of Companies by Co Size/Diversification ($billions)						
Div/Size	A	B	C	D	E	All
0	5,067	3,303	2,003	1,393	1,065	12,831
1	1,509	1,728	2,017	1,637	1,013	7,904
2	1,478	1,717	1,804	1,812	1,091	7,902
3	1,318	1,605	1,752	1,801	1,426	7,902
4	878	1,496	1,703	1,789	2,036	7,902
5	219	619	1,189	2,037	3,838	7,902
All	10,469	10,468	10,468	10,469	10,469	52,348

Premium by Co Size/Diversification ($billions)						
Div/Size	A	B	C	D	E	All
0	3	13	26	69	438	549
1	1	7	27	78	356	469
2	1	7	25	90	714	837
3	1	6	25	89	1,821	1,942
4	1	6	23	88	2,173	2,291
5	0	3	17	109	5,156	5,284
All	7	42	142	523	10,659	11,373

Premium concentrated in larger companies:

C3-E5:
34% of companies;
84% of premium

E5 alone:
7% of companies;
39% of premium

Size E
20% of companies
94% of premium

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Companies by Size and Diversification Level—Premium-2

Modeled diversification by Size/Diversification Band ($millions)						
Div Band	Size					
	A	B	C	D	E	Total
0	0.0	0.0	0.0	0.0	0.0	0.0
1	0.0	0.0	0.1	0.5	1.6	2.2
2	0.0	0.1	0.4	1.6	11.2	13.4
3	0.0	0.2	0.6	2.4	41.4	44.6
4	0.0	0.2	0.8	3.1	74.3	78.5
5	0.0	0.1	0.7	4.9	252.7	258.4
Total	0.1	0.7	2.7	12.4	381.3	397.1

Based on Modeled Risk before and after diversification, before IIA

Diversification credit is concentrated in large diversified companies.

C3-E5:
34% of companies
84% of premium
96% of diversification credit

E5 alone:
7% of companies
39% of premium
64% of diversification credit

Size E:
20% of companies
94% of premium
96% of diversification credit

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BASE ANALYSIS

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Indicated MDC—Sample Size "D"/Diversification 5

	(1)	(2)	(3)
#	Item	Premium	Reserves
1	Observed Risk - 87.5th Percentile	15.8%	25.9%
2	Modeled Risk - 87.5th Percentile before diversification credit	21.0%	38.0%
3	Indicated Diversification Credit[1.0-(1)/(2)]%	25.0%	32.0%
4	Average Diversification Credit (Current Formula)	21.0%	19.2%
5	Indicated Maximum Credit [(3)/(4)]*30%	36%	50%

The indicated diversification is the 'difference' between the observed risk and the modeled risk before diversification credit.

The indicated diversification credit is larger than the diversification credit produced by CoMaxLine% approach with a 30% MDC.

An MDC of 36% for premium and 50% for reserves would 'equalize' the modeled risk and observed risk for this Size/ Diversification cell, implying:

PCF = 0.64 + 0.36 * CoMaxLine%
LCF = 0.50 + 0.50 * CoMaxLine%

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Indicated MDC—Weighted Average of C3-E5

Premium

Divers Band Quintiles	Indicated Max Diversification Credit (Part 5) Size Band Quintiles				
	A	B	C	D	E
0					
1	-2614%	26%	-17%	328%	348%
2	-500%	-63%	2%	86%	87%
3	-405%	3%	28%	33%	68%
4	-206%	28%	42%	44%	67%
5	-413%	-23%	38%	36%	52%
All	-890%	0%	51%	80%	76%
	C3-E5	Unweighted	45.1%	Weighted	45.9%
		StdDev	13.5%	StdDev	12.9%

(Part 5) = 0.30 * (Part 3)/(Part 4)

Reserves

Divers Band Quintiles	Indicated Max Diversification Credit (Part 5) Size Band Quintiles				
	A	B	C	D	E
0					
1	-1739%	-2109%	394%	628%	1190%
2	-491%	-229%	43%	215%	367%
3	-232%	-73%	26%	96%	160%
4	-91%	-36%	22%	64%	83%
5	-165%	-2%	36%	50%	61%
All	-554%	-145%	73%	107%	121%
	C3-E5	Unweighted	66.5%	Weighted	66.3%
		StdDev	40.5%	StdDev	37.5%

(Part 5) = 0.30 * (Part 3)/(Part 4)

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Premium Indicated MDC—By Size and Diversification

Div Band	Size Band		
	A	B	C
1	-2614%	26%	-17%
2	-500%	-63%	2%
3	-405%	3%	
4	-206%	28%	
5	-413%	-23%	
All	-890%	0%	

Alternative Average	Indicated MDC
Using 6-cell averge D3.E5 (Largest)	50%
Using 6-cell average C4.E5 (Most diversified)	48%
Using 4-cell average D4.E5	50%

Div Band	Size Band	
	D	E
1	328%	348%
2	86%	87%

Div Band	Size Band		
	C	D	E
3	28%	33%	68%
4	42%	44%	67%
5	38%	36%	52%
	C3-E5	Wtd	45.9%
		StdDev	12.9%

1. Small companies indicate higher Line 4 factors.

That 'disconnect' appears as negative MDCs, i.e., a diversification surcharge.

2. Specialized companies, low diversification companies, indicate lower Line 4 factors.

That disconnect appears as a very high indicated MDC.

3. We focus on larger/more diversified companies.

There is a smaller, but still not small, variation in the indicated MDC in this group.

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Reserve Indicated MDC—By Size and Diversification

Div Band	Size Band A	B	C
1	-1739%	-2109%	394%
2	-491%	-229%	43%
3	-232%	-73%	
4	-91%	-36%	
5	-165%	-2%	
All	-554%	-145%	

Alternative Average	Indicated MDC
Using 6-cell averge D3.E5 (Largest)	80%
Using 6-cell average C4.E5 (Most diversified)	55%
Using 4-cell average D4.E5	64%

Div Band	Size Band D	E
1	628%	1190%
2	215%	367%

Div Band	Size Band C	D	E
3	26%	96%	160%
4	22%	64%	83%
5	36%	50%	61%
	C3-E5	Wtd	66.3%
		StdDev	37.5%

The variation in indicated MDC is qualitatively the same for reserve risk as for premium risk.

The variation in indicated MDC in the C3-E5 cells is wider for reserve risk than for premium risk.

For example, the 9-cell average is similar to the 6-cell and 4-cell averages for premium risk, but the alternatives vary much more widely for reserve risk.

This makes the selection of MDC less clear-cut than desirable.

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TEST LINEAR RELATIONSHIP

REGRESSION

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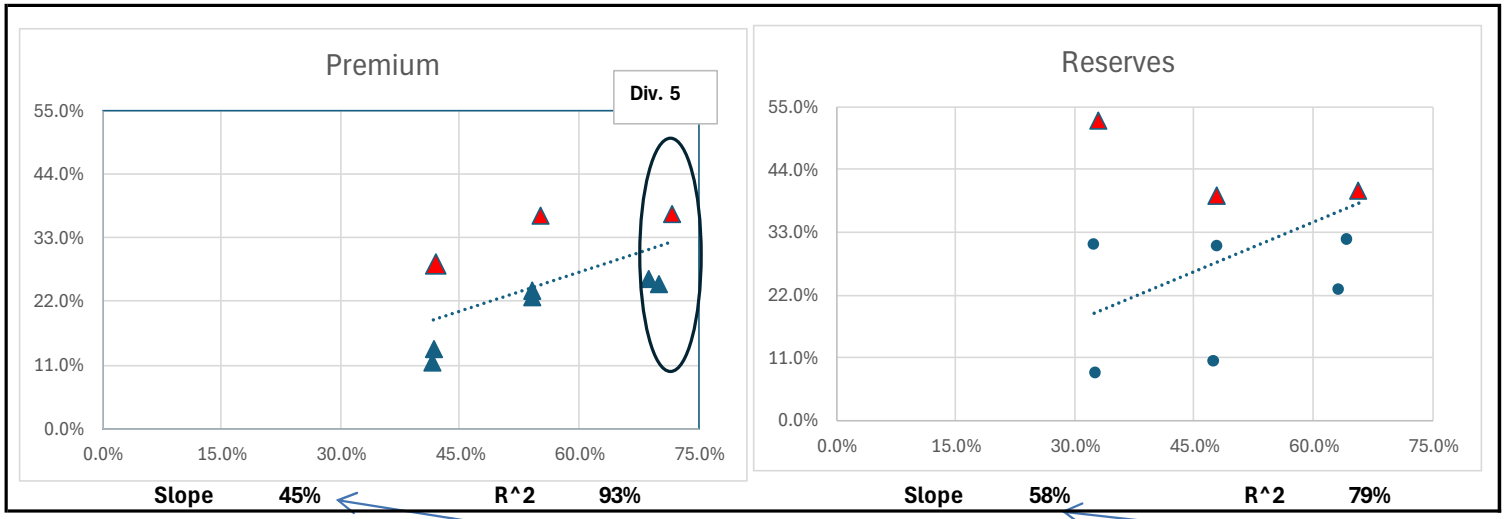
Regression Analysis of CoMaxLine% Approach
Is indicated Credit Linear with respect to CoMaxLine%?



Y-Axis = Indicated Risk Charge

X-Axis = Diversification Index (1-CoMaxLine%)

Slope = Indicated maximum diversification credit

Regression of diversification Index vs. indicated risk charge.

Size E shown with red triangles.

Note that these are generally outliers.

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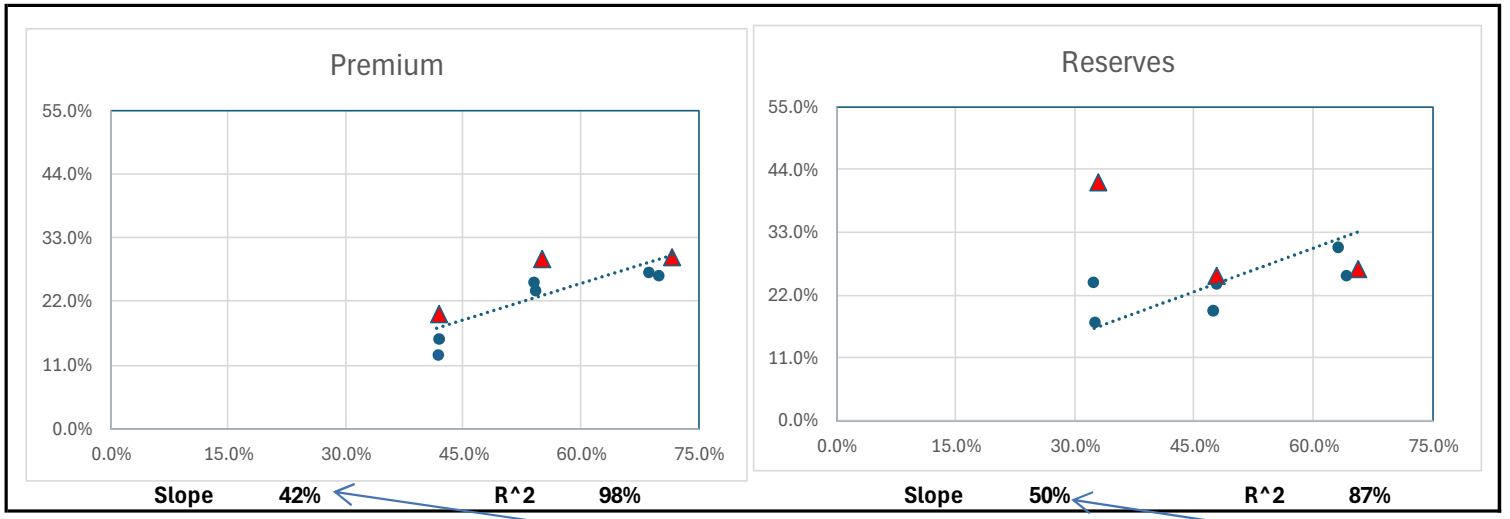
Regression Analysis of CoMaxLine% Approach- After Size Adjustment



Y-Axis = Indicated Risk Charge

X-Axis = Diversification Index (1-CoMaxLine%)

Slope = Indicated maximum diversification credit

Regression of diversification Index vs. indicated risk charge.

Size E shown with Red triangles.

Variability is reduced for all size bands after size adjustment.

Apart from reserves Div 3, Size E is more in line with other sizes.

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Finding 2

Finding 2:

While the linear relationship between diversification credit and CoMaxLine% is not exact, considering the alternatives, the Committee believes it is a reasonable approximation, especially for more diversified companies.

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ALTERNATIVE INDICATED MDCs

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Time Periods and Use of RBC Data—Additional Alternatives 21

(1)	(2)	(3)
Label	Indicated MDC	
	Premium	Reserves
Base indicated MDC	46%	66%
Early 15 Years vs. Recent 15		
Yrs - 1988-2002	42%	58%
Yrs - 2003-2017	63%	85%
Use RBC Two-Year LOB Data		
AS + RBC	56%	59%

1. Time frame:
Earlier period indicated MDC is lower-→greater between line dependency.

Two factors that might contribute are lower catastrophe activity and higher inflation/ interest rates in the earlier period.

2. RBC data:
Line 4 calibration used RBC data to calibrate "risk factors for Two-Year LOBs and AS data to calibrate risk factors for Ten-Year LOB risk factors.

Calibrating dependency involves combining Two-Year and Ten-Year LOBs, and there are technical issues in melding those data sources.

We lack sufficient transparency in the RBC data to evaluate the reasons for the observed difference in MDC indications, so we rely on AS data.

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Alternative Indicated MDCs—Summary

Item	Alternative Method	Indicated MDC	
		Premium	Reserve
1	Base indicated MDC	46%	66%
2	Use Size Adjusted Line 4 Factors	42%	56%
3	Using combined RBC and Annual Statement data to calibrate indicated MDCs	**56%**	59%
4	Using 6-cell averge D3.E5 (Largest)	**50%**	**80%**
5	Using 6-cell average C4.E5 (Most diversified)	**48%**	55%
6	Using 4-cell average D4.E5	**50%**	64%
7	Regression analysis	45%	58%
8	Early years only (1988-2002)	42%	58%
9	Recent years only (2003-2017)	**64%**	**85%**
	Yellow= MDC lower than row 1		
	Green = MDC higher than row 1		

This summarizes the alternatives we have discussed.

These are reasonable alternatives for the NAIC to consider.

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QUALITATIVE CONSIDERATIONS

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Qualitative Considerations

Theoretical Framework

1. Diversification Metrics / Risk Theory vs Ratemaking and Risk Classification

Technical Issues

2. Order of Operations—IIA and Diversification Credit

As with every analysis

3. Calibration Safety Level

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1a. Why Use CoMaxLine% and Not "Something Better"?

We reviewed and considered the conclusion from the two 2019 Casualty Actuarial Society (CAS) Dependency and Calibration Working Party (DCWP) reports on alternative diversification formulas.

DCWP considered alternatives to CoMaxLine%, including:

- The Correlation Factor approach,
- The CoMaxLine% approach using LOB risk, rather than LOB premium/serves ("volume"), and
- The Herfindahl-Hirschman Index (HHI), rather than CoMaxLine%.

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1b. Why Use CoMaxLine% and Not "Something Better"

DCWP found that alternatives to CoMaxLine%:

- Do not produce very different results, by company,
- Do not indicate greater accuracy, and
- Are not theoretically more appropriate in the context of the RBC Formula.

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1c. Why Correlation Approach in Not Theoretically Better than CoMaxLine% in RBC

Individual Company Capital Modeling (ICCM): Grounded in Risk Theory

Company-specific risk charges relate to risks underwritten by the insurer.

Multiple risks combined with **correlation relationships**.

Unlike the ICCM, the RBC Formula is calibrated from and applies to a heterogeneous population of insurers.

The ICCM risk correlation assumptions do not generally apply.

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1d. Where ICCM Correlation Fails for RBC—Example

Risk Theory Ideal (ICCM)

Company-specific correlation mode→ homogeneous risk distributions.

[Company 1A] → LOB A (σA)
[Company 1B] → LOB B (σB)
↓ ↓
Combined in Risk Theory: ↓
[Company 2: A+B] → Combined Risk = $\sqrt{(\sigma A^2 + \sigma B^2 + 2\rho\sigma A\sigma B)}$

If correlation ρ < 1, diversification lowers total risk: **Risk(A + B) < Risk(A) + Risk(B).**

RBC Reality		
Co	**LOBs**	LOB Risk Factors / Comment
1A	A only	LOB A = 5%—Specialist, lower risk
1B	B only	LOB B = 6%—Specialist, lower risk
2	**A + B**	LOB A = 6%, LOB B = 7%—Multi-line, higher indicated risk; correlation breaks

More generally, risk for any LOB can depend on insurer characteristics and the particular LOBs it writes.

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1e. Our Calibration Framework is Like Ratemaking and Risk Classification

Our Framework is more akin to Ratemaking and Risk Classification. We:

- Measure the extent to which companies writing more LOBs have lower indicated risk charges than companies writing fewer LOBs, "diversification."
- Calculate the overall average credit for diversification.
- We allocate that credit to individual companies based on a reasonable method.

The "reason" companies writing more LOBs may have lower risk charges includes risk theory diversification, but may also include other variables, favorable or unfavorable, aligned with writing more LOBs, e.g., size, riskier sub-lines of business, geographic diversification, deeper controls, less specialization… The "reason" does not affect the indicated credit.

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2. Apply IIA Before or After Diversification Credit

Current:

Diversification Credit calibrated with data before IIA.

Diversification Credit applied after IIA

Alternative

No change

Diversification Credit applied before IIA.

Alternative requires a change to the Formula.

Alternative produces higher diversification credits/Lower RBC values

Alternative appears logical, but requires further research.

Impact

Item	Premium	Reserve
% Diversification Credit	39%	62%
% Risk Charge	-7%	-11%
% Reserve/Premium	-1%	-2%

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3. Calibration Safety Level

Adopting an increase in the indicated MDCs reduces the implied safety level in RBC Values.

We do not measure that reduction nor determine whether the total RBC is appropriate for regulatory purposes. That is beyond the scope of this Report.

Adopting a change to the RBC Formula implies an NAIC assessment, possibly judgmental, that the resulting safety level remains appropriate, and that no offset is required.

Note: Since the implementation of the RBC Formula, some changes have increased the implied safety level (e.g., RCAT set at the 1-in-100 safety level and the addition of the operational risk charge at 3% of RBC); Other changes decreased the implied safety level (e.g., reduced fixed income risk charges for assets and reduced reinsurance credit risk charges).

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Questions?

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Report to the National Association of Insurance Commissioners Property and Casualty Risk-Based Capital (E) Working Group

Property and Casualty Risk-Based Capital Premium and Loss Concentration Factors

Presented by the American Academy of Actuaries[1]
Property and Casualty Risk-Based Capital Committee

November 7, 2025

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policy makers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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The analysis and conclusions in this Report reflect the opinions of the committee members and do not necessarily reflect the views of their employers or the actuarial organizations in which they are members.

CONTENTS

1. BACKGROUND

The American Academy of Actuaries Property and Casualty Risk-Based Capital Committee ("Committee" or "We") prepared this Report ("Report") at the request of the National Association of Insurance Commissioners' ("NAIC") Property and Casualty (P&C) Risk-Based Capital (RBC) Working Group ("NAIC Working Group" or "Working Group").

In this Report, we evaluate the indicated Loss Concentration Factor ("LCF") and Premium Concentration Factor ("PCF")—RBC Line 14 on pages PR017 and PR018, respectively.[2]

The LCF/PCFs have not been revised since the inception of the RBC Formula.

This is Report 3 in the series of reports described to the NAIC Working Group in May 2019:

- Report 1: Indicated risk factors (Line 4 in the RBC Formula pages PR017 and PR018). We refer to these as Line 4 Factors. This report was submitted to the Working Group in March 2021 and revised in April 2021 ("April 2021 Report"[3]).
- Report 2: Indicated Investment Income Adjustment (IIA) factors (Lines 7/8 in the RBC Formula) and updated indicated Line 4 Factors. This report was submitted to the Working Group in August 2023 ("August 2023 Report"[4]).
- Report 3: This Report on indicated LCFs and PCFs.

The analysis presented in this Report uses the same insurance industry data as Reports 1 and 2, i.e., data evaluated through December 31, 2017.[5]

[2] "PR017" and "PR018" refer to pages in the 2022 NAIC P&C RBC Formula forms, which insurers file annually on a confidential basis.

[3] American Academy of Actuaries Property and Casualty Risk-Based Capital Committee, "Report to the National Association of Insurance Commissioners Property and Casualty Risk-Based Capital (E) Working Group Update to Property and Casualty Risk-Based Capital Underwriting Factors Experience Through December 31, 2017," Presented March 2021 (Revised April 21, 2021).

[4] American Academy of Actuaries Property and Casualty Risk-Based Capital Committee, "Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors," Presented Aug. 31, 2023.

[5] Substantial work is involved in data preparation for the three analyses in the May 2019 letter to the NAIC. Therefore, we planned to produce the three reports with the same data. While the Reports have taken longer than we anticipated, adding additional data was not clearly beneficial as (a) processing additional data would have delayed this report, (b) the data includes 30 AYs, 1988-2017, so the effect of adding a small number of years, unless they identify new trends, is not likely to be material, and (c) any new trends from additional data through 2022, for example, would include the initial COVID effects on claim frequency and severity, but not the full cycle of COVID emergence in favorable and unfavorable impacts on loss ratio and reserve development. Furthermore, both this study and CAS Dependency and Calibration Working Party (DCWP) Report #14, which used data through 2010, support an increase in the MDC.

LCF/PCF in RBC Formula

RBC Terminology

Unless otherwise specified, references to the RBC Formula relate to the formula used for the year-end 2022 RBC Formula. "Indicated risk factors" are the indicated Line 4 premium and reserve risk factors presented in the Academy's August 2023 Report 2.[6]

The Authorized Control Level (ACL) capital is 50% of the Company Action Level (CAL) capital value calculated using the RBC Formula.[7] The factors we discuss herein are used to produce the CAL required capital value.

LCF/PCF

The LCF and PCF components of the RBC Formula reduce the Total Reserve RBC value on PR017 and the Net Written Premium RBC value on PR018 for multiline companies. For each company, the concentration is measured as the largest of the 19 RBC lines of business (LOBs) premiums or reserves, divided by the total premium or reserve.

- This ratio is 100% for monoline companies.
- The ratio is lower, though greater than zero, for diversified companies.

We refer to this method of measuring concentration as the Company Maximum Line Percentage of Business or "CoMaxLine%" approach, denoted as $\text{CoMaxLine\%}_{\text{premium}}$ and $\text{CoMaxLine\%}_{\text{reserve}}$, for premium and reserve risk, respectively.

