

Date: 6/23/20

Conference Call

CAPITAL ADEQUACY (E) TASK FORCE

Tuesday, June 30, 2020

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

ROLL CALL

Jillian Froment, Chair	Ohio	Steve Kelley	Minnesota
Todd E. Kiser, Vice Chair	Utah	Chlora Lindley-Myers	Missouri
Jim L. Ridling	Alabama	Bruce R. Ramge	Nebraska
Lori K. Wing-Heier	Alaska	Barbara D. Richardson	Nevada
Alan McClain	Arkansas	Marlene Caride	New Jersey
Ricardo Lara	California	Mike Causey	North Carolina
Andrew N. Mais	Connecticut	Glen Mulready	Oklahoma
Karima M. Woods	District of Columbia	Elizabeth Kelleher Dwyer	Rhode Island
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Dean L. Cameron	Idaho	Kent Sullivan	Texas
Robert H. Muriel	Illinois	Mike Kreidler	Washington
Doug Ommen	Iowa	Mark Afable	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jane Barr/Lou Felice

AGENDA

1. Consider Adoption of its 2019 Fall National Meeting Minutes—*Tom Botsko (OH)* Attachment One
2. Consider Adoption of its Jan. 27 and April 30 Minutes—*Tom Botsko (OH)* Attachment Two
Attachment Three
3. Consider Adoption of Proposal 2020-05-CA (Table of Content and Heading Modifications to the RBC Instructions)—*Tom Botsko (OH)* Attachment Four
4. Consider Adoption of Proposal 2020-06-L (Instructions for Longevity Risk for Life/Fraternal)—*Philip Barlow (DC)* Attachment Five
5. Consider Adoption of Property and Casualty Proposals
a. Proposal 2018-19-P (Charge for Vulnerable 6 or Unrated)—*Tom Botsko (OH)* Attachment Six
b. Proposal 2020-01-P (P/C Line 1 Premium and Reserve Factors)—*Tom Botsko (OH)* Attachment Seven
6. Adjournment

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Draft Pending Adoption

Draft: 12/08/19

Capital Adequacy (E) Task Force
Austin, Texas
December 8, 2019

The Capital Adequacy (E) Task Force met in Austin, Texas Dec. 8, 2019. The following Task Force members participated: David Altmaier, Chair (FL); Todd E. Kiser, Vice Chair, represented by Dan Applegarth (UT); Lori K. Wing-Heier represented by Michael Richer (AK); Jim L. Ridling represented by Sheila Travis (AL); Andrew N. Mais represented by Wanchin Chou (CT); Stephen C. Taylor represented by Philip Barlow (DC); Trinidad Navarro represented by Rylynn Brown (DE); Doug Ommen represented by Mike Yanacheak (IA); Robert H. Muriel represented by Kevin Fry and Vincent Tsang (IL); Vicki Schmidt represented by Tish Becker (KS); Steve Kelley represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Causey represented by Jackie Obusek (NC); Marlene Caride (NJ); John G. Franchini represented by Anna Krylova (NM); Barbara D. Richardson represented by Stephanie McGee (NV); Jillian Froment represented by Tom Botsko and Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Kent Sullivan represented by Mike Boerner (TX); Mike Kreidler represented by Patrick H. McNaughton (WA); and Mark A. Fable represented by Randy Milquet (WI).

1. Adopted its October 8 Minutes

The Task Force met Oct. 8, 2019 and took the following action: 1) adopted its Sept. 18 minutes which was an e-vote to adopt its 2020 charges; and 2) exposed its referrals:

- a. NAIC Designations for Schedule D, Part 2-Section 2.
- b. Mutual Funds
- c. Comprehensive Funds.
- d. Supplemental Investment Risk Interrogatories (SIRI).

Ms. Orth made a motion, seconded by Mr. Botsko, to adopt the Task Force's Oct. 8 minutes (Attachment One). The motion passed unanimously.

2. Adopted its Working Group Reports

Mr. Barlow mentioned an addition to the Life Risk-Based Capital (E) Working Groups summary report to include phase-in and spreading of variable annuity reserves capital. Mr. Milquet made a motion, seconded by Ms. Obusek, to adopt the reports of the: Health Risk-Based Capital (E) Working Group July 17 minutes (Attachment Two); Life Risk-Based Capital (E) Working Group (Attachment Three); and Property and Casualty Risk-Based Capital (E) Working Group (Attachment Four). The motion passed.

3. Adopted its Working Agenda

Mr. McNaughton said the completion dates for stop loss insurance, health care receivables and the health test ad hoc group were extended to better reflect the expected completion of each of these projects. The referral letter to the TF on Guaranty Funds, Long-Term Care and HMO's and the review of Long-term care and long-term disability under the H2 component were removed from the agenda. The Working Group completed the memo on the Long Term Care and Guaranty Funds and referred it to the Task Force and the Working Group determined that due to materiality, the item on long-term care and long-term disability would be removed and if needed can be re-assessed in the future

Mr. Botsko summarized the changes to the 2020 Property and Casualty Risk-Based Capital (RBC) working agenda: 1) removed "evaluate the proposed changes from the Investment Risk-Based Capital WG related to Bond changes in the P/C formula" in the new items section; and 2) added "evaluate the possibility of using NAIC as centralized location for reinsurer designations" and "evaluate the possibility of allowing additional third party models to calculate the cat model losses" in the carry-over items and new items sections respectively.