The CoMaxLine% approach includes a parameter we call the Maximum Diversification Credit (MDC). The MDC is the notional maximum diversification credit for a company with a not achievable zero concentration ratio.[8]

[6] The NAIC decided that, except for a small number of LOBs lines affected by specific issues, the Line 4 Factors indicated in the August 2023 Report will be implemented partly in the 2024 RBC Formula and fully in the 2025 RBC Formula.

[7] If the company's Total Adjusted Capital is below the Company Action Level (CAL) value from the RBC Formula, then, according to the RBC Instructions, subject to state laws and regulations, "…the company [is required] to prepare and submit an RBC Plan to the commissioner of their state of domicile. The RBC Plan is to be submitted within 45 days. After review, the commissioner will notify the company if the plan is satisfactory." The value produced by the RBC Formula on PR032, Line 71, is the CAL value.

The Authorized Control Level (ACL) capital is 50% of the CAL value. "Authorized Control Level authorizes the commissioner to take whatever regulatory actions are considered necessary to protect the best interest of the policyholders and creditors of the insurer, which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation)."

[8] 0% concentration is not achievable because the number of LOBs is finite, but premium or reserves equally spread among 19 LOBs would produce a concentration value of 1/19 or approximately 5%. With CoMaxLine% equal to 5%, the concentration factor would be 0.715 and the diversification credit would be 28.5%.

In the current RBC Formula, the MDC is 30%. The MDC is applied linearly based on CoMaxLine%[9] for each company as follows:

- $PCF_{COMPANY} = (1 - MDC) + (MDC * CoMaxLine\%_{premium})$, or
- $PCF_{COMPANY} = 0.7 + 0.3 * CoMaxLine\%_{premium}$

- $LCF_{COMPANY} = (1 - MDC) + (MDC * CoMaxLine\%_{reserves})$, or
- $LCF_{COMPANY} = 0.7 + 0.3 * CoMaxLine\%_{reserves}$

Thus, the diversification credit is 1.0 - PCF or 1.0 - LCF, for premium and reserves, respectively. A monoline company receives no diversification credit as the PCF and LCF equal 1.0.

The Total Net Reserve RBC (PR017) and the Net Written Premium RBC (PR018) are each calculated by summing the RBC amounts across all LOBs and multiplying by the LCF or PCF, on PR017 and PR018 Lines 13 and 14, respectively.

Origin of CoMaxLine% and 30% MDC

The CoMaxLine% approach was originally selected during the mid-1990s when the RBC Formula was developed. The CoMaxLine% formula with the 30% MDC was presented in a February 1993 Actuarial Advisory Committee report to the NAIC P/C Risk-Based Capital Working Group.[10,11]

It was adopted as part of the original RBC Formula and has not been revised since.

[9] For example, a company with 25% of its premium in its largest line would have PCF = 0.7 + 0.3 * 0.25 = 77.5% under the CoMaxLine% approach. It would receive a diversification credit equal to 1.0 – PCF = (1.0 – $CoMaxLine\%_{premium}$) * MDC = 75% of 30% = 22.5%. The credit is applied to the sum of the risk charges by LOB. In other words, the risk charges would be summed across all LOBs and then that sum would be multiplied by 0.775 (77.5% = 100% - 22.5%). A monoline company has a zero diversification credit and CoMaxLine% = 100%.

[10] "Report on Covariance Method for Property-Casualty Risk-Based Capital," pages 173-202.

We have not identified references to NAIC discussion of the 30% MDC in the Actuarial Advisory Committee report.

[11] Our calibration approach and the 1993 calibration approach are different. For example, our MDC calibration approach is based on 87.5th percentile outcomes (consistent with the Line 4 calibration). This differs from the 1993 MDC calibration approach which was based on standard deviations and correlations.

2. IMPACT OF REVISED LCF/PCF

Based on the Committee's work, described in detail in this report, the Committee believes:

- MDCs of 45% for premium and 65% for reserves are reasonable selections and are better supported by the data than the current 30% MDC.

  We refer to these as the indicated MDCs.

- There are alternative reasonable MDC selections that the NAIC might select, and we discuss some of them, below, in Section 3/ Alternative Indicated MDCs.

- With the indicated MDCs, the PCF and LCF formulas would be

  - $PCF_{COMPANY} = 0.55 + 0.45 * CoMaxLine\%_{premium}$
  - $LCF_{COMPANY} = 0.35 + 0.65 * CoMaxLine\%_{reserves}$

- While the CoMaxLine% approach is not perfect, considering the alternatives, the Committee believes it is a reasonable approximation, especially for more diversified companies.

Tables 2-1 through 2-5, below, show the effect on ACL reserve risk charges and premium risk charges of adopting MDCs of 45% for premium and 65% for reserves.

Table 2-1: Average RBC Value Change

Table 2-1 shows the change in RBC values assuming MDCs of 45% and 65%, in total and by Type of Company,[12] based on NAIC staff analysis using 2025 Line 4 risk factors and Line 7/8 IIA Factors.

[12] As described in the April 2021 Report 1 and August 2023 Report 2, each LOB is categorized by the NAIC P&C Working Group as typical of a particular Type of Company, e.g., B-PPA is typical of Personal Lines companies. For each company, the category with the largest amount of net written premium (NWP) + reserves determines the Type for that company. For example, a company with more of its premium in B-PPA, Homeowners A-HO and J-APD than in any of the other groups of LOBs is categorized as Personal Lines as opposed to Commercial Lines. Report 2, Appendix 8, pages 114-115, provides more details.

Table 2-1
Indicated Changes in RBC Values by Type of Company[13]

(1)	(2)	(3)	(4)	(5)	(6)
Row	Type of Company	ACL - $ Billions (2022)	% Change		
			Reserve Risk Charge	Premium Risk Charge	ACL
1	Commercial	84.4	-21.6%	-11.7%	-13.4%
2	Med Prof Liab	2.9	-8.0%	-3.4%	-1.9%
3	NOC	0.7	-6.5%	-3.1%	-2.2%
4	Personal	100.2	-18.2%	-9.2%	-2.1%
5	Reinsurance	9.5	-22.3%	-11.4%	-2.4%
6	Workers Comp	7.5	-10.0%	-4.5%	-5.7%
7	Total	205.3	-20.0%	-10.0%	-6.9%

From individual company RBC Filing data, summarized by NAIC staff and provided, in summary form, to this Committee.
Uses 2022 RBC Formula, but using 2025 Line 4 Factors and Line 7/8 IIA Factors. Compares ACL with 30% MDC to ACL with indicated MDCs.
Including only companies with RBC Filings in 2022 and 2022 non-zero net written premium plus loss reserves (NWP+Rsv>0).
NOC = "Not otherwise classified" Type of Company.[14]

Table 2-1 shows that the weighted average impacts are:

- Reserve risk is decreased by 20%.
- Premium risk is decreased by 10%.
- ACL is decreased by 6.9%.

The Table also shows:

- Reserve risk and premium risk reductions are largest for Commercial, Personal, and Reinsurance Types of Companies.
- However, the ACL reduction for Reinsurance and Personal companies is much smaller than for Commercial companies.

  This is because Reinsurance and Personal Types of Company have a greater share of RBC from risk categories other than reserve risk and premium risk, and the RBC values from those risks are not affected[15] by the change in diversification.

[13] Including only companies with 2022 RBC Filings and non-zero net written premium plus loss reserves.

[14] "NOC," standing for Not Otherwise Classified, means companies for which the portion of net written premium plus loss reserves is greatest for the sum of the following LOBs: G-SL, K-Fid/Sur, L-Other, M-Intl, or S-FG/MG. See glossary for LOB abbreviations definition.

[15] Although, in some cases, the R3-credit risk is affected by the relative values of reserve risk and reinsurance credit risk.

Table 2-2: Distribution of % Change in RBC Value

Table 2-2 shows the number of companies with various percentage changes in ACL value, comparing the ACL value using the current MDC to the ACL value using the indicated MDC.

Table 2-2
Distribution of Number of Companies by Change in ACL Values

(1)	(2)	(3)
% Changes in ACL	# Companies	% Companies
Less than -50%	0	0%
-35% to -50%	0	0%
-25% to -35%	46	3%
-15% to -25%	202	11%
-5% to -15%	500	28%
0% to -5%	676	37%
0%	393	22%
Greater than 0%	0	0%
Total	1,817	100%

Excluding companies with zero NWP+Rsv.

This table shows:

- No company sees an increase in ACL.
- 59% of companies see ACL decreases between 0% and 5%.
- 3% of companies see a decrease in ACL greater than 25%.

The individual company data shows that the largest decrease in ACL value is 29%.

Tables 2-3 through 2-5: ACL Changes by Size and Diversification

These tables show changes in:

- Reserve Risk (Table 2-3)
- Premium Risk (Table 2-4)
- ACL (Table 2-5)

We show five size bands, A-E, each with 20% of the companies. Underwriting (UW) Size in these Tables equals the sum of net written premium and net reserves.

We show six levels of diversification.[16]

- Level "0" refers to monoline companies.

[16] In Table 2-3 through 2-5, diversification by company is the weighted average of the premium diversification and the reserve diversification, calculated as the square root of the sum of (a) the square of premium diversification credit in dollars, plus (b) the square of the reserve diversification credit in dollars.

- Levels 1-5 refer to five levels of diversification, each with 20% of the non-monoline companies.

Table 2-3 – Reserves
% Change in Reserve Risk Value by UW Size and Diversification

Div/Size	A	B	C	D	E	All
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1	-0.9%	-1.4%	-1.6%	-2.1%	-2.2%	-2.1%
2	-5.8%	-6.0%	-8.4%	-6.5%	-8.4%	-8.2%
3	-10.7%	-12.9%	-10.4%	-14.4%	-12.2%	-12.3%
4	-17.1%	-22.9%	-19.1%	-18.9%	-19.5%	-19.5%
5	-17.9%	-26.4%	-25.4%	-26.4%	-29.3%	-29.2%
All	-3.2%	-8.0%	-11.7%	-13.8%	-20.6%	-20.0%

Table 2-4 – Premium
% Change in Premium Risk Value by UW Size and Diversification

Div/Size	A	B	C	D	E	All
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1	-0.1%	-0.7%	-0.9%	-1.2%	-1.2%	-1.1%
2	-3.0%	-3.3%	-4.1%	-3.4%	-4.0%	-3.9%
3	-6.5%	-5.9%	-6.9%	-7.1%	-8.1%	-8.0%
4	-8.9%	-8.3%	-9.0%	-9.7%	-11.0%	-10.9%
5	-11.1%	-12.2%	-13.2%	-13.2%	-13.9%	-13.8%
All	-1.4%	-3.2%	-6.1%	-7.3%	-10.4%	-10.0%

Table 2-5 – Total ACL
% Change in Unweighted ACL Value by UW Size and Diversification

Div/Size	A	B	C	D	E	All
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1	-0.5%	-0.6%	-0.9%	-1.0%	-0.7%	-0.7%
2	-1.8%	-3.3%	-3.3%	-3.7%	-3.9%	-3.2%
3	-4.6%	-6.0%	-6.6%	-8.7%	-8.3%	-7.1%
4	-6.7%	-7.4%	-10.7%	-10.7%	-12.5%	-10.5%
5	-7.4%	-14.9%	-16.2%	-17.7%	-16.6%	-16.6%
All	-3.5%	-5.4%	-6.3%	-7.0%	-7.0%	-6.4%

Table 2-5 shows the unweighted average effect on ACL, as several very large companies have unusual values for RBC risks other than reserve risk and premium risk. As a result, the weighted averages distort patterns by size and diversification that apply to most companies.

Therefore, "All" in Table 2-5, 6.4%, differs from the average in Table 2-1, 6.9%, which is weighted by ACL value.

Tables 2-3 and 2-4 show average effect weighted by premium/reserves, within each cell, so "All" in Tables 2-3 and 2-4 agree with the average in Table 2-1.

These tables show the following:

- The effect of the change in MDC is zero for monoline companies (diversification band 0) and largest for companies with diversification level 5.
- The impact of the change in MDC is greater for reserve risk than for premium risk.
- In total, the row "All," larger companies tend to be more diversified, hence see greater ACL reductions.

Based on past practices, we note that the NAIC might provide additional analysis of MDC impact after evaluating this report; for example, the extent to which there are changes in the number of companies below the various RBC action levels or the distribution of companies with capital at specific multiples of CAL.

3. SUMMARY – APPROACH, KEY FINDINGS, AND SENSITIVITY TESTS

The CoMaxLine% approach assumes:

- The MDC, which determines the total diversification credit arising from the RBC Formula, is 30%, and
- Diversification credit by company is proportional to 1.0-CoMaxLine%.

In this Section, we summarize our analysis of these CoMaxLine% assumptions. For this summary and in the remainder of this report, we assume the reader has some knowledge of the methods used in Reports 1 and 2.

Approach & Findings

Data (Section 4)

Separately for premium and reserves:

1. We compile all-lines loss ratios (LRs) and reserve runoff ratios (RRRs) for each individual company (or each pool, for companies reporting on a pooled basis, for simplicity, referred to below as a "company," "company/year," or "data point") for each year 1988 to 2017.

   There are approximately 50,000 company/years of data across all years, for each of the premium and reserve data sets.

2. We assign each company to one of five size bands, referred to as A-E, with an equal number of companies in each size band.

   We also assign each company to one of six diversification bands, one monoline and 5 multi-line bands, referred to as 0-5, with an equal number of multi-line companies in each size band.

   Thus, there are 5x6=30 size/diversification cells.

Indicated Diversification Credit (Section 5-Part 1)

3. For each of the 30 size/diversification cells, we calculate the 87.5th percentile Accident Year Underwriting Loss % (AYUL%) and Reserve Runoff Ratios (RRRs) for companies in that cell. We refer to this as the **Observed Risk**.
4. For each of the 30 size/diversification cells, we also calculate the company average (each company counts once, regardless of size[17]) of premium and reserve RBC values (PR0018 and PR0017) before and after diversification, for companies in that cell.[18] We refer to this as the **Modeled Risk**, before or after diversification.

[17] This is consistent with the calibration of Line 4 Factors.

[18] The premium and reserve values in the Modeled Risk are based on the RBC formula with some simplifications: We do not include the IIA, the own-company adjustment, the loss-sensitive contract adjustment, or the growth risk charge. For premium risk, we used a simplified expense calculation. Section 7 describes these simplifications further.

5. The percentage difference between the Observed Risk and the Modeled Risk before diversification[19] is the indicated diversification credit for that cell.
6. For each cell, we calculate the MDC that would produce the indicated diversification credit for that cell, using the CoMaxLine% approach.

   By converting the indicated diversification credit by cell to an indicated MDC, we can compare the indicated MDC across diversification bands.

Overall Indicated MDC (Section 5-Part 1)

7. We calculate the weighted[20] average indicated MDC for the 9 cells: size bands C-E and diversification bands 3-5 that we refer to as cells C3-E5, or just C3-E5. These represent:
   a. 34% of premium company/years and 31% of reserve company/years,
   b. 84% of premium and 74% of reserves.
   c. 96% of the total premium diversification credit and 97% of the reserve diversification credit.[21]

   The resulting indicated MDCs are 45% for premium and 65% for reserves.

Finding 1:
Based on the above analysis, the committee believes that MDCs of 45% for premium and 65% for reserves are reasonable selections and are better supported by the data than the current 30% MDC. We refer to these as the indicated MDCs.

There are reasonable alternative MDC selections, some of which we discuss in the Alternative Indicated MDCs subsection below.

RBC Diversification Credit by Company (Section 5-Part 2 and Appendix 3)

8. We use regression through the origin to test the hypothesis that there is a linear relationship between CoMaxLine% and indicated diversification credit by level of diversification.
9. We reviewed the two 2019 Casualty Actuarial Society (CAS) Dependency and Calibration Working Party (DCWP) reports on alternative diversification formulas.[22]
   a. DCWP considered alternatives to CoMaxLine%, including:
      i. The Correlation Factor approach,

[19] Since the Observed Risk and the Modeled Risk are calibrated to the 87.5th percentile, runoff, safety level, we interpret the result as the 87.5th percentile, runoff, MDC.

[20] Weights are equal to the number of data points in each cell.

[21] Diversification credit measured as a percentage of Modeled Risk that does not reflect IIA, the own-company adjustment or the loss-sensitive contract adjustment.

[22] Report 13 - RBC LOB Diversification: Current RBC Approach vs. Correlation Matrix Approach, CAS E-Forum Winter 2019.

Report 14 - Calibration of LOB Diversification in Underwriting Risk Charges, CAS E-Forum Spring 2019

DCWP work was based on data through December 2010.

ii. The CoMaxLine% approach using LOB risk, rather than LOB premium/serves ("volume"),[23] and

iii. The Herfindahl-Hirschman Index (HHI),[24] rather than CoMaxLine%.

b. DCWP found that alternatives to CoMaxLine%:

i. Do not produce very different results, by company,

ii. Do not indicate greater accuracy, and

iii. Are not theoretically more appropriate in the context of the RBC Formula.[25]

10. The indicated MDCs using the approach outlined above are largely independent[26] of the method of measuring diversification by company.

Therefore, to that extent, the choice of diversification formulas largely affects only the allocation by company and has only a limited effect on the total diversification credit across all companies.

Finding 2:
While the linear relationship between diversification credit and CoMaxLine% is not exact, considering the alternatives, the Committee believes it is a reasonable approximation, especially for more diversified companies.

[23] CoMaxLine%-Risk approach applies the CoMaxLine% framework to LOB risk rather than LOB volume, when calculating the LCF and PCF for a company. For clarity, as needed, we refer to the current implementation as CoMaxLine%-Volume and the alternative as CoMaxLine%-Risk.

For this purpose, LOB reserve risk equals reserve value times reserve risk factor. LOB premium risk equals premium value times premium risk factor plus expenses minus 100%. The PCF and LCF are calculated using LOB-risk rather than LOB-volume. For premium risk, implementation of this method requires expense information by LOB.

[24] HHI equals the sum of the squares of the LOB shares of total. For example, if there is only one LOB, HHI is 1.0, as is the case for the CoMaxLine%. With two lines split 25% and 75% HHI is 0.25^2 plus 0.75^2 or 0.625 compared to the CoMaxLine% of 0.750, i.e., HHI shows more diversification. With three lines split 50%, 25% and 25% HHI is 0.50^2 plus 0.25^2 plus 0.25^2 or 0.375, more diversification than the CoMaxLine% of 0.5. With two lines split 50% and 50% HHI and the CoMaxLine% are both 0.5.

[25] Except that CoMaxLine%-risk may be more appropriate than CoMaxLine%-volume.

[26] The indicated diversification credit from Approach Step 6 depends on the diversification allocation method only to the extent that different methods would assign companies to different diversification bands.

The indicated MDC from Step 7 depends on the extent to which diversification credit varies linearly with the CoMaxLine% diversification metric for the larger/more diversified companies, C3-E5.

DCWP analysis indicates the different methods tend to assign companies to the same bands and produce relatively similar diversification credits, especially for the more diversified companies.

Therefore, we can view the total diversification credit implied by Step 7 as being largely independent of the diversification metric, CoMaxLine%, or otherwise.

Finding 3:
We recommend further research on alternatives to the current RBC diversification approach, particularly the method we refer to as CoMaxLine%-Risk, which measures diversification by risk by LOB rather than dollars of premium/reserve.

Alternative Indicated MDCs

Table 3-1 identifies several other MDC selections that the NAIC could reasonably adopt, based on alternative assumptions.

Table 3-1
Alternative Indicated MDCs

Item	Alternative Method	Indicated MDC	
		Premium	Reserve
1	Base indicated MDC	46%	66%
2	Use Size Adjusted Line 4 Factors	42%	56%
3	Using combined RBC and Annual Statement data to calibrate indicated MDCs	**56%**	59%
4	Using 6-cell averge D3.E5 (Largest)	**50%**	**80%**
5	Using 6-cell average C4.E5 (Most diversified)	**48%**	55%
6	Using 4-cell average D4.E5	**50%**	64%
7	Regression analysis	45%	58%
8	Early years only (1988-2002)	42%	58%
9	Recent years only (2003-2017)	**64%**	**85%**
Yellow= MDC lower than row 1			
Green = MDC higher than row 1			

We discuss these alternatives below and provide further details in Section 6: Sensitivity Analysis. We note that any of these alternatives implies an MDC higher than the current 30%.

Row 1: Base Indicated MDC

Row 1 presented the MDC indicated method outlined above and described in more detail in Section 5.

Row 2: Company-size ("Size Adjusted")

The indicated MDC is sensitive to the fact that company-size is not reflected in Line 4 Factors.

Larger companies exhibit both greater diversification and, independently, a lower indicated risk charge. Therefore, part of the apparent diversification effect can be attributed to size.

Notwithstanding that analysis, we do not "remove" the effect of size from the MDC calibration, as our goal is to produce an MDC reflecting the structure of the RBC Formula, which does not reflect variation in risk charge by company-size.

The NAIC could reasonably make a different choice in the treatment of company-size differences and MDCs.

Row 3: Use RBC Filing Data ("AS+RBC")

The base analysis uses Annual Statement (AS) data for both Two-Year LOBs and Ten-Year LOBs. However, RBC Filing data (RBC data) for Two-Year LOB data has certain advantages relative to AS data.[27]

Working with NAIC personnel, we attempted to match AS company/years with RBC company/years, replacing the AS LOB data point with a higher-maturity RBC data point. This match was only partially successful.[28]

Due to limited access to RBC source data, we rely on AS data for our base indications. The NAIC could reasonably make a different choice.

Rows 4-6: Selected Size/Diversification Cells

The indicated MDC uses 9 cells, C3-E5. There is a significant degree of variability in the indicated MDC from each of those cells, especially for the reserve. Using subsets of those 9 cells produces different indicated MDCs, again, especially for the reserve MDC.

In Section 6, we provide more details on the variation in the indicated MDC by size/diversification band.

Row 7: Regression Analysis

We use regression through the origin to test the hypothesis that there is a linear relationship between CoMaxLine% and indicated diversification credit by level of diversification. The slope of the regression curve represents an indicated MDC.

- For premium, the regression slope is very similar to the average of the 9 cells.
- For reserves, the regression slope is lower than the average of the 9 cells.

Row 8-9: Alternative Time Periods

The base analysis uses AYs 1988-2017 for premium and initial reserve years 1988-2016 for reserves (referred to as "2017 (2016)" below). That covers a range of inflation/interest and underwriting environments, which we believe is appropriate.

[27] In AS data, for Two-Year LOBs, the maximum maturity for LRs and for RRRs is two years, but it is ten years in RBC data. For Two-Year LOBs, the RBC data includes only companies that are subject to RBC, while the AS data includes all companies.

A disadvantage of RBC data is that it does not include Prior Year data for reserve development, while AS data does.

[28] RBC Filing data and AS data have claims at different valuation dates, for the same AY or initial reserve year. Therefore, the RBC Filing data and AS data may be assigned to pools differently, and will not "match." Also, companies in runoff will have reserve data in only the "prior" row of Schedule P. Prior row data is not reported in RBC Filings. Not all companies make RBC filings.

When there was no matching year, we used the AS values for Two-Year LOBs.

When we divide the experience into two equal periods--1988-2002 and 2003-2017 (2016)--the earlier period shows substantially lower MDCs, suggesting greater between-line dependencies than in the more recent period. This might be a statistical fluctuation due to variability in the indicated MDCs[29] and because the more recent data is less mature than the older data.

However, two other features that might contribute to this difference are lower catastrophe activity and higher inflation/interest rates in the earlier period. We discuss these issues further in Section 7.

Summary of Alternative Indicated MDCs

While there is a range of indicated MDCs, any of these alternatives indicates an MDC in excess of 30%, the current MDC.

Issues for Future Research

Interaction of Diversification Credit and IIA (Section 7 and Appendix 2)

The indicated diversification credit is **calibrated** based on LR and RRR data on a **nominal value** (NV) basis, not a present value (PV) basis. However,

- The diversification credit is **applied** to premium/reserve risk on RBC PR0017 and PR0018 Line 13 after application of the IIA, i.e., **PV basis**, and
- If the diversification credit (based on NV analysis) were applied to the risk charge before the IIA (i.e., NV basis), the effect of the diversification credit would be larger, and the RBC value would be smaller.

We discuss this further in Section 7/Additional Considerations and Appendix 2

We have not evaluated this issue sufficiently to recommend a change in the RBC Formula.

Effect of Changes in Interest Rate/Inflation Environment (Section 7)

Report 2 showed that there is an interaction between Line 4 risk factors and interest/inflation rates. To address that interaction, we evaluated indicated risk charges on a present value (PV) basis--Line 4 risk factors and Line 7/8 IIA Factors combined. We separated these into NV Line 4 Factors and IIA Factors, which, combined, produced the target PV risk charges.

In this Report, we calibrate the indicated MDC based on a comparison of NV Observed Risk and NV Modeled Risk. In doing this, we assume that the ratio of PV Observed Risk Value to PV Modeled Risk Value is comparable to the corresponding NV ratios.

We discuss this assumption further in Section 7.

[29] Looking across the 9 cells, C3-E5, variability is large. The values for early-year and later-year indicated MDCs are within one standard deviation of the all-year indicated MDC for reserve risk. See Table 5-2 A and B for values of the standard deviation.

Finding 4:
The treatment of the IIA/Diversification interaction and the effect of a fully PV analysis are matters for future research.

Other Areas of Future Research

There are other areas of future research that we identify in this Report. We list those in Finding 5, below.

Finding 5:
Other areas of future research for dependency analyses that we identify in this Report are the following:

Calibration net of cats covered by R-Cat
Resolving issues in combining RBC and AS data
Within the CoMaxLine% approach, or any alternative, test square, square root, or other relationships between diversification index and diversification credit, rather than the current linear relationship.

General Considerations:

Ratemaking versus Risk Theory (Appendix 3)

RBC calibration is often understood in the context of risk theory. However, there are limitations to that framework, as outlined below.

Individual Company Capital Model Calibration: Grounded in Risk Theory

In an individual company capital model (ICCM), each LOB has a company-specific risk distribution, reflecting its underwriting, claims, reinsurance, and other practices. These company-specific LOB risk distributions are aggregated using empirically-derived or expert judgment-based correlations.

RBC Calibration: Grounded in Risk Classification

Unlike the ICCM, the RBC Formula is calibrated from, and applies to, a heterogeneous population of insurers. The ICCM risk correlation assumptions do not apply.

Variation in Risk within LOB

Consider Company 1A (writing LOB A), Company 1B (writing LOB B), and Company 2 (writing LOBs A and B). Company 2 is more diversified than either Company 1A or Company 1B. Risk theory suggests that the risk charge for Company 2 should be lower than the sum of the risk charges for Company 1A plus Company 1B, depending on the degree of correlation between the LOBs.

However, that expectation assumes that the risk distributions for LOBs A and B in Companies 1A and 1B are the same as the risk distributions for LOBs A and B in Company 2, respectively.

That assumption is not routinely valid. See Appendix 3 for examples.

Risk Classification Provides a Better Conceptual Framework

Therefore, risk classification and manual ratemaking provide a better framework for reflecting diversification in RBC. Specifically, in the risk classification framework, calibrating dependency

means measuring the extent to which companies writing more LOBs have different indicated all-lines risk charges than companies writing fewer LOBs.[30]

In this Report, diversification calibration means:

- The total credit for diversification is estimated empirically as we present in Tables 5-2A and 5-2B. This measurement is analogous to calculating the statewide indicated rate levels in manual ratemaking.
- Diversification is a "risk characteristic" that can be used to allocate credits across degrees of diversification using a reasonable formula, e.g., CoMaxLine%, CoMaxLine%-Risk, and Correlation Factor. This is analogous to setting territorial rate differentials.
- Not all risk characteristics are used in a particular risk classification system, e.g., company-size is not used.
    - The RBC Formula does not consider risk characteristics like company-size, Type of Company, or variations in LOB sub-segments that are not in the Formula.
    - Instead, the calibration considers aggregates across those risk characteristics.
- The Formula is intended to be reasonable overall, but will not be "exact" for any particular insurer.

Calibration Safety Level (Section 7)

There is no explicit overall safety level target for the CAL level in the P&C RBC Formula. Nonetheless, we understand that the prevailing regulatory view is that the implicit safety level has produced satisfactory results.

The indicated MDCs presented in this report are larger than the MDC in the RBC Formula. This suggests that the current RBC Formula incorporates some conservatism in the underwriting risk elements, relative to the 87.5th percentile/runoff time horizon safety level. Thus, even though the Line 4 Factors are calibrated at the 87.5th percentile, the Line 4 Factors combined with the conservative MDCs produced a safety level higher than the 87.5th percentile.

To maintain a satisfactory overall safety level for CAL, adopting a significant change to any element of the RBC Formula should include an assessment, possibly on a judgment basis, of whether the resulting overall impact on the safety level is appropriate, and then to what extent a reduction (or increase) in one area might indicate a corresponding increase (or decrease) in another area to achieve the desired overall level.[31]

[30] More precisely, we measure diversification using CoMaxLine%, but that correlates to the number of LOBs written.

[31] Since the implementation of the RBC Formula there have been changes that have increased the implied safety level (e.g., RCAT set at the 1-in-100 safety level and the addition of the operational risk charge at 3% of RBC). There have also been changes that decreased the implied safety level (e.g., reduced fixed income risk charges for assets and reduced reinsurance credit risk charges).

Specifically, adopting the indicated MDC in the RBC Formula reduces the safety level for R4 and R5, and therefore CAL.

We do not measure the impact of adopting the indicated MDCs on R4, R5, or CAL safety levels, nor do we determine whether the total ACL is appropriate for regulatory purposes. That is beyond the scope of this Report.

4. DATA

For our analysis of the RBC diversification formula, we construct all-lines data points for each available company (pool)/year.[32,33] Each point represents either a premium or a reserve risk observation, i.e., a premium amount and LR or an initial reserve amount and RRR. Following the data treatment in Reports 1 and 2, we combine the data for multiple companies that pool their experience into a single "pooled" data point.

- For premium risk, the all-lines net earned premium (NEP) for each company-AY data point is the sum of the NEP across all LOBs in the risk dataset.

  For each company-AY, the all-lines loss ratio (LR) is the NEP-weighted average of LRs by LOB.

- For reserve risk, the all-lines initial reserve for each company-initial reserve date is the sum of the initial reserves across all LOBs in the reserve risk dataset.

  For each company-initial reserve date, the reserve risk is the all-lines average reserve runoff ratio (RRR) weighted by the initial reserves of each LOB.

There are approximately 50,000 all-lines data points each for premium risk and for reserve risk, totaling roughly 100,000 data points. We classify each data point by company-size and diversification as described below.

Company Size Bands

For each data point, i.e., each company/year, we measure size using either all-lines NEP (for premium risk) or all-lines initial reserve (for reserve risk). We assign each data point to one of five company-size bands, such that 20% of the data points fall into each. We label these company-size bands A (smallest) through E (largest).[34]

Company Diversification Bands

Separately for premium and reserves, for each company/year, we define the diversification index as 1.0-CoMaxLine%.[35] We assign each data point to one of six diversification bands:

[32] Our risk data includes AYs 1988-2017 and initial reserve years 1988-2016. from Annual Statements 1997-2017.

Unlike the data in Reports 1 and 2, our data for this analysis includes Minor Lines, and "new" LOBs, i.e., LOB-age<5. LOB data can be zero or negative, but we exclude data points with negative total premium or initial reserve. Following the RBC Formula, we calculate the CoMaxLine% using zero for negative LOB premium or reserves values.

[33] We assume the reader is familiar with the methods, data, and conclusions presented in the Committee's April 2021 and August 2023 Reports, to the extent that provides the basis for the risk data we use in this analysis.

[34] Band A includes companies with premium/reserves at percentiles greater than or equal to 0% and less than 20%. Band B includes companies with premium/reserves at percentiles greater than or equal to 20% and less than 40%. Similarly for bands C and D. Band E includes companies with premium/reserves at percentiles greater than or equal to 80%, including 100%, the" largest" data point.

[35] A company with 25% of its business in the largest line has a diversification index of 75% (100% - 25%). A monoline company, with 100% of business in the largest (and only) LOB has diversification index of 100% minus 100% or zero.

- Band "0" contains company/years with a zero diversification index, which are considered monoline companies.[36]
- Bands 1-5 are five levels of diversification, each with 20% of the remaining (non-monoline) companies.[37]

Number of All-Lines Data Points by Size and Diversification

Tables 4-1A and 4-1B, below, show the number of data points by company-size and diversification band, for premium risk and reserve risk, respectively.

Table 4-1A
Premium
Number of Data Points by Company Size/Diversification Band

Div	Size Band					
Band	A	B	C	D	E	Total
0	5,067	3,303	2,003	1,393	1,065	12,831
1	1,509	1,728	2,017	1,637	1,013	7,904
2	1,478	1,717	1,804	1,812	1,091	7,902
3	1,318	1,605	1,752	1,801	1,426	7,902
4	878	1,496	1,703	1,789	2,036	7,902
5	219	619	1,189	2,037	3,838	7,902
Total	10,469	10,468	10,468	10,469	10,469	52,343

Table 4-1B
Reserve
Number of Data Points by Company Size/Diversification Band

Div	Size Band					
Band	A	B	C	D	E	Total
0	5,337	3,216	2,520	1,562	1,083	13,718
1	961	1,623	1,809	1,891	1,102	7,386
2	1,201	1,568	1,556	1,530	1,526	7,381
3	1,284	1,568	1,540	1,485	1,507	7,384
4	1,035	1,327	1,471	1,749	1,802	7,384
5	313	822	1,231	1,910	3,108	7,384
Total	10,131	10,124	10,127	10,127	10,128	50,637

[36] For our purpose, monoline means only one LOB has a premium/reserve greater than zero. Thus, band zero includes companies where one or more LOBs have negative premium/reserves and but only one LOB has positive premium/reserves.

[37] We define diversification bands 1-5 in the same way as for size bands, as described in footnote 34.

In these tables, we observe:

- Roughly 13,000 premium and reserve data points are classified as monoline (Div=0), representing 25% of the premium and 27% of the reserve data points.[38] This reflects that data points are individual company/years or pool/years, but not company group/years.
- Monoline companies (Div Band 0) tend to be smaller.
- The most diversified companies, in the row Div Band=5, tend to be larger.
- Nonetheless, even the largest size (band E) includes companies across all diversification levels.
- Almost all size-diversification cells include more than 1,000 data points.

All-Lines Risk Data – Premium/Reserves – by Size and Diversification

Tables 4-2A and 4-2B, below, show NEP and initial reserves by company size/diversification. These tables highlight that both premium and reserve volumes are heavily concentrated in the largest and most diversified segments.

Size Band E

- Over 90% of the premium and reserve volume falls in size band E.
- Over 39%of the total NEP/reserves are in cell E5 (largest size/most diversified)

Size/Diversification Bands C3-E5

- For premium, cells C3-E5 include 34% of companies and 84% of premium.
- For reserves, cells C3-E5 include 31% of companies and 74% of initial reserves.

Table 4-2A
Premium Volume Data[39]
NEP ($millions) by Company Size/Diversification Band

Div	Size Band					
Band	A	B	C	D	E	Total
0	3,205	12,809	26,281	69,325	437,778	549,398
1	1,146	6,944	26,962	77,997	356,626	469,676
2	1,080	6,918	24,826	90,416	714,390	837,630
3	968	6,484	24,603	88,998	1,823,068	1,944,122
4	735	5,937	23,388	87,751	2,174,754	2,292,566
5	211	2,677	16,676	109,209	5,162,054	5,290,827
Total	7,345	41,769	142,736	523,698	10,668,670	11,384,217

[38] 12,831 of 52,343 data points for premium and 13,718 of 50,637 data points for reserves.

[39] This total excludes data points with zero all-lines premium. These totals treats negative premium by LOB as zero premium.

Table 4-2B[40]
Reserve Volume Data
Initial Reserve ($millions) by Company Size/Diversification Band

Div Band	Size Band					
	A	B	C	D	E	Total
0	1,375	8,293	25,860	68,771	1,263,400	1,367,699
1	369	4,535	19,594	86,164	604,874	715,535
2	457	4,122	17,284	71,169	1,469,595	1,562,626
3	473	4,177	17,139	67,627	1,502,865	1,592,280
4	392	3,467	16,424	78,303	3,049,031	3,147,617
5	140	2,308	13,847	93,964	5,559,384	5,669,643
Total	3,205	26,901	110,147	465,999	13,449,149	14,055,402

Dollars of Diversification Credit – by Size and Diversification

Table 4-3A (Premium) and 2-3B (Reserves), below, present the dollar value of diversification credits under the current RBC Formula with the current 30% MDC, before application of the IIA.[41] The data show:

- Companies in cells C3-E5 receive 96% of the total premium diversification credit and 97% of the reserve diversification credit,[42]
- Cell E5 alone accounts for more than 60% of the total diversification credit.[43]

Because the impact is so heavily concentrated in cells C3-E5, we focus on these 9 cells when estimating the indicated MDC.

Table 4-3A
Dollars ($millions) of Diversification Credit (Premium)
Total Premium Diversification Credit by Company Size/Diversification Band

Div Band	Size					
	A	B	C	D	E	Total
0	0	0	0	0	0	0
1	6	34	135	469	1,556	2,199
2	18	122	418	1,611	11,239	13,408
3	23	174	621	2,360	41,441	44,619
4	25	207	807	3,103	74,330	78,472
5	9	116	716	4,858	252,685	258,384
Total	81	652	2,696	12,402	381,251	397,082

[40] This total excludes data points with zero all-lines reserves. This total treat negative reserves by LOB as zero reserves.

[41] This is calculated as Modeled Risk before diversification minus Modeled Risk after diversification, where those values are defined in Section 5.

[42] 380,921/397,082 = 96% for premium and 748,817/773356 = 97% for reserves.

[43] 252,685/397,082 = 64% for premium and 477,306/773356 = 62% for reserves

Table 4-3B
Dollars ($millions) of Diversification Credit (Reserves)
Total Reserve Diversification Credit by Company Size/Diversification Band

Div	Size Band					
Band	A	B	C	D	E	Total
0	0	0	0	0	0	0
1	1	15	66	306	2,333	2,720
2	7	62	255	1,113	19,873	21,309
3	15	136	573	2,403	61,775	64,902
4	19	176	863	4,417	193,565	199,039
5	10	155	1,026	6,889	477,306	485,385
Total	51	544	2,782	15,128	754,851	773,356

5. ANALYSIS OF LCF/PCFS

In this Section, we evaluate the following key assumptions of the RBC diversification approach:

- The 30% MDC
- The assumption that diversification credit is proportional to CoMaxLine%

Part 1 -Indicated MDC

We calculate the indicated MDC for each size/diversification band using the observed and modeled risk ratios and CoMaxLine% values corresponding to those segments. We define these terms below.

Observed Risk Ratio (Diversified)

Premium

For premium risk, for each company/year, we define the Observed AY Underwriting Gain/Loss (Observed AYUL$ in dollars and Observed AYUL%, as a percentage of premium) as the all-lines average LR plus company expense ratio minus 100%.

The LR is the NEP-weighted average LR by LOB for each company/year. The expense ratio is the industry average expense ratio by LOB, weighted by the company/year net earned premium by LOB.

For each size/diversification band or combination of bands, the observed risk ratio is the 87.5th percentile Observed AYUL% across data points within each size/diversification band.[44]

Reserves

For reserves, for each size/diversification band or combination of bands, the observed risk ratio is the 87.5th percentile RRR across data points within each size/diversification band.

Calculation Notes

Note that for each company/year premium or reserve data point, the observed risk ratio inherently reflects diversification across the LOBs.

When calculating observed risk, within a particular size/diversification band, or a combination of bands, we assign each data point equal weight, regardless of premium or reserve volume.

Modeled Risk Ratio Before Diversification

We calculate the Modeled Premium Risk and Modeled Reserve Risk using the RBC Formula applied to the LOB premium and reserve values for each data point.

Premium:

For each company/year, we calculated the Modeled Risk as follows:

[44] The premium and reserve risk factors adopted by the NAIC (Line 4 of the RBC Formula) are based on the 87.5th percentile safety level for the RBC CAL. We calibrate the LCF/PCF to the same safety level. The diversification relationship might be different if the safety level were a different value, e.g., the 90th percentile. We have not calculated the MDC at the 90th percentile safety level.

- The all-lines average premium risk factor is the NEP-weighted average of the LOB-specific premium risk factors.
- The company expense ratio is the average industry expense ratio by LOB, weighted by the company/year net earned premium by LOB.
- The Modeled Risk before diversification is the all-lines average premium risk factor, plus the company expense ratio minus 100%.

The overall Modeled Risk before diversification, as a percentage of premium, is the unweighted average of the company/year Premium Modeled Risk values within each size/diversification band or combination of bands.

Reserve:

Similarly, for each company/year, the all-lines average reserve risk charge is the average of the LOB reserve risk factors weighted by the company/year initial reserve by LOB.

The overall all-lines reserve risk charge before diversification, as a percentage of reserves, is the unweighted average of the company/year Reserve Modeled Risk percentages within each size/diversification band or combination of bands.

Modeled Risk Calculation Simplifications

These modeled risk calculations reflect several simplifications relative to the full RBC Formula.

- First, we evaluate experience on an undiscounted (nominal value, or NV) basis rather than the present value (PV) basis used in Report 2, and, accordingly, we do not apply the investment income offset in the modeled risk calculation.[45]
- Second, we do not apply the own-company adjustment factor, the loss-sensitive contract adjustment factor, or the growth risk charge.[46]
- Third, for company expenses, we use the average of the industry average expense ratio (2017) by LOB, weighted by the company-specific premium by LOB, rather than the company's own all-lines expense ratio.[47]
- Also, we use NEP in place of NWP.

Calculation of MDC – "D5" Companies

Table 5-1, below, presents the calculation of the indicated MDC for companies in Size Band "D" (60th to 80th percentile of size) and Diversification Band "5" (80th to 100th percentile of multi-line diversification).

[45] We discuss the PV/NV treatment in more detail in Section 7.

[46] We have not tested the effect of these simplifications. That said, we note, however, that the effect of including growth risk charge would increase the Modeled Risk and therefore likely increase the indicated MDCs. The effect of the own-company adjustments could be to increase or decrease the Modeled MDCs. In Section 5 we discuss the interaction of the IIA and implementation of the diversification credit.

[47] In the Sensitivity Section, below, we discuss the effect of some of this assumption.

Table 5-1
Sample Calculation of Indicated MDC
Size Band D/Diversification Band 5

	(1)	(2)	(3)
#	Item	Premium	Reserves
1	Observed Risk - 87.5th Percentile	15.8%	25.9%
2	Modeled Risk - 87.5th Percentile before diversification credit	21.0%	38.0%
3	Indicated Diversification Credit[1.0-(1)/(2)]%	25.0%	32.0%
4	Average Diversification Credit(Current Formula)	21.0%	19.2%
5	Indicated Maximum Credit [(3)/(4)]*30%	36%	50%

We display rounded values, but we calculate with unrounded values. Therefore, calculations using the rounded values shown may not exactly reproduce the displayed rounded results.

This applies to all Tables and Exhibits in this Report.

These calculations are as follows:

- Row 1 is the observed risk ratio equal to the 87.5th percentile AYUL% and RRR.
- Row 2 is the modeled risk ratio, before diversification, from the RBC Formula.
- Row 3 is the indicated diversification credit calculated from rows 1 and 2 as shown in row 3.
- Row 4 is the average diversification credit for this size/diversification band produced by the current RBC Formula (which reflects the current 30% MDC).
- Row 5 is the indicated MDC, calculated as shown on row 5.

Because the modeled risk before diversification (row 2) exceeds the observed diversified risk (row 1), some diversification credit is warranted. Row 3 shows indicated diversification credits of 25.0% for premium and 32.0% for reserves. These represent the level of credit that reconciles modeled risk with the observed risk.

Row 4 represents the diversification credit, utilizing the current 30% MDC. Since row 3 exceeds row 4, the indicated MDC is higher than 30%.

Row 5 shows that the indicated MDCs are 36% and 50%, which are higher than the current 30%.

Accordingly, the diversification formulas indicated for this cell would become:

- PCF = 64% plus 36% * CoMaxLine%$_{premium}$
- LCF = 50% plus 50% * CoMaxLine%$_{reserve,}$

where 36% and 50% replace the 30% MDC in the current RBC Formula.

Calculation of MDC – 30 Segments

Tables 5-2A and 5-2B, below, extend the Table 5-1 framework to each of the 30 size/diversification segments and sub-totals.

Table 5-2A Premium
Indicated MDC by Size/Diversification (5x6 Analysis)

Divers Band	Observed Risk (Part 1) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0	70%	32%	26%	27%	39%	31%
1	67%	27%	29%	25%	28%	27%
2	48%	26%	22%	18%	18%	20%
3	52%	21%	18%	18%	16%	18%
4	45%	18%	16%	16%	14%	16%
5	83%	24%	15%	16%	14%	15%
All	62%	26%	22%	19%	18%	21%
All ex 0	57%	24%	21%	18%	16%	19%
	C3-E5 Unweighted	16.0%	Weighted	15.7%		

Divers Band	Modeled Risk No Diversification (Part 2) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
-	31%	32%	36%	46%	63%	40%
1	25%	27%	29%	32%	35%	30%
2	21%	23%	22%	23%	23%	23%
3	19%	21%	20%	21%	22%	21%
4	22%	21%	21%	21%	22%	22%
5	22%	21%	21%	21%	22%	22%
All	26%	26%	25%	27%	28%	26%
All ex 0	22%	23%	23%	23%	24%	23%
	C3-E5 Unweighted	21.3%	Weighted	21.4%		

Divers Band	Indicated Diversification Credit (Part 3) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0	-128%	1%	28%	42%	38%	23%
1	-173%	2%	-1%	21%	22%	11%
2	-130%	-16%	1%	23%	23%	9%
3	-168%	1%	11%	14%	28%	15%
4	-109%	15%	23%	24%	37%	27%
5	-277%	-16%	26%	25%	37%	29%
All	-139%	0%	15%	29%	35%	22%
All ex 0	-160%	-2%	11%	24%	34%	20%
	C3-E5 Unweighted	25.0%	Weighted	26.5%		
(Part 3) = 1 - (Part 1)/(Part 2)						

Divers Band	Calculated Diversificaiton Credit (Part 4) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0%	0%	0%	0%	0%	0%	0%
1	2%	2%	2%	2%	2%	2%
2	8%	8%	8%	8%	8%	8%
3	12%	12%	12%	13%	13%	13%
4	16%	16%	16%	16%	17%	16%
5	20%	21%	21%	21%	22%	21%
All	5%	7%	9%	11%	14%	10%
All ex 0	9%	10%	11%	12%	15%	12%
	C3-E5 Unweighted	16.6%	Weighted	17.2%		
(Part 4) = Diversification Credit Calculated (Current RBC)						

Divers Band	Indicated Max Diversification Credit (Part 5) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0						
1	-2614%	26%	-17%	328%	348%	178%
2	-500%	-63%	2%	86%	87%	35%
3	-405%	3%	28%	33%	68%	35%
4	-206%	28%	42%	44%	67%	50%
5	-413%	-23%	38%	36%	52%	41%
All	-890%	0%	51%	80%	76%	66%
All ex 0	-528%	-5%	30%	58%	66%	48%
	C3-E5 Unweighted	45.1%	Weighted	45.9%		
	StdDev	13.5%	StdDev	12.9%		
(Part 5) = 0.30 * (Part 3)/(Part 4)						

Notes: See Notes to Table 5-2B

Each table includes the following:

- Parts 1-5 in this Table are analogous to rows 1-5 in Table 5-1.
- Part 1 – Each cell is the 87.5th percentile AYUL% or RRR for all data points in that cell. We refer to this as Observed Risk
- Parts 2 and 4 – Each cell is the average of modeled risk (before diversification) and diversification credit, respectively, for all data points in the cell; each point counts equally.
- Parts 3 and 5 – Indicated Diversification Credit and Indicated MDC, calculated using the formulas shown in the Table at the bottom of each of those Parts.
- The label “C3-E5 unweighted” means the simple average of the 9 cells, C3 to E5.

- The label "C3-E5 weighted" means average of the values in the 9 cells, C3 to E5, weighted by the number of company/year data points per cell (see Tables 2-1A and 2-1B for the number of data points by cell).
- StdDev, at the bottom of Part 5, is the standard deviation for the 9 cells C3-E5.
    - Unweighted means each of the 9 cells is weighted equally.
    - Weighted means each of the 9 cells has a weight equal to the number of company/years in that cell.

Table 5-2B Reserves
Indicated MDC by Size/Diversification (5x6 Analysis)

Divers Band	Observed Risk (Part 1) Size Band Quintiles					
Quintiles	A	B	C	D	E	AllSize > 20%
0	58%	41%	28%	25%	18%	29%
1	50%	53%	24%	23%	15%	27%
2	53%	42%	28%	21%	13%	25%
3	57%	41%	31%	25%	18%	28%
4	49%	42%	33%	27%	25%	30%
5	75%	36%	30%	26%	25%	27%
All	56%	43%	28%	25%	21%	28%
All ex 0	54%	43%	29%	25%	21%	27%
	C3-E5 Unweighted	26.7%	Weighted	26.4%		

Divers Band	Modeled Risk No Diversification (Part 2) Size Band Quintiles					
Quintiles	A	B	C	D	E	AllSize > 20%
0	33%	35%	36%	37%	31%	35%
1	29%	29%	29%	30%	31%	29%
2	29%	31%	30%	32%	31%	31%
3	32%	33%	34%	36%	39%	36%
4	34%	35%	37%	38%	42%	38%
5	37%	36%	39%	38%	42%	40%
All	32%	33%	34%	35%	37%	35%
All ex 0	32%	32%	33%	35%	38%	35%
	C3-E5 Unweighted	38.3%	Weighted	38.7%		

Divers Band	Indicated Diversification Credit (Part 3) Size Band Quintiles					
Quintiles	A	B	C	D	E	AllSize > 20%
0	-75%	-16%	22%	34%	44%	17%
1	-74%	-83%	16%	24%	50%	7%
2	-81%	-37%	7%	34%	58%	20%
3	-75%	-24%	8%	31%	53%	22%
4	-42%	-17%	10%	31%	39%	22%
5	-100%	-1%	23%	32%	40%	32%
All	-73%	-28%	17%	30%	44%	21%
All ex 0	-71%	-33%	14%	29%	45%	21%
	C3-E5 Unweighted	29.8%	Weighted	31.2%		
(Part 3) = 1 - (Part 1)/(Part 2)						

Divers Band	Calculated Concentration Ratio (Part 4) Size Band Quintiles					
Quintiles	A	B	C	D	E	AllSize > 20%
0	0%	0%	0%	0%	0%	0%
1	1%	1%	1%	1%	1%	1%
2	5%	5%	5%	5%	5%	5%
3	10%	10%	10%	10%	10%	10%
4	14%	14%	14%	14%	14%	14%
5	18%	19%	19%	19%	20%	19%
All	4%	6%	7%	8%	11%	8%
All ex 0	8%	9%	9%	10%	12%	10%
	C3-E5 Unweighted	14.5%	Weighted	15.0%		
(Part 4) = 1 - Diversification Credit Calculated (Current RBC)						

Divers Band	Indicated Max Diversification Credit (Part 5) Size Band Quintiles					
Quintiles	A	B	C	D	E	AllSize > 20%
0						
1	-1739%	-2109%	394%	628%	1190%	174%
2	-491%	-229%	43%	215%	367%	124%
3	-232%	-73%	26%	96%	160%	67%
4	-91%	-36%	22%	64%	83%	45%
5	-165%	-2%	36%	50%	61%	50%
All	-554%	-145%	73%	107%	121%	78%
All ex 0	-256%	-117%	47%	88%	109%	64%
	C3-E5 Unweighted	66.5%	Weighted	66.3%		
	StdDev	40.5%	StdDev	37.5%		
(Part 5) = 0.30 * (Part 3)/(Part 4)						

Findings from Tables 5-2A and 5-2B

Table 5-3, below, is a copy of Part 5 of Tables 5-2A and 5-2B, which shows the indicated MDCs, by cell.

If the relationship between diversification credit and CoMaxLine% were perfectly linear, then the values in Table 5-3 would show no clear trend as you move across diversification bands. If there were also no random variation, all the values in Part 5 would be identical regardless of company-size and diversification band.

Also, with those assumptions, if the appropriate MDC were 30%, then all the indicated MDC values in Part 5 would be approximately 30%.

Instead, there is substantial variability in the indicated MDC among 30 size/diversification bands, which we discuss below.

Table 5-3
Indicated MDC by Size Diversification Band

Premium

Divers Band	Indicated Max Diversification Credit (Part 5) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0						
1	-2614%	26%	-17%	328%	348%	178%
2	-500%	-63%	2%	86%	87%	35%
3	-405%	3%	28%	33%	68%	35%
4	-206%	28%	42%	44%	67%	50%
5	-413%	-23%	38%	36%	52%	41%
All	-890%	0%	51%	80%	76%	66%
All ex 0	-528%	-5%	30%	58%	66%	48%
	C3-E5 Unweighted	45.1%	Weighted	45.9%		
	StdDev	13.5%	StdDev	12.9%		

Reserves

Divers Band	Indicated Max Diversification Credit (Part 5) Size Band Quintiles					AllSize
Quintiles	A	B	C	D	E	> 20%
0						
1	-1739%	-2109%	394%	628%	1190%	174%
2	-491%	-229%	43%	215%	367%	124%
3	-232%	-73%	26%	96%	160%	67%
4	-91%	-36%	22%	64%	83%	45%
5	-165%	-2%	36%	50%	61%	50%
All	-554%	-145%	73%	107%	121%	78%
All ex 0	-256%	-117%	47%	88%	109%	64%
	C3-E5 Unweighted	66.5%	Weighted	66.3%		
	StdDev	40.5%	StdDev	37.5%		

Smaller companies (Size bands A and B)[48]

For these companies, the indicated MDCs are generally negative, implying a diversification surcharge, rather than credit.

We understand this to be because the indicated risk charge for small companies is higher than the Line 4 Factors in the RBC Formula.

In Appendix 1, we examine the relationship between company-size and Line 4 risk factors.

Low Diversification Bands – Diversification Bands 1-2)/Company Sizes C-E

For these companies, the indicated MDCs are generally high.

[48] As we noted, the Modeled Risk before Diversification is based on certain simplifications. In particular, it does not reflect the own-company adjustment or the growth risk adjustment. If Modeled Risk had included those elements of the RBC Formula the differences between companies by size and diversification might have been reduced. That adjustment was outside the scope of our work.

Low diversification, bands 1-2, means the company specializes in a small number of LOBs. The CAS Dependency and Calibration Working Party (DCWP) Report 8, *Differences in Premium Risk charge by Type of Company*,[49] showed that specialist companies[50] have lower than average Line 4 charges for their primary LOBs.

The favorable effect of "specialization" is not reflected in the RBC Line 4 Factors. Therefore, it appears in this analysis as an indicated increase in diversification credit as evidenced by a higher indicated MDC. An examination of the benefit of specialization is outside the scope of this project, and we do not use the experience of the low diversification bands in the indicated MDC.

Larger/more diversified companies – Cells C3-E5

Table 5-3, above, shows the range of values for these cells:

- Premium: Indicated MDCs range from 28% (C3) to 68% (E3); average >45%.
- Reserves: Indicated MDCs range from 22% (C3) to 160% (E3); average >65%.

It also shows the standard deviation across the 9 cells:

- For premium, the standard deviation is 12.9%, compared to the mean of 45.9%, a coefficient of variation of 30%.

  For reserves, the standard deviation is 37.5%, compared to the mean of 66.3%, a coefficient of variation of 57%.

Thus, there is notable variability within that range.

One factor contributing to variability is company-size. In Appendix 1, we calculate the indicated MDCs with risk factors that vary with company-size. The variability after that adjustment is reduced, as follows:

- For premium, the standard deviation is 6.1%, compared to the mean of 42.0%, a coefficient of variation of 15%.
- For reserves, the standard deviation is 25.2%, compared to the mean of 56.2%, a coefficient of variation of 45%.

MDC Indication

The variability, even after the size adjustment, suggests that there are many factors contributing to the differences between companies with increased diversification by LOB.

This makes the selection of the MDC less clear-cut than might be desirable.

[49] Casualty Actuarial Society E-Forum, Spring 2014 1 Risk-Based Capital (RBC) Premium Risk Charges—Differences in Premium Risk Charge by Type of Company.

[50] "Specialist" companies were defined as those with more than 50% of premium in business categories such as "personal," "medical professional," "workers compensation," "reinsurance," etc.

We base our final indicated MDC on the average value in cells C3–E5 (highlighted in yellow). While these nine cells account for only about 34% of premium and 31% of reserve data points, they cover:

- 84% of total premium
- 74% of total reserves
- 95% of total premium diversification credit
- 96% of total reserve diversification credit

Thus, these cells represent the companies with the bulk of policyholders and claims exposure, making them the most relevant for setting diversification parameters.

Most cells in the C3-E5 group imply an MDC higher than the current 30%.

Part 2 – Diversification Credit by Company – Regression Analysis

Tables 5-4 and 5-5, below, use regression through the origin to test the assumption that diversification is linear with respect to CoMaxLine%. This regression analysis also provides a further test of the indicated MDC.

In that regression:

- We use regression through the origin because a diversification formula should yield zero credit when there is zero diversification.
- We apply the regression to data from cells C3-E5, excluding company-sizes A and B and diversifications bands 0-2 for the reasons explained previously.

The regression data in Table 5-4 is as follows:

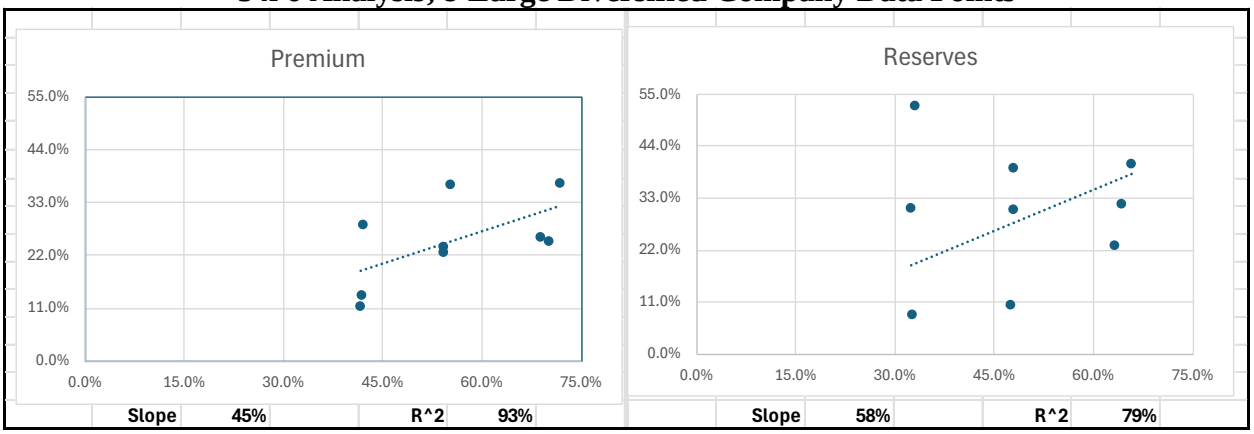
- Columns 1 & 4: Average diversification index for premium and reserve risk, respectively (from Table 5-2A/B, Part 4 divided by 30%).
- Columns 2 & 5: Indicated diversification credit (from Part 3 of Tables 5-2A and 5-2B).
- Columns 3 & 6: Fitted diversification credit, derived from the regression through the origin applied to the prior columns.

Table 5-4
Large Diversified Companies
Graphical Analysis of CoMaxLine% Element of Diversification Formula
5 x 6 Analysis; 9 Large Diversified Company Data Points

		Premium			Reserves		
		(1)	(2)	(3)	(4)	(5)	(6)
Size Band	Div Band	Average Div Index	Indicated Div Credit	Fitted Div Credit	Average Div Index	Indicated Div Credit	Fitted Div Credit
C	3	41.6%	11.5%	18.7%	32.5%	8.3%	18.9%
D	3	41.8%	13.8%	18.8%	32.4%	31.0%	18.8%
E	3	42.0%	28.5%	18.9%	32.9%	52.7%	19.1%
C	4	54.2%	22.6%	24.3%	47.5%	10.5%	27.5%
D	4	54.1%	23.9%	24.3%	47.9%	30.8%	27.8%
E	4	55.1%	36.9%	24.8%	47.7%	39.4%	27.7%
C	5	68.7%	25.9%	30.9%	63.2%	23.0%	36.6%
D	5	70.1%	25.0%	31.5%	64.1%	32.0%	37.2%
E	5	71.7%	37.2%	32.2%	65.7%	40.2%	38.1%

Table 5-5, below, shows Table 5-4 graphically.

Table 5-5
Large Diversified Companies
Graphical Analysis of CoMaxLine% Element of Diversification Formula
5 x 6 Analysis; 9 Large Diversified Company Data Points



In Table 5-5:

- The X-axis represents the average diversification index (Table 5-4 columns 1 and 4).
- The Y-axis represents the indicated diversification credit (Table 5-4 columns 2 and 5)
- The slope of the fitted line is 45% for premiums and 58% for reserves.

The regression "R-squared" values[51] are:

- 93% for premium, and
- 79% for reserves.

This regression analysis evaluates the assumption that diversification is proportional to the CoMaxLine% parameter. The "R-squared" metrics suggest that the proportionality assumption is reasonable, albeit with more variability for reserves than for premiums.

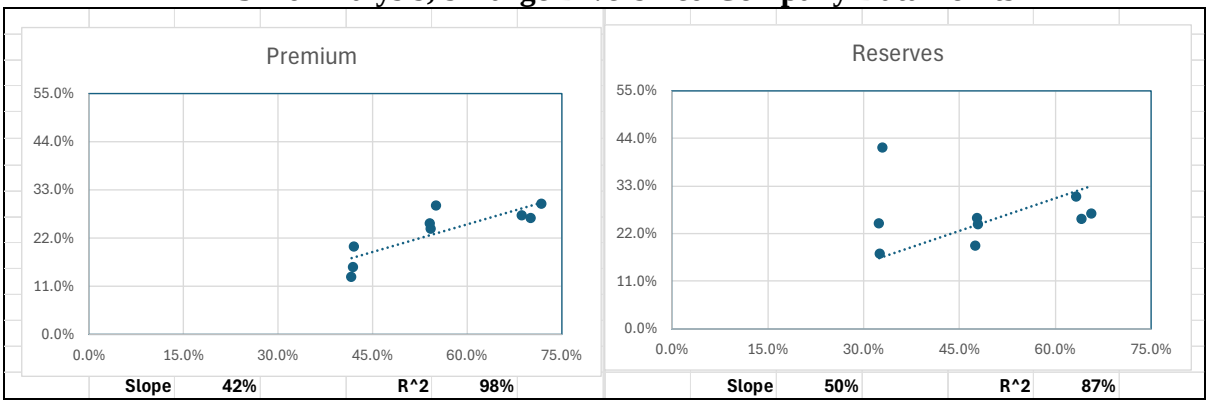
The slopes serve as alternative estimates of the premium and reserve indicated MDCs.

- The premium slope, 45% is essentially the same as the C3-E5 average in Table 5-2A.
- The reserve slope, 58% is not as close to the C3-E5 average, 66%, as the premium slope. In light of the higher variability in the reserve risk regression, our reserve MDC indication is based on the C3-E5 average in Table 5-2B.

Analysis after size adjustment

In Section 6/Sensitivity Analysis, and Appendix 1/Size-Adjusted Indicated MDC, we observe that company-size contributes to both the indicated MDC and the variation in indicated MDC by size/diversification cell. Table 5-6, a copy of Appendix 1-Exhibit A1-4, shows the size-adjusted equivalent of Table 5-5.

Table 5-6
(Copy of Appendix 1 – Exhibit A1-4)
Large Diversified Companies (with Size-Adjusted Risk Factors)
Graphical Analysis of CoMaxLine% Element of Diversification Formula
5 x 6 Analysis; 9 Large Diversified Company Data Points



[51]The R-squared statistic is calculated by Excel regression in Excel data pack. The Excel formula for R-squared for regression through the origin is different from the R-squared formula used for OLS regression. Regression through the Origin by Joseph G Eisenhauer.

Removing the company-size effect improves the quality of the regression. Table 5-6 shows the adjusted regression "R-squared" values:

- 98% for premium and
- 87% for reserves.

This improvement in regression results contributes to the Committee's view that using a linear relationship between CoMaxLine% and diversification credit is reasonable.[52]

[52] There is limited data (nine points) and high variability by size within diversification levels. Therefore, we have not tested the extent to which a non-linear relationship, such as a square or square root relationship between diversification level and diversification credit, might better match the experience.

6. SENSITIVITY ANALYSIS

Alternative Indicated MDCs and Sensitivity Tests

In this Section, we evaluate how changes in assumptions affect the indicated MDC.

Table 6-1, row 1, columns 7 and 8, shows the indicated MDCs that we develop in Section 5, 46% for premium risk and 66% for reserve risk. Rows 2-16, columns 7 and 8, show the indicated MDCs based on the alternative assumptions briefly listed in column 2.

We discuss each of the alternatives in the material following Table 6-1.

Table 6-1 – Alternatives and Sensitivity Analysis
Summary of Indicated Maximum Diversification Charges

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
1.1	Unweighted Indicated MDC	UnWtd C3.E5	5x6	AS only	Industry	45%	66%
2	Size Adjusted Line 4 Factors	Wtd C3.E5	5x6	AS only	Industry	42%	56%
3	AS + RBC	UnWtd E5.J10	10x11	AS+RBC	Industry	56%	59%
4	Sizes D & E/Div 3-5	Wtd D3.E5	5x6	AS only	Industry	50%	80%
4.1	Size C/Div 3-5	Wtd C3.C5	5x6	AS only	Industry	35%	28%
4.2	Size D/Div 3-5	Wtd D3.D5	5x6	AS only	Industry	38%	68%
4.3	Size E/Div 3-5	Wtd E3.E5	5x6	AS only	Industry	59%	90%
5	Div 4 & 5/Size C-E	Wtd C4.E5	5x6	AS only	Industry	48%	55%
5.1	Div 3/Size C-E	Wtd C3.E3	5x6	AS only	Industry	41%	93%
5.2	Div 4/Size C-E	Wtd C4.E4	5x6	AS only	Industry	52%	58%
5.3	Div 5/Size C-E	Wtd C5.E5	5x6	AS only	Industry	45%	53%
6	Div 4&5/Size D&E	Wtd C4.E5	5x6	AS only	Industry	50%	64%
7	Regression Slope	C3.E5	5x6	AS only	Industry	45%	58%
8	Yrs - 1988-2002	Wtd C3.E5	5x6	AS only	Industry	42%	58%
9	Yrs - 2003-2017 (2016)	Wtd C3.E5	5x6	AS only	Industry	64%	85%
10	Yrs - 1995-2017 (2016)	Wtd C3.E5	5x6	AS only	Industry	43%	67%
11	2022 Line 4 factors	Wtd C3.E5	5x6	AS only	Industry	58%	59%
12	110 Segments	UnWtd E5.J10	10x11	AS only	Industry	46%	67%
13	6 Segments	UnWtd Div 3-5; Size >A	5x6	AS only	Industry	42%	54%
14	1 Segment	Ex A/Ex 0	1x1	AS only	Industry	48%	64%
15	Co Expense	Wtd C3.E5	5x6	AS only	Co	46%	NA
16	DCWP 2010 data	UnWtd C3.E5	5x6	AS+RBC	Industry	54%	70%

AS+RBC = Annual Statement data for Ten-Year LOBs and RBC data for Two-Year LOBs, for company/years where RBC data is available.

Row 1.1 – Unweighted Average cells C3-E5

Row 1.1 shows the indicated MDC based on the unweighted average of cells C3-E5, i.e., weighting each cell equally. The differences compared to row 1 are small, 46% versus 45% for premium and 66.3% versus 66.5% for reserves.[53] We use row 1.1 as the base for certain alternatives that we calculated based on the unweighted average of cells C3-E5.

[53] Each of these rounds to 66% in Table 6-1.

Row 2 – Effect of Company-Size

There is an interaction between (a) company-size and (b) risk factors. This interaction affects the indicated MDC, as follows:

Variation in Indicated Risk Charges by Company-Size

First, Appendix 1-Exhibits A1-1A and A1-1B (Part 3), show that, for premium and reserves, respectively, the indicated LOB risk charges are lower for larger companies, even if they have the same level of diversification as smaller companies.

Company Size and Diversification

Second, larger companies tend to have higher levels of diversification, including within the C3-E5 range. For example, for premium, looking at Table 4-1A:

- The number of E3 companies/years (1,426 for premium) is less than the number of C3 or D3 companies/years (1,752 and 1,801 for premium).
- Conversely, the number of E5 company/years (3,838 for premium) is more than the number of C5 or D5 company/years (1,189 and 2,037 for premium).

For reserves, looking at Table 4-1B, the difference in the number of companies by size level for diversification band 3 is small, but for diversification band 5, the number of companies by size is skewed to large companies. For example, there are 3,108 E5 companies but only 1,231 C5 and 1,910 D5 companies.

Interdependency of Risk Charge by Size and Diversification by Size

Because larger companies independently exhibit both greater diversification and lower risk charges, part of the apparent diversification effect is attributable to size. To assess this impact, in Appendix 1, we adjust the modeled premium/reserve risk charges to reflect company-size. The resulting indicated MDCs, shown in row 2, are lower:

- 42% rather than 46%, for premium, and
- 56% rather than 65% for reserves.[54]

Appendix 1 Exhibits A1-2A and A1-2B show the supporting calculations.

Notwithstanding that analysis, we do not "remove" the effect of size from the MDC calibration, as our goal is to produce an MDC reflecting the structure of the RBC Formula, which does not reflect variation in risk charge by company-size.

Row 3 – Using RBC Filing Data ("RBC data")

In the base analysis, we use Annual Statement (AS) data for both Two-Year LOBs[55] and Ten-Year LOBs.

[54] The variation in risk charge by company-size, for size bands C-E is more significant for reserve risk than for premium risk. Hence the impact on MDC is greater for reserve risk than for premium risk.

[55] RBC Filing data and AS data have claims at different valuation dates, for the same AY or initial reserve year. Therefore, the RBC Filing data and AS data may be assigned to pools differently, and will not "match."

Also, companies in runoff will have reserve data in only the "prior" row of Schedule P, and will therefore not have premium or reserve data in the RBC Filings.

For the Line 4 analysis in Reports 1 and 2, we use RBC data for Two-Year LOBs because the RBC Two-Year LOB data has certain advantages relative to AS data.

- First, RBC data includes LRs and RRRs with maturity up to ten years, longer than the two-year maturity of AS data.
- Second, RBC data includes only companies and LOBs that are subject to RBC requirements. Certain health coverages in LOB L-Other are excluded (governed by Health RBC), and single state monoline financial guarantee companies, LOB S- FG/MG, are not included because they are not covered by RBC.

On the other hand, RBC data does not include the development of Prior Year reserves. This is less significant for the Two-Year LOBs than for the Ten-Year LOBs because the Two-Year LOBs are generally shorter-tailed business, with less prior year reserves.

Merging AS and RBC data is more complex in this dependency analysis than with the Line 4 analysis. The Line 4 analysis evaluates each LOB separately. The dependency analysis requires aggregation across Two-Year LOBs and Ten-Year LOBs to produce the all-line total company/year experience.

Working with NAIC personnel, we attempted to match the AS company/years with the RBC company/years, replacing AS Two-Year LOB data points with higher-maturity RBC data points for those LOBs. This match was only partially successful. When there was no matching year, we used the AS values for Two-Year LOBs.

Using the RBC data, to the extent available, increases the premium indicated MDC and reduces the reserve indicated MDC,[56] as shown in Table 6-2, below, extracted from Table 6-1.

Due to limited access to RBC source data, we rely on AS data for our base indications. The NAIC might reasonably make a different choice.

[56] Technically, the RBC+AS indicated MDCs are based on 110 size/diversification segments rather than 30 size/diversification segments and should be compared to the AS indicated MDCs based on 110 size/diversification segments. The AS-only 110 segment analysis produces indicated MDCs essentially the same as the 30 segment indicated MDC, so the display in Table 3-4 is not misleading.

Table 6-2
Effect of Using RBC data for Two-Year LOBs

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
3	AS + RBC	UnWtd E5.J10	10x11	AS+RBC	Industry	56%	59%

The RBC data was evaluated with 110 segments, rather than 30 segments, and an unweighted average of the 110-segment equivalent of 9-segment cells C3-E5.

Nonetheless, we compare the AS+RBC indicated MDC to row 1, because the indicated MDC with the unweighted average, row 12, is essentially the same as the indicated MDC.

Rows 4 through 6 – Size/Diversification Segments

The indicated MDC is based on the nine size/diversification cells C3-E5. Tables 6-3 and 6-4 (extracted from Table 6-1), below, show indicated MDCs for different size and diversification combinations within that overall range.

Table 6-3
By Size Level – Combined Diversification Levels
Focus by Size for Diversification 3-5 Combined

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
4	Sizes D & E/Div 3-5	Wtd D3.E5	5x6	AS only	Industry	50%	80%
4.1	Size C/Div 3-5	Wtd C3.C5	5x6	AS only	Industry	35%	28%
4.2	Size D/Div 3-5	Wtd D3.D5	5x6	AS only	Industry	38%	68%
4.3	Size E/Div 3-5	Wtd E3.E5	5x6	AS only	Industry	59%	90%

Indicated MDC by Company-Size (Diversification bands 3-5 combined)

Table 6-3, above, shows that indicated MDCs increase with size, as follows:

- For premium risk, the indicated MDCs are 35%, 38% and 59% for size bands C, D, and E, respectively, and 50% for D+E, which compares to the overall indicated MDC of 46%.
- For reserve risk the indicated MDCs are 28%, 68% and 90% for size bands C, D and E, respectively, and 80% for D+E, compared with an overall indicated MDC of 66%.

This is consistent with prior observations that, absent a company-size adjustment in risk factors, indicated MDCs will be larger for larger companies.

Indicated MDC by Diversification (Size bands C-E combined)

Table 6-4, below, shows that there is no consistent pattern in indicated MDCs as diversification increases:

- For premium risk, the indicated MDCs are 41%, 52%, and 45%, for diversification bands 3, 4, and 5, respectively, and 48% for diversification bands 4+5, relative to the overall indicated MDC of 46%.
- For reserve risk, the indicated MDCs are 93%, 58%, 53% for diversification bands 3, 4, and 5, respectively, and 55% for diversification bands 4 + 5, relative to the overall indicated MDC of 66%.

Table 6-4
By Diversification Level – Combined Size Levels
Focus by Diversification for Sizes C-E Combined

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
5	Div 4 & 5/Size C-E	Wtd C4.E5	5x6	AS only	Industry	48%	55%
5.1	Div 3/Size C-E	Wtd C3.E3	5x6	AS only	Industry	41%	93%
5.2	Div 4/Size C-E	Wtd C4.E4	5x6	AS only	Industry	52%	58%
5.3	Div 5/Size C-E	Wtd C5.E5	5x6	AS only	Industry	45%	53%
6	Div 4&5/Size D&E	Wtd C4.E5	5x6	AS only	Industry	50%	64%

Row 6 shows the effect of considering the weighted average of the four cells D4-E5. This 4-cell average indicates a somewhat higher MDC for premium and a slightly lower MDC for reserves.

Row 7 – Regression Analysis

We use regression through the origin to test the hypothesis that there is a linear relationship between CoMaxLine% and indicated diversification credit by level of diversification. The slope of the regression curve represents an indicated MDC. Exhibit 5-5 shows that:

- The regression slope for premium is 45%, which is very similar to the average of the 9 cells, 46%.
- The regression slope for reserves is 58%, which is lower than the average of the 9 cells, 66%.

Rows 8-10 – Years Included

The base analysis uses AYs 1988-2017 for premium and initial reserve years 1988-2016 for reserves. Table 6-5, below, from Table 6-1, shows the indicated MDCs based on alternative year ranges.

Table 6-5
Indicated MDC by Year-Range

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
	Early 15 Years vs. Recent 15/14 Years						
8	Yrs - 1988-2002	Wtd C3.E5	5x6	AS only	Industry	42%	58%
9	Yrs - 2003-2017 (2016)	Wtd C3.E5	5x6	AS only	Industry	63%	85%
	Most recent Lastest 22/21 years						
10	Yrs - 1995-2017 (2016)	Wtd C3.E5	5x6	AS only	Industry	43%	67%

Note: The indicated Line 4 Factors will vary for each year-range. Therefore, when examining MDC by year-range, we adjust the all-lines average modeled risk factors to reflect differences in indicated risk charges based on the selected year-range relative to the full dataset.

Rows 8 and 9 split the experience into two approximately equal periods—1988-2002 and 2003-2017 (2016 for reserve risk). The earlier period, from 1988 to 2002, exhibits substantially lower MDCs compared to the more recent period. We have not investigated the factors that cause that difference. This might be a statistical fluctuation due to variability in the indicated MDCs[57] and because the more recent data is less mature than the older data.

However, two other factors might contribute are that (a) the 2003-2017 period includes more catastrophe events than the 1988-2002 period,[58] and (b) there were higher inflation/interest rates in the 1988-2002 period than in the more recent period. We discuss these issues further in Section 7.

Row 10 presents the indicated MDC using a recent time frame, 1995-2017. The indicated MDCs are very similar to those in row 1.

Row 11 – 2022 Line 4 Factors

Row 11 shows the indicated MDC where the modeled risk ratios are based on the 2022 Line 4 risk factors rather than the indicated Line 4 Factors.

[57] Looking across the 9 cells, C3-E5, variability is large. The values for early-year and later-year indicated MDCs are within one standard deviation of the all-year indicated MDC for reserve risk. See Table 5-2 A and B for values of the standard deviation.

[58] For example, as we observed in Report 2, page 108, "Continental United States Hurricane Impacts/Landfalls, 1851-2022," the National Oceanic and Atmospheric Agency reports 1.3 hurricane landfalls per year in 1988-2003 and 1.8 hurricane landfalls per year in 2004-2017. NOAA and other sources show a similar relationship for tropical storm landfalls.

All else equal, if the average Line 4 Factors were higher than indicated by experience, then the indicated MDC would be higher than the otherwise indicated MDC, and vice versa.[59]

For premium risk, the average 2022 Line 4 Factor is higher than the indicated Line 4 Factor (0.950 versus 0.934).[60] Accordingly, the indicated MDC is higher when using the 2022 Line 4 Factors (58% using 2022 Line 4 versus 46% using the indicated).

For reserve risk, the average 2022 Line 4 Factor is lower than the indicated Line 4 Factor (0.365 versus 0.385). Accordingly, the indicated MDC is lower when using the indicated Line 4 Factors (59% using the 2022 Line 4 versus 66% using the indicated).[61]

Table 6-6
2022 Factors

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
11	2022 Line 4 factors	Wtd C3.E5	5x6	AS only	Industry	58%	59%

This highlights that MDCs should be calibrated with experience consistent with the experience used to calibrate Line 4 experience.

Rows 12-14 – Increasing/Decreasing the Number of Size/Diversification Segments.

The base analysis uses 30 size/diversification segments, 5 size bands (A-E) and 6 diversification bands (0-5). Rows 12-14 show the indicated MDC based on alternative segmentations, using more (110) or fewer (6 or 1) segments. The results are summarized below in Table 6-7 (excerpted from Table 6-1).

[59] The modelled risk in the calibration uses the Line 4 risk factors. If the modeled all-lines risk charge increases, the indicated diversification credit will increase to "offset" that. The increase in indicated diversification credit is reflected as an increase in indicated MDC.

[60] In the August 30, 2023, Report 2, Table 1.1A, page 7, we show that the 2022 and indicated average Line 4 Factors are 0.950 and 0.934, respectively, corresponding to risk charges, before IIA, of 22.0% and 20.4%, using industry all-lines average expense ratio of 27.0%.

[61] In the August 30, 2023, Report 2, Table 1.1B, page 8, we show that the 2022 and indicated average Line 4 Factors, before IIAs, are 0.365 and 0.385, respectively.

Table 6-7
Number of Size/Diversification Segments

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1.1	Unweighted Indicated I	UnWtd C3.E5	5x6	AS only	Industry	45%	66%
12	110 Segments	UnWtd E5.J10	10x11	AS only	Industry	46%	67%
13	6 Segments	UnWtd Div 3-5; Size >A	5x6	AS only	Industry	42%	54%
14	1 Segment	Ex A/Ex 0	1x1	AS only	Industry	48%	64%

Note: We compare rows 12-14 to row 1.1, rather than row 1, because we have the alternative segmented data on an unweighted basis only.

Row 12: 110 Segments

Row 12 shows the indicated MDC using a more detailed set of 110 cells: 10 size bands segments (A-J), each containing 10% of the companies/years, and 11 diversification bands (0-10), including one for monoline company/years and 10 for multi-line company/years, each containing 10% of the multiline companies.

Row 12 is the indicated MDC using the unweighted average of indicated MDCs for the six largest size bands (E through J) and the six most diversified diversification bands (bands 5 through 10), E5-J10, with each band equally weighted. Compared with the indicated MDC from the unweighted 30-segment average in row 2, the differences are small: 46% versus 45% for premium and 66% versus 67% for reserves.

Row 13: Six segments

Row 13 shows the MDC indicated using fewer segments, specifically one size band (including all companies larger than the smallest 20%) and six diversification bands (0-5), one band for monoline companies and 5 additional bands, each containing 20% of the multiline companies.

Row 13 is the indicated MDC based on the unweighted average of indicated MDCs for diversification bands 3-5, each in one size band, B-E combined.

This more aggregated approach results in lower MDCs, 42% versus 45% for premium and 54% versus 66% for reserves. This 6-segment design includes more smaller companies (Size B), one factor contributing to the lower indicated MDC.

Row 14: One segment

Row 14 shows the MDC indicated using a single broad segment: one size band (excluding the smallest 20%), and all multiline companies (i.e., excluding monoline companies). Compared to cells C3-E5 from the 30-segment approach, this segment includes:

- More smaller companies (Size B), which tends to reduce the MDC, and
- More specialized companies (diversification bands 1-2), which tend to increase the indicated MDC.

Compared to the unweighted 30-segment indicated MDC in row 2, this yields 48% versus 45% for premium and 59% versus 66% for reserves.

Row 15 – Company All-Line Expenses (Premium Risk Only)

Row 15 uses company-specific all-lines expense ratios[62] instead of industry LOB expense ratios weighted by each company's NEP by LOB (as in row 1). Using company-specific expenses aligns more closely with how the RBC Formula is applied.

Table 6-8
Indicated MDC with Industry versus Company-Specific Expenses

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1	Base indicated MDC	Wtd C3.E5	5x6	AS only	Industry	46%	66%
15	Co Expense	Wtd C3.E5	5x6	AS only	Co	46%	NA

Table 6-8 above shows that this simplification did not significantly affect the indicated MDC.

The comparison may understate the true effect of the expense simplification. For some company/years, we were unable to construct pooled company-specific expenses that matched the risk data. In those cases, we defaulted to 2017 industry expense ratio data, weighted by company/year LOB premium.

Row 16 – DCWP Analysis Using Data Through 2010.

Row 16 compares the indicated MDCs to the prior DCWP analysis based on data through 2010.[63]

Table 6-9
Comparison of Indicated MDC to Prior DCWP Analysis with 2010 Data

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Indicated MDC	
Row #	Label	Size/Div Cells	Segments	Data-AS/RBC	Expense Data	Premium	Reserves
1.1	Unweighted Indicated I	UnWtd C3.E5	5x6	AS only	Industry	45%	66%
16	DCWP 2010 data	UnWtd C3.E5	5x6	AS+RBC	Industry	54%	70%

Note: We compare row 16 to row 1.1, rather than row 1, because the DCWP data is provided on an unweighted basis only.

[62] From company-by-company Insurance Expense Exhibit data.

[63] Report 14 - Calibration of LOB Diversification in Underwriting Risk Charges.

Compared to this analysis, the DCWP analysis:

- Used fewer AYs/reserve years[64]
- Included less mature data for overlapping years
- Excluded LOBs categorized as minor lines, immature AYs/reserve years, and new LOBs that are included in this analysis
- Used a simpler pooling approach.

These data and methodological differences may explain part of the difference in indicated MDCs in this analysis compared to the DCWP analysis.

[64] Considering the years of experience alone, the current analysis using data from 1988-2010 indicated a premium MDC of 39% (versus 54% from the DCWP analysis) and a reserve MDC of 60% (versus 70% from the DCWP analysis).

7. ADDITIONAL CONSIDERATIONS

In addition to the quantitative analysis above, we note the following factors that we do not quantify in this Report:

1. Catastrophe experience and its effect on diversification
2. Apply IIA before or after the diversification credit
3. Effect of Changes in Interest/Inflation Rates
4. Alternative diversification metrics
5. Calibration safety levels

Catastrophe Experience (Premium Risk Only)

Catastrophe Treatment in RBC Formula

In the original RBC Formula, Net Written Premium on PR018 included both catastrophe and non-catastrophe risk. Beginning with year-end 2017 reporting, the RBC Formula introduced a new risk component, R_{CAT}, which covers the earthquake and hurricane components of the total premium risk. The catastrophe risk charge is calculated in RBC form PR027, and companies report their hurricane and earthquake loss experience data in their confidential RBC Filings in forms PR101, PR102, …, and PR122, one form for each LOB.

With the introduction of R_{CAT}, the otherwise applicable Line 4 risk factors in PR018 were reduced to exclude the portion of RBC attributable to those catastrophe risks. For simplicity, we will refer to the remaining premium risk element in PR018 as the non-catastrophe premium risk, although some catastrophe risks, such as wildfires, severe convective storms, and floods, remain in the non-catastrophe data.

Catastrophe Treatment in PCF Calibration

Our analysis of the PCF uses AS data that includes both catastrophe and non-catastrophe experience. Ideally, a diversification analysis would evaluate catastrophe and non-catastrophe experience separately. However, our ability to do so is limited in two respects.

- First, separate catastrophe experience has only been collected in RBC Filings for AYs since 2004[65]— i.e., for only 14 of the 30 years in our analysis.
- Second, the catastrophe experience is available only in confidential RBC Filings, and therefore accessible only to regulators, and not to this Committee, except in a summarized form.

The impact on the indicated MDC of separately considering catastrophe experience and non-catastrophe experience is uncertain. On one hand, catastrophe claims create a correlation between experience across catastrophe-exposed LOBs, which reduces the diversification apparent in our

[65] Accident Year 2004 catastrophe experience in the ten accident years provided in the 2013 RBC filings that contained catastrophe experience on an information basis only.

data and in the indicated MDC. On the other hand, catastrophes may reduce correlation between catastrophe exposed and non-catastrophe exposed LOBs and therefore may increase the diversification apparent in our data and in the indicated MDC.

Moreover, the impact of catastrophes on diversification across catastrophe-exposed LOBs and other LOBs depends on other variables. For example, there may be correlations across LOBs due to market pricing cycles related to catastrophes.

An evaluation of this issue is a matter for future research.

Apply PCF/LCF before or after IIA

The indicated diversification credit is **calibrated** based on LR and RRR data on a **nominal** value (NV) basis, not on a present value (PV) basis.

In the RBC Formula, the diversification credit is implemented through the PCF/LCF, which equals 1.0 – diversification credit. The PCF/LCF credit is **applied** to premium/reserve risk on RBC PR0017and PR0018 risk **after** the IIA discount, i.e., on a **PV basis**.

If the PCF/LCF credit were applied to the risk charge **before** the IIA, the effect of the diversification credit would be larger.

Table 7-1 Part A, below, shows the risk charge calculation with the current method.

Table 7-1A – IIA applied before PCF/LCF – Current Method

Part A -Diversification - Current Method				
Row	Item	Premium	Reserve	Notes
1	Line 4	0.934	0.385	Industry all-line-weighted average
2	IIA	0.927	0.872	Industry all-line-weighted average
3	Expense Ratio	0.270	NA	Industry all-line-weighted average
4	Diversification Credit	0.150	0.150	Industry all-line weighted average
5	PCF/LCF	0.850	0.850	1.0-(4)
6	Risk Charge Before IIA Before Div	0.204	0.385	Note 1
7	Risk Charge After IIA Before Div	0.136	0.208	Note 2
8	Risk Charge After IIA and After Div	0.115	0.177	(6)*(5)
9	Div Credit-% Rsv/Prem	0.020	0.031	(6)-(7)

Values in the Premium and Reserve columns are factors to apply to premium or reserves, respectively.

Note 1: Premium Risk row (5)=(1)+(3) -1.0; Reserve Risk: (5)=row 1.

Note 2: Premium Risk row (5)=(1)*(2)+(3)-1.0; Reserve Risk: (6)=(1.0+(1))*(2)-1.0.

We display rounded values, but we calculate with unrounded values. Therefore, calculations using the rounded values shown may not exactly reproduce the displayed rounded results.

This rounding feature applies to all Tables and Exhibits in this Report.

Table 7-1 Part B, below, shows the risk charge calculation with the alternative method.

Table 7-1B – IIA applied after Diversification – Alternative Method

Part B -Diversification - Apply Diversification Before IIA				
Row	Item	Premium	Reserve	Notes
1	Line 4	0.934	0.385	Industry all-line-weighted average
2	IIA	0.927	0.872	Industry all-line-weighted average
3	Expense Ratio	0.270	NA	Industry all-line-weighted average
4	Diversification Credit	0.150	0.150	Industry all-line weighted average
5	PCF/LCF	0.850	0.850	1.0-(4)
6	Risk Charge Before IIA Before Div	0.204	0.385	Note 1
7	Risk Charge Before IIA After Div	0.173	0.327	(4)*(5)
8	Risk Charge After IIA and After Div	0.107	0.157	Note 2
9	Div Credit as % Rsv/Prem	0.028	0.050	Part A Row 6 - (8)

Values in the Premium and Reserve columns are factors to apply to premium or reserves, respectively.

Note 1: Premium Risk row (5)=(1)+(3) -1.0; Reserve Risk: (5)=row 1.

Note 2: Premium Risk row (5)=(1)*(2)+(3)-1.0; Reserve Risk: (6)=(1.0+(1))*(2)-1.0.

Rows 1-6 in Part B are the same as in Part A. In row 7, we apply the PCF/LCF credit to the risk charge before applying the IIA (shown in row 6). This differs from Part A, the current method, where the PCF/LCF credit is applied after the IIA. Row 8 shows the risk charge after applying both the IIA and the diversification credit with the alternative method.

In row 9, we show the diversification credit as the difference between:

- The risk charge after IIA and before diversification – Part A row 6, and
- The risk charge after IIA and after diversification, alternative method – Part B row 8.

Table 7-1 Part C, below, compares parts A and B. It shows that with the alternative method, the diversification credit is significantly larger, e.g., 39% larger, for premium risk and 62% larger for reserve risk. As a result, the risk charge is 6.9% lower for premium risk and 10.9% lower for reserve risk, expressed as percentages of the risk charge.

Table 7-1C – Comparison IIA applied before or after Diversification

Part C- Change in RBC UW Risk Value - Alternative Methods				
Row	Item	Premium	Reserve	Notes
1	% Diversification Credit	39%	62%	Part B row 9 / Part A row 9
2	% Risk Charge	-6.9%	-10.9%	Part B row 8 / Part A row 8
3	% Reserve/Premium	-0.8%	-1.9%	Part B row 8 - Part A row 8

Appendix 2 analyzes the details that explain why the order of operations produces this difference.

Effect of Changes in Interest Rate/Inflation Environment

Report 2 showed that there is an interaction between Line 4 risk factors and interest rates. It evaluated the indicated risk factors on a present value (PV) basis, and in that way, it produced the indicated Line 4 and IIAs that consider this interaction.

In this Report, we calibrate the diversification credit using LR and RRRs on a nominal value (NV) basis, rather than a present value (PV) basis.

On one hand,

- The Modeled Risk calculation in the MDC calibration uses the Line 4 Factors, NV factors, reflecting the changes in interest/inflation rates over the 1988-2017 (2016) time period, and
- We observe that the indicated MDCs are lower in the earlier periods when interest/inflation rates are higher, and the indicated MDCs are higher in the current periods when interest/inflation rates are lower. The indicated MDC represents experience across both periods.[66]

From that perspective, there is reason to expect that the NV calculation of MDC is reasonable.

On the other hand,

- More complex relationships might exist between MDC and interest/inflation rates, and the current analysis might not reflect those relationships. An analysis of MDC on PV value could explore that possibility.
- The PV analysis would reduce the proportion of risk from long-tail LOBs, compared to shorter-tail LOBs, which might affect the indicated MDC.

We have not done a PV analysis for this Report, and it remains a matter for future research.

Diversification Metrics

In this report:

- We calculate the indicated MDC to produce a total LOB diversification credit that is consistent with the loss experience.
- We test the extent to which the CoMaxLine% allocation of diversification credit by company is consistent with loss experience.

[66] Specifically, the inflation and interest rates in the earlier 1988-2002 time period were higher than in the more recent years, 2003-2017 (2016). Higher interest rates produce higher LRs and higher RRRs, and therefore higher indicated risk charges. The indicated MDCs adjust for that by increasing the average Line 4 Factor in Modeled Risk in the earlier periods, compared to the overall average. The MDC reflects the difference in Observed Risk by size/diversification after removing this difference in overall risk level.

We did not test alternatives to the CoMaxLine% approach, because:

- Our calibration of the indicated MDC established the appropriate total level of LOB diversification credit in the RBC Formula, which is largely independent of the diversification formula.
- Based on our review of DCWP Reports 13 and 14,[67] we conclude that:
    - The company-by-company impact of alternative formulas is not generally large.
    - The potential additional accuracy of a revision is not large compared to the effect of the overall change indicated by this report.
    - The theoretical case for making a change is not compelling, especially in light of the two points above.

Appendix 3 presents our review of the DCWP findings.

Nonetheless, a review of the dependency formula is appropriate for the future.

Calibration Safety Level

There is no explicit overall safety level target for the CAL level in the P&C RBC Formula. Nonetheless, we understand that the prevailing regulatory view is that the implicit safety level has produced satisfactory results.

Impact on Safety Level-Revised MDC

Within the overall CAL, the Line 4 premium and reserve risk factors and the MDC are calibrated to a safety level of 87.5% with a runoff time horizon. This 87.5th percentile/runoff time frame safety level for premium and reserve risk is implicit in the original calibration[68] and has been retained for reasons including the regulatory view that the premium and reserve risk components and the overall effect of the RBC Formula are satisfactory.

The indicated MDCs presented in this report are larger than the MDC in the RBC Formula. This implies that the current RBC Formula incorporates some conservatism in the underwriting risk elements, relative to the 87.5th percentile safety level. Thus, even though the Line 4 Factors are calibrated at the 87.5th percentile, the Line 4 Factors combined with the conservative MDCs produced a safety level higher than the 87.5th percentile.

Adopting the indicated MDC in the RBC Formula reduces the safety level for R4 and R5, and therefore CAL.

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[67] DCWP Report 13 - RBC LOB Diversification: Current RBC Approach vs. Correlation Matrix Approach, DCWP Report 14 - Calibration of LOB Diversification in Underwriting Risk Charges

DCWP work was based on data through December 2010.

[68] American Academy of Actuaries, Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors, Pages 57-58.

Impact on Safety Level-Past Formula Changes

Since the implementation of the RBC Formula, several changes have been made that increased the implied safety level (e.g., R_{CAT} set at the 1-in-100 safety level and the addition of the operational risk charge at 3% of RBC).

There have also been changes that have decreased it (e.g., reduced fixed income risk charges for assets and reduced reinsurance credit risk charges).

Each of these changes may make the RBC Formula more accurate in assessing a particular risk. However, any significant change to any element of the RBC Formula implies a potential change in the implied safety level.

Observation

Any change in the RBC Formula implies a judgment that the resulting overall impact on the CAL safety level is appropriate, and whether a reduction (or increase) in one area requires a corresponding increase (or decrease) in another area to achieve the desired overall level.

We do not measure the safety level impact of adopting the indicated MDCs on R4, R5, or CAL, nor do we determine whether the total ACL is appropriate for regulatory purposes. That is beyond the scope of this Report.

8. SUMMARY OF FINDINGS

The scope of this Report is to examine the CoMaxLine% approach as applied in the RBC Formula. In that context, the committee findings are:

Finding 1:
Based on the above analysis, the committee believes that MDCs of 45% for premium and 65% for reserves are reasonable selections and are better supported by the data than the current 30% MDC. We refer to these as the indicated MDCs.

There are reasonable alternative MDC selections, which we discuss in Section 3 and Section 6/Sensitivity Analysis.

Finding 2:
While the linear relationship between diversification credit and CoMaxLine% is not exact, considering the alternatives, the Committee believes it is a reasonable approximation, especially for more diversified companies.

Finding 3:
We recommend further research on alternatives to the current RBC diversification approach, particularly the method we refer to as CoMaxLine%-Risk, which measures diversification by risk by LOB rather than dollars of premium/reserve.

Finding 4:
The treatment of the IIA/Diversification interaction and the effect of a fully PV analysis are matters for future research.

Finding 5:
Other areas of future research for dependency analyses that we identify in this Report are the following:

Calibration net of cats covered by R-Cat
Resolving issues in combining RBC and AS data
Within the CoMaxLine% approach, or any alternative, test square, square root, or other relationships between diversification index and diversification credit, rather than the current linear relationship.

9. Appendix 1 – Size-adjusted Indicated MDC Calculations

In Section 6, Sensitivity Analysis, Table 6-1, row 2, we present the indicated MDCs that would result if the risk factors in Line 4 varied by company-size, specifically 42% and 56% for premium and reserve risk, respectively.

This Appendix presents the derivation of those results.

Variation in Risk by Company-size

In Exhibits A1-1A and A1-1B, below, we calculate adjustments to the all-lines premium and reserve risk factors that reflect company-size.

Part 1 of Appendix 1- Exhibit A1-1A, below, is a copy of Table 5-2A, Part 1.[69] It shows the 87.5th percentile AYUL for each size and diversification cell. We refer to this as the observed risk. The values in the column "All ex A" are the observed risk values for all company-sizes larger than A (i.e., company-sizes B-E), for each diversification level.[70]

Part 2 shows the ratio of each cell to the value in the column "labeled "All ex A," in the corresponding row. For example:

- The value 2.273 in the cell with diversification 0 and size A equals 0.700/0.308. The value 2.273 means that the observed risk for cell A/0 is 2.273 times larger than the observed risk for size cells B-E.
- The value 0.910 in the cell with diversification 5 and size E equals 0.139/0.153. The value 0.910 means that the observed risk for cell E5 is 0.910 times (9% less than) the observed risk for size cells B-E.

Looking across columns, in any row, these ratios generally decline (indicating lower risk) as company-size increases. This is consistent with our expectation that the risk level decreases with increasing company-size, while holding the diversification level constant.

Part 3 shows the unweighted average observed risk in Part 2 for diversification bands 3-5[71] (down each column), for each size level, A-E.

We use these ratios to create size-adjusted all-line average Line 4 Factors.

[69] Tables 5-2A and B show the values as rounded percentages. This table shows the values as three-decimal ratios.

[70] We exclude company-size A, which consists of the data points with the smallest 20th percentile of company-size because that corresponds, approximately, to the Line 4 calibration that excludes the smallest 15th percentile of LOB-size, for the reasons we discuss in Section 5.

[71] We use diversification 3-5 because, as we discussion in Section 5, those are the diversification bands we use in the MDC calibration.

Appendix 1 – Exhibit A1-1A
Premium Risk
(Corresponding to Table 5-2A-Part 1)

Part 1 - Observed AYUL (87.5th percentile)							
Div/Size	**A**	**B**	**C**	**D**	**E**	**All**	**All ex A**
0	0.700	0.316	0.259	0.270	0.388	0.400	0.308
1	0.675	0.269	0.294	0.255	0.277	0.312	0.271
2	0.477	0.264	0.215	0.178	0.177	0.236	0.204
3	0.521	0.212	0.181	0.178	0.160	0.213	0.181
4	0.450	0.182	0.165	0.163	0.139	0.175	0.157
5	0.833	0.243	0.154	0.158	0.139	0.159	0.153
All	0.623	0.259	0.216	0.189	0.179	0.251	0.206
All ex 0	0.565	0.235	0.205	0.179	0.156	0.213	0.187

Part 2 - Observed AYUL (87.5th percentile) / All ex A							
Div/Size	**A**	**B**	**C**	**D**	**E**	**All**	**All ex A**
0	2.273	1.027	0.841	0.877	1.259	1.299	1.000
1	2.490	0.992	1.086	0.939	1.023	1.152	1.000
2	2.333	1.290	1.053	0.870	0.863	1.156	1.000
3	2.883	1.172	1.000	0.987	0.887	1.180	1.000
4	2.857	1.155	1.045	1.037	0.884	1.112	1.000
5	5.453	1.591	1.007	1.032	0.910	1.041	1.000
All	3.031	1.262	1.050	0.920	0.870	1.218	1.000
All ex 0	3.022	1.257	1.096	0.957	0.835	1.136	1.000

Part 3 - Size Adjustment for Premium Risk					
SizeBand	**A**	**B**	**C**	**D**	**E**
Div 3-5	3.731	1.306	1.017	1.019	0.893

We apply the same method to reserve risk.

Appendix 1 – Exhibit A1-1B
Reserve Risk
(Corresponding to Table 5-2B-Part 1)

Part 1 - Observed Reserve Development (87.5th percentile)							
Div/Size	A	B	C	D	E	All	All ex A
0	0.582	0.411	0.278	0.245	0.177	0.371	0.291
1	0.500	0.529	0.241	0.227	0.154	0.298	0.274
2	0.531	0.422	0.281	0.208	0.128	0.277	0.247
3	0.566	0.412	0.312	0.246	0.185	0.310	0.278
4	0.490	0.415	0.329	0.266	0.254	0.323	0.301
5	0.750	0.362	0.297	0.259	0.251	0.280	0.269
All	0.561	0.428	0.282	0.245	0.209	0.315	0.277
All ex 0	0.542	0.432	0.285	0.245	0.212	0.298	0.274

Part 2 - Observed Reserve Development (87.5th percentile) / All ex A							
Div/Size	A	B	C	D	E	All	All ex A
0	2.001	1.412	0.957	0.843	0.608	1.275	1.000
1	1.822	1.929	0.879	0.826	0.563	1.087	1.000
2	2.144	1.704	1.134	0.842	0.517	1.119	1.000
3	2.034	1.483	1.123	0.886	0.663	1.113	1.000
4	1.628	1.378	1.093	0.881	0.843	1.071	1.000
5	2.791	1.347	1.106	0.963	0.934	1.042	1.000
All	2.024	1.544	1.019	0.885	0.755	1.138	1.000
All ex 0	1.977	1.576	1.041	0.895	0.773	1.087	1.000

Part 3 - Size Adjustment for Reserve Risk					
SizeBand	A	B	C	D	E
Div 3-5	2.151	1.402	1.107	0.910	0.813

Size-Adjusted Indicated MDC

Appendix 1, Exhibit A1-2A and A1-2B, below, corresponds to Tables 5-2A and 5-2B.

- Part 1 Observed Risk and Part 4 Calculated Diversification have values equal to those in Tables 5-2A and 5-2B, Parts 1 and 4.
- Part 2 Modeled Risk values equal the Part 2 values from Tables 5-2A and 5-2B times the size adjustment factors in Exhibit A1-1A and A1-1B Part 3.[72]
- Parts 3 and 5 are calculated with the formulas shown at the bottom of those sections.

[72] More precisely, for premium risk we multiply the Line 4 risk factor by the Part 3 value and combine that with the company expense ratio to produce the adjusted modeled risk. For reserve risk we multiply the Line 4 risk factor by the Part 3 value.

Appendix 1 – Exhibit A1-2A – Premium Risk
Size-adjusted
Indicated MDC by Size/Diversification (5x6 Analysis)
(Corresponding to Table 5-2A-Parts 1-5)

Divers Band Quintiles	Observed Risk (Part 1) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0	70%	32%	26%	27%	39%	31%
1	67%	27%	29%	25%	28%	27%
2	48%	26%	22%	18%	18%	20%
3	52%	21%	18%	18%	16%	18%
4	45%	18%	16%	16%	14%	16%
5	83%	24%	15%	16%	14%	15%
All	62%	26%	22%	19%	18%	21%
All ex 0	57%	24%	21%	18%	16%	19%
	C3-E5 Unweighted	16.0%	Weighted	15.7%		

Divers Band Quintiles	Modeled Risk No Diversification (Part 2) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0%	114%	42%	36%	47%	56%	40%
100%	92%	36%	30%	33%	32%	30%
200%	78%	30%	22%	23%	21%	23%
3	73%	28%	21%	21%	20%	21%
4	80%	28%	22%	22%	20%	22%
5	82%	27%	21%	21%	20%	22%
All	97%	34%	26%	27%	25%	26%
All ex 0	81%	30%	23%	24%	21%	23%
	C3-E5 Unweighted	20.8%	Weighted	20.7%		

Divers Band Quintiles	Indicated Diversification Credit (Part 3) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0	39%	25%	29%	43%	31%	23%
1	27%	25%	1%	23%	12%	11%
2	38%	11%	2%	24%	14%	9%
3	28%	25%	13%	15%	20%	15%
4	44%	35%	24%	25%	29%	27%
5	-1%	11%	27%	26%	30%	29%
All	36%	23%	16%	30%	28%	22%
All ex 0	30%	22%	12%	25%	26%	20%
	C3-E5 Unweighted	23.3%	Weighted	24.2%		

(Part 3) = 1 - (Part 1)/(Part 2)

Divers Band Quintiles	Calculated Diversification Credit (Part 4) Size Band Quintiles A	B	C	D	E	AllSize > 20%
0%	0%	0%	0%	0%	0%	0%
100%	2%	2%	2%	2%	2%	2%
2	8%	8%	8%	8%	8%	8%
3	12%	12%	12%	13%	13%	13%
4	16%	16%	16%	16%	17%	16%
5	20%	21%	21%	21%	22%	21%
All	5%	7%	9%	11%	14%	10%
All ex 0	9%	10%	11%	12%	15%	12%
	C3-E5 Unweighted	16.6%	Weighted	17.2%		

(Part 4) = 1 - Diversification Credit Calculated (Current RBC)

Divers Band Quintiles	Indicated Max Diversification Credit (Part 5) Size Band Quintiles A	B	C	D	E	AllSize > 20%
0						
1	405%	404%	12%	351%	197%	178%
2	148%	42%	9%	91%	53%	35%
3	68%	59%	31%	37%	47%	35%
4	83%	65%	44%	47%	53%	50%
5	-1%	16%	39%	38%	41%	41%
All	229%	100%	56%	84%	60%	66%
All ex 0	100%	65%	34%	61%	51%	48%
	C3-E5 Unweighted	42.0%	Weighted	42.0%		
	StdDev	6.3%	StdDev	6.1%		

(Part 5) = 0.30 * (Part 3)/(Part 4)

Appendix 1 – Exhibit A1-2B – Reserve Risk
Size-adjusted
Indicated MDC by Size/Diversification (5x6 Analysis)
(Corresponding to Table 5-2B-Parts 1-5)

Divers Band Quintiles	Observed Risk (Part 1) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0	58%	41%	28%	25%	18%	29%
1	50%	53%	24%	23%	15%	27%
2	53%	42%	28%	21%	13%	25%
3	57%	41%	31%	25%	18%	28%
4	49%	42%	33%	27%	25%	30%
5	75%	36%	30%	26%	25%	27%
All	56%	43%	28%	25%	21%	28%
All ex 0	54%	43%	29%	25%	21%	27%
	C3-E5 Unweighted		26.7%	Weighted	26.4%	

Divers Band Quintiles	Modeled Risk No Diversification (Part 2) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0%	71%	50%	39%	34%	26%	40%
100%	62%	41%	32%	27%	25%	30%
200%	63%	43%	33%	29%	25%	23%
3	70%	47%	38%	33%	32%	21%
4	74%	50%	41%	35%	34%	22%
5	81%	50%	43%	35%	34%	22%
All	70%	47%	37%	32%	30%	26%
All ex 0	68%	45%	37%	32%	31%	23%
	C3-E5 Unweighted		35.9%	Weighted	35.5%	

Divers Band Quintiles	Indicated Diversification Credit (Part 3) Size Band Quintiles (adj B-E) A	B	C	D	E	AllSize > 20%
0	19%	17%	29%	27%	31%	27%
1	19%	-31%	24%	17%	39%	10%
2	16%	3%	16%	28%	49%	-10%
3	19%	12%	17%	24%	42%	-31%
4	34%	17%	19%	24%	26%	-40%
5	7%	28%	30%	25%	26%	-25%
All	20%	9%	25%	23%	31%	-5%
All ex 0	20%	5%	22%	23%	32%	-17%
	C3-E5 Unweighted		26.0%	Weighted	25.9%	

(Part 3) = 1 - (Part 1)/(Part 2)

Divers Band Quintiles	Calculated Concentration Ratio (Part 4) Size Band Quintiles A	B	C	D	E	AllSize > 20%
0%	0%	0%	0%	0%	0%	0%
100%	1%	1%	1%	1%	1%	1%
200%	5%	5%	5%	5%	5%	5%
3	10%	10%	10%	10%	10%	10%
4	14%	14%	14%	14%	14%	14%
5	18%	19%	19%	19%	20%	19%
All	4%	6%	7%	8%	11%	8%
All ex 0	8%	9%	9%	10%	12%	10%
	C3-E5 Unweighted		14.5%	Weighted	15.0%	

(Part 4) = 1 - Diversification Credit Calculated (Current RBC)

Divers Band Quintiles	Indicated Max Diversification Credit (Part 5) Size Band Quintiles A	B	C	D	E	AllSize > 20%
0						
1	452%	-776%	598%	434%	919%	248%
2	98%	17%	100%	174%	307%	-62%
3	57%	36%	53%	75%	127%	-97%
4	72%	35%	40%	50%	53%	-83%
5	11%	45%	48%	39%	40%	-39%
All	151%	45%	108%	82%	86%	-19%
All ex 0	74%	18%	74%	67%	78%	-52%
	C3-E5 Unweighted		58.5%	Weighted	56.2%	
	StdDev		26.4%	StdDev	25.2%	

(Part 5) = 0.30 * (Part 3)/(Part 4)

Appendix 1- Exhibit A1-3, below, shows the size-adjusted indicated MDCs from Exhibit A1-2A and 2B, and compares them to the unadjusted results in Table 5-2A and 5-2B.

Appendix 1 – Exhibit A1-3
Indicated MDCs

Size Adjustment = NO	Premium	Reserves
C3-E5 Wtd Average	45.9%	66.3%
C3-E5 Standard Deviation	12.9%	37.5%
Size Adjustment = YES	**Premium**	**Reserves**
C3-E5 Wtd Average	42.0%	56.2%
C3-E5 Standard Deviation	6.1%	25.2%

The size-adjustment reduces the indicated MDCs, and it also decreases variability among the C3—E5 MDC indications, as measured by the standard deviation. It also narrows the difference between the premium risk indicated MDC and the reserve risk indicated MDC.

The size-adjusted indications still suggest MDCs larger than the current 30%.

Regression Analysis

In Appendix 1, Exhibits A1-4 and A1-5 below, we repeat the regression analysis from Section 5, applied to size-adjusted risk data in Exhibit A1-2A and 2B.

Appendix 1 – Exhibit A1-4
Large Diversified Companies (with Size-Adjusted Risk Factors)
Graphical Analysis of CoMaxLine% Element of Diversification Formula
5 x 6 Analysis; 9 Large Diversified Company Data Points
(Corresponding to Table 5-4, no size adjustment)

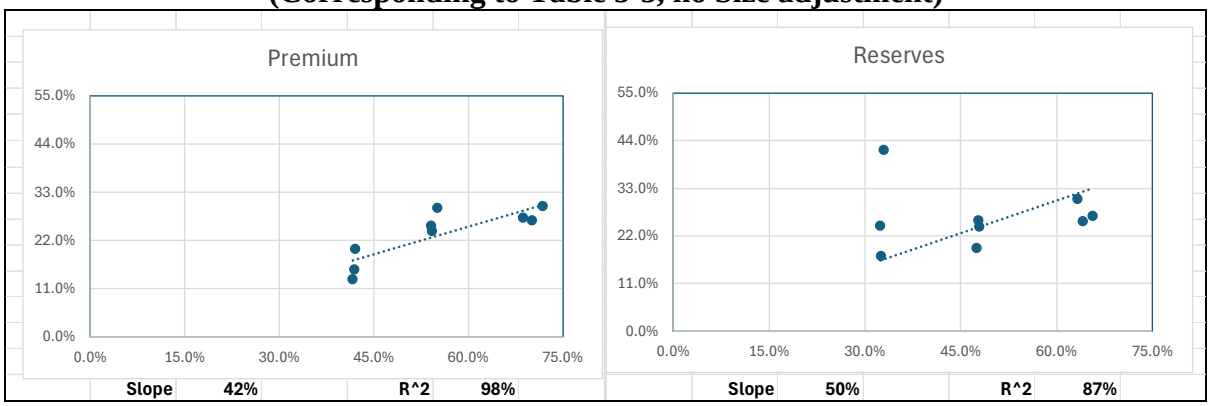
		Premium			Reserves		
		(1)	(2)	(3)	(4)	(5)	(6)
Size Band	Div Band	Average Div Level	Indicated Divers	Fitted Divers	Average Div Level	Indicated Divers	Fitted Divers
C	3	41.6%	13.0%	17.5%	32.5%	17.2%	16.4%
D	3	41.8%	15.4%	17.6%	32.4%	24.2%	16.3%
E	3	42.0%	19.9%	17.6%	32.9%	41.8%	16.5%
C	4	54.2%	23.9%	22.8%	47.5%	19.1%	23.9%
D	4	54.1%	25.3%	22.7%	47.9%	23.9%	24.1%
E	4	55.1%	29.4%	23.1%	47.7%	25.5%	24.0%
C	5	68.7%	27.1%	28.9%	63.2%	30.5%	31.8%
D	5	70.1%	26.4%	29.4%	64.1%	25.3%	32.2%
E	5	71.7%	29.7%	30.1%	65.7%	26.5%	26.5%

The regression data in Exhibit A1-4 is as follows:

- Columns 1 & 4: Average diversification index for premium and reserve risk, respectively (from Exhibits A1-2A and A1-2B, Part 4 divided by 30%).

- Columns 2 & 5: Indicated diversification credit (from Exhibit A1-2A/B, Part 3).
- Columns 3 & 6: Fitted diversification credit, derived from the regression through the origin applied to the prior columns.

Appendix 1 – Exhibit A1-5
Large Diversified Companies (with Size Adjustment)
Graphical Analysis of CoMaxLine% Element of Diversification Formula
5 x 6 Analysis; 9 Large Diversified Company Data Points
(Corresponding to Table 5-5, no Size adjustment)



In Appendix 1 – Exhibit A1-5

- The X-axis represents the average diversification index (Appendix 1-Exhibit A1-4 columns 1 and 4).
- The Y-axis represents the indicated diversification credit (Appendix 1-Exhibit A1-4 columns 2 and 5)
- The slope of the fitted line is 42% for premium risk and 50% for reserve risk.

The regression "R-squared" values[73] are:

- 98% for premium and
- 87% for reserves.
- These indicate a 'better fit' than with the data before size-adjustment.

The slopes serve as alternate estimates of the size-adjusted indicted MDCs shown in Exhibit A1-3, above.

- The premium slope, 42%, is the same as the slope from the C3-E5 cell average, 42%.
- The reserve slope of 50% is not as close to the C3-E5 cell average, 56%.

[73]See footnote 51.

Appendix 2 – Diversification and IIAs

In Section 7, we showed that the risk value depends on the order in which we apply diversification credit and IIA. In this Appendix, we explain how the operation of the IIA produces that effect.

The IIA can be viewed in three parts:

- Part 1 - The investment income credit on the premium less expense[74] /initial carried reserves,
- Part 2 - The investment income credit on the premium/reserve risk charge, and
- Part 3 - The reduction in investment income credit related to the diversification credit.

Part 1 is the investment income on loss reserves and on the expense portion of the premium, before considering risk charges. Parts 2 and 3 are the elements of investment income on the risk charge.

In the current RBC Formula, the investment income adjustment on the diversification credit, Part 3, is, in effect, the average of the investment income credits on parts 1 and 2, as follows:

Assume, for example, for reserves, that the IIA is 0.872 (a 12.8% discount) and the risk charge is 0.385. Then, the first two parts of the investment income credit would be:

- Part 1 – 12.8% of reserves (or premium less expense), and
- Part 2 – 12.8% of the risk charge, 0.385 times reserves 4.9%.

Therefore,

- Part 1 and Part 2 investment income credit combined is 12.8% of the total reserves plus 12.8% of the reserve risk charge.
- That equals 46.0% of the risk charge before IIA (12.8% + 4.9%)/0.385.
- The total investment income credit, 46% of risk charge, is ‘large’ compared to 12.8% because Part 1 of the investment income credit is large compared to the risk charge.

[74] The loss portion of premium, i.e., premium less expenses

Thus, the diversification credit is applied to the risk charge after the 46% reduction for the investment income credit, and therefore, the diversification credit is implicitly reduced by 46%.

The alternative treatment is to reduce the diversification credit by the marginal investment income attributable to the diversification credit alone, i.e., 12.8%, rather than 46%. Using the 12.8% investment income adjustment increases the diversification credit and reduces the risk charge for multi-line companies.

The section below provides a detailed comparison of the alternatives.

Exhibit A2-1/Part A – Current Method – Apply IIA before Diversification Credit

Exhibit A2-1 uses sample values for the Line 4 Factor, the IIA Factor, and the diversification credit to show the investment income treatment under the current and alternative calculations in detail.

Part A, rows 1-4, shows the values for RBC Formula inputs.

Rows 5-7 use the current RBC Formula to calculate risk charges:
(a) Row 5: before IIA and Diversification,
(b) Row 6: after IIA, before diversification, and then
(c) Row 7: after IIA and diversification.

Row 8 displays the diversification credit as a percentage of premium/reserve, calculated as row 6 minus row 7.

Appendix 2 – Exhibit A2-1 – Part A – Current Method
(Values are % of Premium or Reserves)

Part A -Diversification - Current Method				
Row	Item	Premium	Reserve	Notes
1	Line 4	0.934	0.385	Industry all-line-weighted average
2	IIA	0.927	0.872	Industry all-line-weighted average
3	Expense Ratio	0.270	NA	Industry all-line-weighted average
4	Diversification Credit	0.150	0.150	Industry all-line weighted average
5	Risk Charge-Before IIA Before Div	0.204	0.385	Note 1
6	Risk Charge-After IIA Before Div	0.136	0.208	Note 2
7	Risk Charge-After IIA and After Div	0.115	0.177	(6)*(1.0-(4))
8	Div Credit-% Rsv/Prem	0.020	0.031	(6)-(7)

Note 1: Premium Risk row (5)=(1)+(3) -1.0; Reserve Risk: (5)=row 1.

Note 2: Premium Risk row (5)=(1)*(2)+(3)-1.0; Reserve Risk: (6)=(1.0+(1))*(2)-1.0.

We display rounded values, but we calculate with unrounded values. Therefore, calculations using the rounded values shown may not exactly reproduce the displayed rounded results.

This applies to all Tables and Exhibits in this Report.

Exhibit A2-1/Part B – Current Method – Apply IIA Before Diversification Credit

In Part B, we rearrange Part A to explicitly show the interaction between the IIA and diversification credit.

Appendix 2 – Exhibit A2-1 – Part B – Current Method-Details of IIA
(Values are % of Premium or Reserves)

Part B -Diversification - Re-Arrange -Current Method				
Row	**Item**	**Premium**	**Reserve**	**Notes**
9	Risk Charge-Before IIA or Div	0.204	0.385	(5)
10	IIA Credit Before Div	0.068	0.177	(5)-(6)
11	Div credit before IIA	0.031	0.058	(4)*(9)
12	IIA credit on Div	0.010	0.027	**(4)*(10)**
13	Div credit after IIA	0.020	0.031	(11)-(12)
14	Risk charge-after IIA and Div credits	0.115	0.177	(9)-(10)-(13)

Relative to $100 of reserves, this shows:

Row 9-Reserve risk before IIA or diversification credit is $38.50, row 5.

Row 10-Investment income credit is $17.70 ($38.50 – $20.70, row 5 – row 6).

Row 11-Diversification credit before investment income is $5.80 (15% of $38.50).

Row 12-Investment income credit on diversification credit is 2.70 (15% of 17.70).

$17.70 is based on Part 1 and Part 2 investment income, so this calculation is equivalent to applying the average investment income credit to the diversification portion of the risk charge.

Row 13-Diversification credit net of investment income is $3.10 ($5.80 – $2.70).

Row 14-Risk Charge after IIA and diversification credit is **$17.70**
($38.50 – $17.70 – $3.10).

Exhibit A2-1/Part C – Alternative Method – Apply Diversification Credit Before IIA

Part C shows the alternative treatment of investment income offset:

Appendix 2 – Exhibit A2-1 – Part C – Alternative Method
(Values are % of Premium or Reserves)

Part C -Diversification - Alternative Method				
Row	**Item**	**Premium**	**Reserve**	**Notes**
15	Risk Charge-Before IIA or Div	0.204	0.385	(5) or (9)
16	IIA Credit Before Div	0.068	0.177	(10) or (5)-(6)
17	Div credit before IIA	0.031	0.058	(11) or (4)*(9)
18	IIA credit on Div	0.002	0.007	**(1-(2)*(17)**
19	Div credit after IIA	0.028	0.050	(17)-(18)
20	Risk charge-after IIA and Div credits	0.107	0.157	(15)-(16)-(19)

Relative to $100 of reserves, this shows:

Row 15-Reserve risk before IIA or diversification credit is $38.50, row 1.
Row 16-Investment income credit is $17.70 (38.50 – 20.70, row 5 – row 6).
Row 17-Diversification credit before investment income is $5.80 (15% of 38.5).
Row 18-Investment income credit on diversification credit is $0.70 (0.128 * $5.8, where 0.128 =1.0 -0.872).
Row 19-Diversification credit net of investment income is $5.10 (5.80 – 0.70)
(5.00 shown on row 19 is calculated from values before rounding.)
Row 20-Risk Charge after IIA and diversification credit is **$15.70** (38.50 – 17.70 – $5.10).

The difference between the methods is presented in the two bold lines, rows 12 and 18.

Row 12, the current method: The diversification credit is reduced by the average investment income effect on the risk charge, yielding an investment income credit of **$2.70**.

Row 18, the alternative method: The diversification credit is reduced by the marginal investment income loss on the diversification credit, which is **$0.70** = (1.0 - 0.872) * $5.80.

- The **$2.00** difference per $100 reserve, $2.70 - $0.70, is a reduction of over 10% of the $17.70 risk charge under the current method.

Exhibit A2-1/Part D – Comparison of the Effect of the Alternative Method

Part D of Exhibit A2-1, below, shows the difference in the methods as percentages of the diversification credit, the risk charge, and the reserve/premium volume.

- Row 21 shows that diversification credit is much larger with the alternative method, 39% larger for premium and 62% larger for reserves.
- Row 22 shows that the effect of the larger diversification credits on the risk charges is a decrease of 6.9% for premium risk and 10.9% for reserve risk.

- Row 23 expresses those effects as a percentage of reserves or premium, a decrease of 0.8% of premium and 1.9% for reserves.

Appendix 2 – Exhibit A2-1 – Part D – Effect of Alternative Method

Part D- Change in RBC UW Risk Value - Alternative Methods				
Row	Item	Premium	Reserve	Notes
21	% Diversification Credit	39%	62%	(19)/(13)
22	% Risk Charge	-6.9%	-10.9%	(20)/(14)-1.0
23	% Reserve/Premium	-0.8%	-1.9%	(20)-(14)

Effect of Alternative Method – Varying Line 4, IIA, and Diversification Credits

Part D, above, illustrates the impact on a specific set of risk factors and diversification levels. The effect of the alternative method depends on the level of diversification, the IIA Factor, and the Line 4 Factor. Exhibits A2-2A and 2B below show further examples for premium risk and reserve risk, respectively.

1. Vary Diversification Credit –with Fixed Line 4 and IIA-Reserve Risk

The first section in Exhibits A2-2A and A2-2B, "Div Credit," illustrates the extent to which the alternative method reduces the risk charge at different levels of diversification credit, for fixed Line 4 and IIA Factors.

The example uses typical Line 4 and IIA Factors, e.g., 0.385 and 0.872 for reserves. We observe that:

- For reserve risk, the impact on the diversification is an increase of 62% regardless of the diversification level.
- Even though the impact on the diversification credit is constant as a percentage of the diversification credit, the impact increases with diversification as a percentage of risk or reserve level. At a high level of diversification, e.g., 25%, the risk charge decreases by 21% with the alternative method.

2. Vary Line 4 Factor - with Fixed IIA and Diversification Credit-Reserve Risk

The "Line 4" section of Exhibit A2-2A illustrates the extent to which the risk charge changes with varied Line 4 Factors and constant IIA and diversification credit:

- The impact is constant as a percentage of premium/reserves, regardless of the Line 4 Factor, 1.1% in this example, for premium.
- The impact is lower with higher Line 4 Factors as a percentage of diversification credit and risk charge.

3. Vary IIA - with Fixed Line 4 and Diversification Credit-Reserve Risk

The "IIA" section of the Exhibit shows that lower IIAs, equivalent to higher investment income, means that the alternative method will have a greater impact, given fixed L4 and diversification credit.

Appendix 2 – Exhibit A2-2A – Premium Risk Impact

Test Variable	Inputs			Impact		
	Line 4	IIA	Div. Credit	% Div Credit	% Risk	% Premium
Div Credit	0.934	0.927	0%	NA	0%	0.0%
	0.934	0.927	5%	39%	-2%	-0.3%
	0.934	0.927	10%	39%	-4%	-0.5%
	0.934	0.927	15%	39%	-7%	-0.8%
	0.934	0.927	25%	39%	-13%	-1.3%
Line 4	0.900	0.900	0.15	91%	-16%	-1.1%
	0.950	0.900	0.15	58%	-10%	-1.1%
	1.000	0.900	0.15	43%	-8%	-1.1%
	1.100	0.900	0.15	28%	-5%	-1.1%
	1.200	0.900	0.15	21%	-4%	-1.1%
IIA	0.934	0.975	0.15	10%	-2%	-0.3%
	0.934	0.872	0.15	111%	-20%	-1.4%

Exhibit A2-2B shows similar examples for reserve risk.

Appendix 2 – Exhibit A2-2B – Reserve Risk Impact

Test Variable	Inputs			Impact		
	Line 4	IIA	Div. Credit	% Div Credit	% Risk	% Reserve
Div Credit	0.385	0.872	0%	NA	0%	0.0%
	0.385	0.872	5%	62%	-3%	-0.6%
	0.385	0.872	10%	62%	-7%	-1.3%
	0.385	0.872	15%	62%	-11%	-1.9%
	0.385	0.872	25%	62%	-21%	-3.2%
Line 4	0.385	0.800	0.15	185%	-33%	-3.0%
	0.400	0.800	0.15	167%	-29%	-3.0%
	0.500	0.800	0.15	100%	-18%	-3.0%
	0.700	0.800	0.15	56%	-10%	-3.0%
	0.900	0.800	0.15	38%	-7%	-3.0%
IIA	0.385	0.950	0.15	16%	-3%	-0.7%
	0.385	0.800	0.15	185%	-33%	-3.0%

Appendix 3 – Alternatives to the CoMaxLine% Approach

In this report, we evaluate the MDC based on the existing CoMaxLine% approach. As part of that work, we reviewed the two 2019 Casualty Actuarial Society (CAS) Dependency and Calibration Working Party (DCWP) reports on alternative diversification formulas.[75]

This Appendix presents our review of the DCWP work.

DCWP evaluated three questions:

1. Meaningful differences – To what extent do different formulas impact the indicated diversification credit by company?

2. Improved accuracy – To what extent is the CoMaxLine% approach a better or worse predictor of indicated diversification credit effects than other formulas?

3. Theoretical considerations – What are the theoretical considerations in selecting among the diversification formulas?

In the next four subsections, we identify the alternative formulas that DCWP considered and discuss DCWP's analysis of those three questions.

Alternative Formulas

Looking at the treatment of diversification in regulatory capital formulas outside the RBC framework, the UK Individual Capital Adequacy Standard[76] (UK ICAS) can be thought of as the simplest. The UK ICAS required capital is called the Enhanced Capital Requirement (ECR).[77] Under the ECR, there is no premium or reserve risk diversification adjustment. Instead, LOB risk factors were selected to represent the LOB risk when combined with a typical LOB distribution.[78]

The CoMaxLine% approach can be viewed as one step more complex than the UK ICAS in that it recognizes different levels of diversification.

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[75]Report 13 - RBC LOB Diversification: Current RBC Approach vs. Correlation Matrix Approach, https://www.casact.org/sites/default/files/2021-02/01_cas-working-party_dependency.pdf, CAS E-Forum Winter 2019

Report 14 - Calibration of LOB Diversification in Underwriting Risk Charges, https://www.casact.org/pubs/forum/19spforum/01_DCWP_Rpt14.pdf, CAS E-Forum Spring 2019

DCWP work was based on data through December 2010.

There were no company-size adjustments in the DCWP work.

[76] Implemented in the UK in the early 2000's before Solvency II.

[77] "Enhanced" because it increase the capital required compared to the EU "Solvency I" regime.

[78] ECR is discussed in https://www.casact.org/sites/default/files/presentation/affiliates_cae_1205_indiv-capital-assessments.pdf, and

https://www.abi.org.uk/globalassets/sitecore/files/documents/consultation-papers/2003/11/cp190.pdf, and

Models, Assessment and Regulation, Arne Sandström, 2006, Taylor & Francis Group, LLC, p 161-164, (no active link)

Correlation Factor Method

Individual company capital models (called 'internal models' in Solvency II) often combine risk charges by LOB using correlation.[79] factors between each pair of LOBs. The Solvency II Standard Formula[80] uses this pairwise Correlation Factor approach.[81]

The Correlation Factor approach, if applied to the RBC Formula, would require 171 parameters, as there are 19 LOBs. By contrast, the CoMaxLine% approach in RBC is simpler--perhaps overly so--and perhaps somewhat ad hoc.

CoMaxLine%-Risk Method

One difference between the CoMaxLine% approach and the Correlation Factor approach is that the degree of diversification in the Correlation Factor approach is based on risk by LOB. In contrast, the degree of diversification in the CoMaxLine% approach is based on volume (premium or reserve amount) by LOB.

Therefore, another alternative to the CoMaxLine% approach is the CoMaxLine%-Risk approach, which applies the CoMaxLine% framework to LOB risk rather than LOB volume, when calculating the LCF and PCF for a company.[82] For clarity, as needed, we refer to the current implementation as CoMaxLine%-Volume and the alternative as CoMaxLine%-Risk.

HHI Method

Finally, the Herfindahl-Hirschman Index (HHI), widely used by economists to measure concentration, considers the relative proportions of all LOBs—not just the largest.[83] HHI is more

[79] We use the term correlation factor approach to describe a factor method or copula method for computing total risk by combining several individual risks. In using the term, we do not intend to imply that the assumptions related to linear correlation are appropriate.

[80] The "Standard Formula" in Solvency II regime is analogous to RBC in that it is a formula that applies to all companies.

[81] Solvency II uses a CoMaxLine% approach to reflect geographic diversification.
DCWP Report 3, CAS E-Forum 2012. "Solvency II Standard Formula and NAIC Risk-Based Capital (RBC)"
https://www.casact.org/sites/default/files/database/forum_12fforumpt2_rbc-dcwprpt3.pdf

[82] For this purpose, LOB reserve risk equals reserve value times reserve risk factor. LOB premium risk equals premium value times premium risk factor plus expenses minus 100%. The PCF and LCF are calculated using LOB-risk rather than LOB-volume. For premium risk, implementation of this method requires expense information by LOB.

[83] HHI equals the sum of the squares of the LOB shares of total. For example, if there is only one LOB, HHI is 1.0, as is the case for the CoMaxLine%. With two lines split 25% and 75% HHI is 0.25^2 plus 0.75^2 or 0.625 compared to the CoMaxLine% of 0.750, i.e., HHI shows more diversification. With three lines split 50%, 25% and 25% HHI is 0.50^2 plus 0.25^2 plus 0.25^2 or 0.375, more diversification than the CoMaxLine% of 0.5. With two lines split 50% and 50% HHI and the CoMaxLine% are both 0.5.

complex than the CoMaxLine% because it reflects diversification across the 2nd, 3rd, 4th, etc., largest LOBs.[84]

Alternatives Considered by DCWP

Thus, the DCWP Reports considered the following alternatives to the CoMaxLine%-Volume approach:

- the Correlation Factor approach,
- the CoMaxLine%-Risk approach, and
- the HHI approaches: HHI-Volume and HHI-Risk.

Meaningful Differences?

For each company filing a 2010 Annual Statement, DCWP calculated the all-lines premium and reserve risk values, using the 2010 RBC Formula, for each company and for each of the five diversification approaches.[85] From these, DCWP computed the combined RBC UW Risk Value for each company.[86]

In the following discussion, we categorize changes in UW Risk Values as:

- Small (<5%)
- Other (≥5% and ≤ 10%)
- Moderate (10-25%)
- Large (>25%)

In comparing any two methods, we select the parameters so that the industry total diversification is the same for both methods.[87]

In our discussion, we focus on the differences we call Small, Moderate and Large.

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[84] The HHI is sometimes applied to only the n-th largest segments, e.g., the degree of diversification among the top ten LOBs. The HHI index applied to the single largest segment would be very similar to the CoMaxLine%. HHI can be written as p_1^2+p_2^2+p_3^2…+p_n^2. The truncated HHI limited to one element would be p_1^2. CoMaxLine% is p_1. HHI is always less than or equal to CoMaxLine%.

While HHI can CoMaxLine% may distribute the diversification credit differently among companies, the total diversification credit depends on MDC-HHI and MDC-CoMaxLine%. Those can be selected to achieve the same total diversification credit.

[85] DCWP Report 13 Appendix 1 describes how DCWP approximated the RBC UW Risk Value using public data.

[86] The RBC UW Risk Value for this purpose equals the square root of (a) the reserve risk value squared plus (b) the premium risk value squared. The reserve risk does not include the portion of reinsurance credit risk that is included in R4.

[87] Using the same total diversification for all methods is appropriate because the indicated total diversification is the ratio of modeled risk value before diversification compared to observed risk value. Those two are the same regardless of the diversification model, to the extent that different methods produce similar size/diversification bands, as the DCWP works showed in plausible. This is the indicated diversification we show in Box 3 of Tables 5-2A and B of this Report.

CoMaxLine% versus Correlation Factor

Applying the correlation approach requires a set of pairwise correlation factors. Calibrating those factors based on experience is a major undertaking, perhaps beyond the limits of available data.

In 2010, Solvency II Standard Formula addressed this problem in calibrating Correlation Factors as follows:[88]

- There were 12 LOBs and, therefore, 66 correlation factors.
- Each of the 66 correlation factors was selected to be either 0.25 or 0.50, based on expert judgment on whether each pair was more or less correlated.

The objective of DCWP work was to compare the CoMaxLine% to the Correlation Factor approach, as applied in a standard formula such as RBC. Therefore, regardless of the limitations of the Solvency II correlation factor calibration, DCWP followed that approach and constructed a set of pairwise correlation factors,[89] selecting values of 25% or 50% for most of the 171 LOB-pairs.

Appendix 3-Exhibit A3-1, below, shows the difference in diversification credit and UW RBC Values identified by DCWP.[90] We discuss the main differences below.

% Change in Diversification Credit (A. Div Credit Impact)

- There are large changes in diversification credit for 48% of companies, but those are concentrated in the least diversified bands.[91] For example, 81% of companies in the least diversified 20% showed large changes, but only 6% of the most diversified 20% did.

% Change in RBC UW Risk Value (B. RBC UW Risk Impact)

- Since companies receiving the large changes in diversification credit had low diversification credit levels, the overall effect on RBC UW Risk Value is small.
    - No companies experienced large changes in RBC UW Risk Value.
    - Only 10% experienced moderate changes—mostly companies in the 40th to 80th percentile diversification bands.

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[88] The Solvency II approach to selecting is described in Groupe Consultatif Actuariel Europeen, Diversification, Technical paper, 31 October 2005, pg. 11, and shown in "Advice for Band 2 Implementing Measures on Solvency II: SCR Standard Formula Article 111(d) Correlations," (former Consultation Paper 74), January 2010, pp 39-44, pg. 26.

[89] DCWP modified select pairwise correlations for LOBS possibly highly correlated: 100% between claims-made and occurrence medical malpractice and between general liability, special liability, and products liability; and 75% between special property and homeowners, between private passenger automobile liability and automobile physical damage and between commercial automobile liability and automobile physical damage.

See DCWP Report 13, Appendix 1 for further details on the construction of the DCWP Correlation Matrix.

[90] In comparing CoMaxLine%-Volume to the Correlation Factor method, DCWP used a CoMaxLine%-Volume MDC of 39.1% to produce the same total diversification credit as produced by the selected correlation factors.

[91] The fact that larger differences arise for companies with low diversification is important.

For example, if the diversification credit is 1% of risk, and if the differences between the two methods are 100%, the impact on risk is only 1%.

On the other hand, if the diversification credit is 10% of risk, and if the difference between the two methods is 100% the impact on risk is 10%, 10 times larger.

- Only 3% of the most diversified 20% had changes in the moderate category.
- Across all companies, 69% had changes below 5%.

Appendix 3 – Exhibit A3-1
CoMaxLine%-Volume versus Correlation
% of Multi-Line Companies with Large, Moderate, or Small change in Diversification Credit or UW Risk RBC Value

% Change		A. Div Credit Impact				B. RBC UW Risk Impact				
		All Div band	Least Div 0-20%	Most Div 80-100%		All Div band	Least Div 0-20%	Div 20%-40%	Div 40%-80%	Most Div 80-100%
>25%	Large	48%	81%	6%		0%	0%	0%	0%	0%
>10%	Moderate	71%	90%	28%		10%	2%	6%	20%	3%
<5%	Small	14%	3%	34%		69%	96%	59%	57%	78%

Yellow highlight on the values noted in the discussion above.

CoMaxLine%-Risk versus Correlation Factor[92]

One of the differences between CoMaxLine%-volume and Correlation is the use of premium by LOB versus risk by LOB. To test the extent to which that difference affected the comparison of CoMaxLine% to correlation, DCWP repeated the analysis for CoMaxLine%-Risk versus the Correlation Factor method. Appendix 3-Exhibit A3-2, below, shows the results.

The values in Exhibit A3-2 are lower than the corresponding values in Exhibit A3-1, indicating the CoMaxLine%-Risk is a step "towards" the Correlation Factor method.

Appendix 3 – Exhibit A3-2
CoMaxLine%-Risk versus Correlation
% of Multi-Line Companies with Large, Moderate, or Small change in Diversification Credit or UW Risk RBC Value

% Change		A. Div Credit Impact				B. RBC UW Risk Impact				
		All Div band	Least Div 0-20%	Most Div 80-100%		All Div band	Least Div 0-20%	Div 20%-40%	Div 40%-80%	Most Div 80-100%
>25%	Large	42%	74%	2%		0%	0%	0%	1%	0%
>10%	Moderate	65%	84%	21%		7%	0%	4%	15%	2%
<5%	Small	21%	4%	51%		76%	98%	67%	65%	84%

Yellow highlight on the values noted in the discussion above.

CoMaxLine%-Volume versus HHI-Volume[93]

DCWP found only small differences in RBC UW Risk Value between CoMaxLine%-Volume and HHI-Volume. For more than 97% of companies, the effect is less than 5%. The effect is below 10% for all companies.

[92] In comparing CoMaxLine%-Risk to correlation factor, DCWP used a CoMaxLine%-Risk MDC of 44.4% to produce the same total diversification credit as produced by the selected correlation factors.

[93] In comparing the CoMaxLine% approach to the HHI approach, DCWP used a CoMaxLine% MDC of 37.7% to produce the same total diversification credit as the HHI approach with MDC of 30%.

Accuracy

Subject to random variation, a perfect diversification model would result in a uniform indicated total diversification credit,[94] across the 9 cells (C3-E5) in Table 5-3.[95]

To measure accuracy, DCWP calculated the standard deviation and the absolute difference ("absolute error") in MDC values across the 9 cells, around the average for those 9 cells, for each of four methods. Appendix 3-Exhibit A3-2, below, shows these absolute error results.

For premium risk, CoMaxLine%-Risk has the lowest error. For reserve risk, the Correlation Factor approach has the lowest error. The differences in error measures between the "best" and worst" methods are as follows:

- 0.7% of premium between the best and worst approaches for premium risk, (0.9% CoMaxLine%-Risk best versus 1.6% Correlation Factor worst)
- 1.0% of reserves between the best and worst approaches for reserve risk. (1.9% for Correlation Factor, the best, versus 2.9% for CoMaxLine%-Volume, the worst)

Appendix 3 – Exhibit A3-3[96]
Absolute Error as a Percentage of Reserves or Premium (C3-E5)

Dependency Method	Premium	Reserves
CoMaxLine%-Volume	1.1%	2.9%
Correlation	1.6%	1.9%
HHI-volume	1.1%	2.1%
CoMaxLine%-Risk	0.9%	2.3%

Yellow highlight for the smallest absolute error among these methods.

These differences are approximately 5% of premium and reserve risk,[97] which is not large considering that:

- The errors represent a reallocation of the overall diversification credit rather than a change in the overall diversification level; and
- The effect is smaller than the impact of adopting the indicated MDCs, which would reduce premium risk values by 10% and reserve risk values by 20%.

Theoretical Considerations – Correlation Factor Approach

The Correlation Factor approach is commonly applied in individual company economic capital models. However, the underlying assumptions do not translate well to standard formulas such as the RBC Formula, as we explain below.

[94] Represented as a constant indicated MDC for CoMaxLine% approaches. Represented as a constant indicated change in the average level in the Correlation Factor approach.

[95] Table 5-3 is a copy of Part 5 of Tables A5-2A and A5-2B.

[96] DCWP Report 14, Table 4-2. Highlight added for emphasis.

[97] Average indicated risk charges, after IIA, before diversification and before growth risk or loss-sensitive contracts is 13.5% for premium and 20.2% for reserves (from Report 2, Table 1-1).

Individual Company Capital Model Calibration: Grounded in Risk Theory

In an individual company capital model (ICCM), each LOB has a company-specific risk distribution, reflecting its underwriting, claims, reinsurance, and other practices. To produce the all-lines risk distribution, these company-specific LOB risk distributions are aggregated using empirically-derived or expert judgment-based correlations.

RBC Calibration: Grounded in Risk Classification

Unlike the ICCM, the RBC Formula is calibrated from, and applies to, a heterogeneous population of insurers. The ICCM risk correlation assumptions do not apply.

Variation in Risk within LOB

Consider Company 1A (writing LOB A), Company 1B (writing LOB B), and Company 2 (writing LOBs A and B). Company 2 is more diversified than either Company 1A or Company 1B. Risk theory suggests that the risk charge for Company 2 should be lower than the sum of the risk charges for Company 1A plus Company 1B, depending on the degree of correlation between the LOBs.

However, that expectation assumes that the risk distributions for LOBs A and B in Companies 1A and 1B are the same as the risk distributions for LOBs A and B in Company 2, respectively.

That assumption is not routinely valid.

Variation in Risk within LOB by Type of Company

Specifically, DCWP[98] examined premium risk distributions by type of company and found variation in risk distributions for any given LOB by Type of Company.[99] For example:

- Personal Lines specialists[100] had "lower" risk[101] for PPA or HO than did more diversified insurers writing the same LOBs.

  Therefore, an insurer writing multiple LOBs may have a diversification benefit, but that benefit may be offset by the higher LOB risks (for the same LOBs) for the non-specialized (diversified) insurer compared to the "specialist."[102]

[98] Report 8 - Risk-Based Capital (RBC) Premium Risk Charges—Differences in Premium Risk Charge by Type of Company.

[99] Type of Company is defined in footnote 12.

[100] A company is a Personal Lines specialist if more than 50% of written premium is in the HO, PPA and Auto Physical Damage LOBs.

[101] We use the phrase 'lower/higher risk to mean that the 87.5th percentile LR or RRR is lower/higher for one distribution compared to another. (Note: Note that higher or lower risk does not mean higher or lower profitability.)

[102] The higher risk distribution for companies writing multiple LOBs can have various causes. These possible causes include: (a) a benefit from specialization; (b) 'specialists' write a different type of business within a single LOBs, e.g., personal use automobiles in a specialist Personal Lines writing and vehicles used for business in a multiline insurer; and (c) possible higher policy limits and higher reinsurance retention in a diversified insurer than in a specialist insurer.

- Reinsurers often have diversified portfolios. This includes the proportional business that is reported in the LOBs based on the underlying ceded business and the non-proportional business reported in LOBs N, O, or P.[103]

  However, the reinsurer's proportional business is 'riskier' than 'average' business in those LOBs. Hence, some of the diversification benefit is offset by the higher-than-average risk level of that additional business.

Thus, the effect of 'risk theory' diversification, while real, can be offset by the higher LOB-specific risk levels of that additional business.

Variation in Risk within LOB – A general feature of UW Risk

These are two high-level examples that can be identified from Annual Statement data. The issue is deeper, in that within each of the publicly reported LOBs, there are many UW sub-segments. A company that appears "diversified" between LOBs may be diversified into sub-segments that have higher or lower than average risk. Thus, companies that look 'diversified' may or may not warrant a credit for that diversification, depending on the areas of focus within their LOBs.

Risk Classification Provides a Better Conceptual Framework

We explained above that, given the risk distribution for average LOB A business and the risk distribution for average LOB B business, we cannot necessarily use a correlation approach to calculate the risk distribution for a company writing LOBs A and B.

Therefore, framing the analysis as a risk theory question is problematic. As an alternative, we frame the analysis in the context of risk classification and manual ratemaking.

Specifically, in the risk classification framework, calibrating dependency means measuring the extent to which companies writing more LOBs[104] have different indicated risk charges than companies writing fewer LOBs, after considering the risk by LOB (Line 4 Factors) and other factors considered in the RBC Formula.

In this Report, diversification calibration means:

- The total credit for diversification is empirically measured using the methods we show in Tables 5-2A and 5-2B. This measurement is analogous to calculating the statewide indicated rate levels in manual ratemaking.
- Diversification is a "risk characteristic" that can be used to classify companies by diversification level and then allocate diversification credits across companies using approaches such as CoMaxLine%, CoMaxLine%-Risk, and Correlation Factor. This is analogous to setting territorial boundaries and rate differentials.
- Not all risk characteristics are used in a particular risk classification system.

[103] In Schedule P, reinsurers are expected to allocate premiums, losses, and reserves for proportional business to LOBs based on the underlying LOB ceded by the primary insurer, LOBs other than N, O or P. LOBs N, O and P are used if the business cannot be allocated that way, i.e., for non-proportional business.

[104] More precisely, we measure diversification using CoMaxLine%, but that correlates to the number of LOBs written.

  - The RBC Formula does not consider risk characteristics like company-size, Type of Company, or variations in LOB sub-segments of the Schedule P LOBs that are used in the RBC Formula.
  - Instead, the calibration considers aggregates across the risk characteristics not included in the risk classification system, i.e., the RBC Formula.
- The Formula is intended to be reasonable enough overall, but will not be "exact" for any particular insurer.

Data Adequacy and Proportionality Considerations

Finally, as a practical matter, there will not be enough data for a data-driven calibration of the 87.5th percentile level for every one of the 171 correlation factors (for 19 LOBs), separately for premium risk and reserve risk.

Moreover, 171 parameters is a disproportionate number of parameters compared to the number of parameters used for other aspects of the RBC Formula.

DCWP Conclusions

Based on the DCWP analysis of the impact of alternative formulas, the relative accuracy of the formulas, and the theoretical considerations, DCWP concluded:

- The CoMaxLine%-Risk approach may be better than the CoMaxLine% approach.
- Neither the Correlation Factor approach nor the HHI approach represents the data significantly better than the CoMaxLine% approach, for both reserve risk and premium risk.

Given the prior DCWP findings and this Committee's analysis of current data, this Committee prioritized the MDC calibration over further analysis of alternatives to the CoMaxLine% approach.

4. GLOSSARY

Glossary – Part 1

Term	Definition/Description
10x11 size/diversification bands	Company data reflecting 10 size deciles and 11 diversification (monoline plus 10 multiline) deciles
1x1 size/diversification band	Aggregate company data for size bands B through E and multiline diversification bands 1 through 5 (excluding monoline)
1x6 size/diversification bands	Aggregate company data for size bands B through E and each diversification band (monoline plus 5 multiline)
5x6 size/diversification bands	Company data reflecting 5 size quintiles and 6 diversification (monoline plus 5 multiline) quintiles
ACL	Authorized Control Level required capital from the RBC Formula: 50% of CAL.
AYUL	Accident Year Underwriting Loss, in dollars
AYUL%	Accident Year Underwriting Loss as a percentage of premium
CAL	Company Action Level: required capital value from the RBC Formula.
CoMaxLine%-Risk	Method of Measuring LOB Concentration reflecting Volume of Premium Risk or Reserve Risk Charges
CoMaxLine%	Company Maximum Line Percentage of Business
CoMaxLine% Approach	Method of Measuring LOB Concentration reflecting the Company's Maximum Line Percentage of Business
CoMaxLine%-Volume	Method of Measuring LOB Concentration reflecting Volume of Premiums or Reserves
Committee	American Academy of Actuaries Property and Casualty Risk-Based Capital Committee
Concentration Ratio or concentration index	LOB Concentration used in determining the company diversification grouping
Correlation Factor	Measure of “pairwise” LOB correlation (100% if two LOBs are fully correlated with each other)
Correlation Matrix	Matrix of all “pairwise” LOB correlations used to determine aggregate risk in Solvency II
DCWP or CAS DCWP	Casualty Actuarial Society (CAS) Dependency and Calibration Working Party
Diversification Credit	One minus Premium Concentration Factor or Loss Concentration Factor (for premiums and reserves, respectively)
Diversification index	One minus Concentration Ratio
Expense Ratio	2017 industry net expenses divided by net earned premium, from the 2017 Insurance Expense Exhibit, by LOB.
HHI	Herfindal-Hirschman Index of concentration reflecting relative volumes of all LOB Premiums or Reserves
HHI-Risk	Method of Measuring LOB Concentration reflecting Relative Volumes of all LOB Premium or Reserve Risk Charges

Term	Definition/Description
HHI-Volume	Method of Measuring LOB Concentration reflecting Relative Volumes of all LOB Premiums or Reserves
IIA	Investment Income Adjustment; Also referred to as Line 7/8.
Initial reserve	The reserve at the selected valuation date.
Initial Reserve Year	The year ending at the selected valuation date. This is usually the year of the least mature AY in the reserve, i.e., the initial reserve year for the reserves as of December 31, 1995, is 1995.
LCF	Loss Concentration Factor is measured as the largest of 19 RBC LOB reserves divided by total reserves.
Line 4 Factor	Risk factor, line in RBC Formula PR017, PR018.
Line 7/8 Factor	IIA, row in RBC Formula, PR017 (Line 8) and PR018 (Line 7).
LOB	Line of Business
LR	Loss Ratio, loss and all loss adjustment expenses divided by earned premium, net of reinsurance.
MDC	Maximum Diversification Credit included in the RBC Formula (currently 30%)
NOC	"NOC," standing for Not Otherwise Classified, means companies for which the portion of net written premium plus loss reserves is greatest for the sum of the following LOBs: G-SL, K-Fid/Sur, L-Other, M-Intl, or S-FG/MG. See definitions in Part 2 of this Glossary.
PCF	The Premium Concentration Factor is measured as the largest of 19 RBC LOB premiums divided by total premiums.
PR017	Page of the P&C RBC Formula that contains the main calculations for the reserve risk component of R4 UW Risk—Reserves.
PR018	Page of the P&C RBC Formula that contains the main calculations for the premium risk component of R5 UW Risk—Net Written Premium.
Premium IIA	Investment Income Adjustment for premium risk. Line 7 on page PR018.
Premium risk charge	Premium risk charge for LOBs generally.
Premium risk charge $_{LOB}$	Our analysis uses the simplified formula: Premium Risk Factor $_{LOB}$ * IIA $_{LOB}$ + Industry Average Expense Ratio $_{LOB}$ - 100%
Premium risk factor	Line 4 in RBC Formula PR018
R0	Part of the RBC Formula for Affiliated Insurance Companies and Misc. Other Amounts.
R2	Part of the RBC Formula for Equity Assets.
R4 or R4- UW Risk—Reserves	Part of the RBC Formula for UW Risk—Reserves RBC mainly using page PR017.
R5 or R5 - UW Risk—Net Written Premium	Part of the RBC Formula for UW Risk—Net Written Premium RBC, mainly using page PR018.
RBC	Risk-Based Capital

Term	Definition/Description
RBC Formula	Risk-Based Capital Formula promulgated by the NAIC for use in solvency monitoring of company Annual Statements.
R_{CAT}	Part of the RBC Formula that accounts for earthquake and hurricane premium risk.[105]
Reserve IIA	Investment Income Adjustment for reserve risk. Line 8 on page PR017.
Reserve Risk Charge	Reserve risk charge for LOBs generally.
Reserve Risk Charge $_{LOB}$	Our analysis uses the simplified formula: (1.0 + Reserve Risk Factor $_{LOB}$) * IIA $_{LOB}$ - 100%
Reserve Risk Factor	Line 4 in RBC Formula PR017
RRR	Reserve Runoff Ratio
TAC	Total Adjusted Capital as defined in the RBC Formula.
Ten-Year LOBs	LOBs for which Schedule P contains information on the most recent 10 AYs.
Two-Year LOBs	LOBs for which Schedule P (prior to 2024 AS) contains information on the most recent 2 AYs.
Working Group or NAIC Working Group	National Association of Insurance Commissioners' Property and Casualty Risk-Based Capital Working Group

[105] The NAIC P&C RBC Committee Catastrophe Risk (E) Subgroup annually publishes a catastrophe event list on its website to guide companies as to which events from the most recent 10 years should be included in their catastrophe experience disclosed in PR101, PR102, etc. These events include US and non-US earthquakes, hurricanes, and tropical storms, consistent with the perils modeled for R_{CAT} (August 2017 CIPR Newsletter).

Glossary Part 2 – LOB descriptions

(1)	(2)	(3)	(4)
Schedule P LOB Name	**RBC LOB Name (PR017 and PR018)**	**Schedule P Letter Code**	**Short Label**
Homeowners & Farmowners	H/F	A	HO
Private Passenger Auto Liability	PPA	B	PPA
Commercial Auto Liability	CA	C	CA
Workers' Compensation	WC	D	WC
Commercial Multiple Peril	CMP	E	CMP
Medical Professional Liability (Occurrence)	MPL OCCURRENCE	F1	MPL-O
Medical Professional Liability (Claims Made)	MPL CLMS MADE	F2	MPL-C
Special Liability (Note 1)	SL	G	SL
Other Liability: Claims Made and Other Liability: Occurrence	OL	H	OL
Special Property (Note 2)	SPECIAL PROPERTY	I	SP
Auto Physical Damage	AUTO PHYSICAL DAMAGE	J	APD
Fidelity & Surety	FIDELITY/SURETY	K	Fid/Sur
Other (Inc Credit, Accident & Health) (Note 3)	OTHER (INCLUDE CREDIT, A&H)	L	Other
International (Note 4)	INTL	M	Intl
Reinsurance: Nonproportional Assumed Financial and Reinsurance: Nonproportional Assumed Property	REIN PROPERTY & FINANCIAL LINES	N	Re-Prop
Reinsurance: Nonproportional Assumed Liability	REIN LIABILITY	O	Re-Liab
Product Liability: Claims Made and Product Liability: Occurrence	PL	R	PL
Financial & Mortgage Guaranty	FINANCIAL/MORTGAGE GUARANTY	S	FG/MG
Warranty	WARRANTY	T	Wrnty

The 19 RBC LOBs are a subset of the 22 Schedule P LOBs, which are a subset of the 45 Statutory Page 14 LOBs, plus write-in LOBs in the "Underwriting and Investment Exhibit Part 1 Premium Earned" section of the Annual Statement.

Note 1: Special Liability consists of Statutory Page 14 LOBs: Ocean Marine, Aircraft (all perils), and Boiler and Machinery (Statutory Page 14 LOBs 8, 22, and 27).

Note 2: Special Property consists of Statutory Page 14 LOBs: Fire, Allied Lines, Inland Marine, Earthquake, and Burglary and Theft (Statutory Page 14 LOBs 1, 2, 9,12, and 26).

Note 3: Other (Inc Credit, Accident & Health) consists of Statutory Page 14 LOBs: Group A&H, Credit A&H (group and individual), Other A&H, and Credit (Statutory Page 14 LOBs 13, 14, 15, and 28)

Note 4: LOB International consists of non-US business that cannot be identified by Statutory Page 14 LOB in the 2017 Annual Statement.