Mr. Botsko said that the Affiliated Investment group has continued their bi-weekly call since the Summer National meeting and met in person on Friday, December 6. The Ad hoc group has finalized the Directly Owned Subsidiary instructions for all three forms. And has also made progress on the Indirect Owned Subsidiary and Alien Subsidiary instructions as well. The Ad Hoc group will continue to move forward with the remaining instructions over the next few months. Mr. Botsko said that he plans to present the Direct and Indirect instructions to the respective Working Groups and the Task Force by the Spring meeting.

Draft Pending Adoption

Mr. Botsko made a motion, seconded by Mr. Boerner to adopt the Working Agenda (Attachment Five). The motion passed.

4. Received Long-Term Care/Guaranty Fund Memorandum

Mr. McNaughton summarized a referral from the Task Force regarding adopted amendments to the Life and Health Insurance Guaranty Association Model Act, Model #520 and determine if changes were warranted to the health RBC formula. The Health RBC formula currently includes a .5% charge on all premiums that are subject to a guaranty fund assessment.

He added that through their analysis: 1) that while some states have not yet adopted the model law changes, once adopted a majority of the states will allow for a premium tax or corporate tax offset, or the ability to impose a minimal surcharge to help offset the assessment; 2) at a maximum, HMO's would incur a charge of 2% (depending upon each state's guaranty fund law) and if they were unable to pay or meet this obligation, they could request a waiver from the guaranty fund of some or all of the assessment; and 3) given the differences and complexities between states in the regulation and taxation of HMO's, and that the RBC formula is a generic formula the goal of which is to be applied as uniformly as possible and not at such a granular level, it would be difficult to incorporate such changes into the formula that could address all the different scenarios needed to provide a different charge, offset or credit to such a distinct population in such diverse regulatory environments.

Mr. McNaughton said based on these findings, the Working Group does not recommend any changes to the Health RBC (Attachment Six).

6. Adopted the Property and Casualty Risk-Based Capital (E) Working Group Proposals

- a. Proposal 2019-11-P (Clarification to Instructions Regarding Lloyd's of London) and the 2019 Reporting Guideline (Attachment Seven).

Mr. Botsko said upon review of 2018 Annual Statement Schedule F, Part 3 filings, it was observed that many filers reported reinsurance recoverable amounts due from Lloyd's of London syndicates as NAIC 6 – unrated; therefore, they are subject to the highest R3 charge. He stated that the purpose of this proposal is to clarify that the reinsurance recoverable from individual syndicates of Lloyd's of London that are covered under the Lloyd's Central Fund may use the lowest financial strength group rating received from an approved rating agency. He said that because the deadline for the change of the 2019 RBC instructions has passed, a guideline for 2019 RBC reporting will be posted to the Working Group's web page pending the proposal's adoption by the Working Group. He also stated that the Working Group received no comments during the exposure period.

- b. Proposal 2019-12-P (Remove PR038 Adjustment for Reinsurance Penalty) (Attachment Eight).

Mr. Botsko said that because the computation of RBC charge for reinsurance recoverable has been moved to the Annual Statement Schedule F, Part 3 in 2018 reporting, the adjustment for reinsurance penalty for affiliates applicable to Schedule F in PR038 is no longer needed. He stated that the purpose of this proposal is to eliminate the adjustment for reinsurance penalty for affiliates applicable to Schedule F section in PR038. Mr. Botsko also said the Working Group received no comments during the exposure period.

- c. Proposal 2019-14-CR (2019 Catastrophe Event Lists) (Attachment Nine).

Mr. Botsko said, in order to avoid double-counting the catastrophe losses in the RBC formula, the U.S. and non-U.S. catastrophe event lists provide a routine annual update for those catastrophe events that should be excluded from the R5 calculation. He stated that the Subgroup exposed the list during the Nov. 8 conference call; no comments were received during the exposure period. Mr. Botsko also indicated that any additional events that occur between November 1 and December 31 will be exposed during the first week of January. The Subgroup will either schedule a conference call or conduct an email vote to adopt the updated list after the Committee Assignment Meeting.

Mr. Botsko made a motion, seconded by Mr. Chou to adopt the Property and Casualty Risk-Based Capital Working Group proposals. The motion passed

7. Adopted the RBC Preamble

Commissioner Altmaier said that the purpose of the RBC preamble (Attachment Ten). is to provide some history and background on the RBC as a reference when reviewing the numerous referrals and proposal that pass to the Capital Adequacy (E) Task Force and its Working Groups. He added that the Preamble was re-exposed for a 30-day comment period ending Sept. 4 and was modified to include comments received from America's Health Insurance Plans-AHIP (Attachment Eleven). Bill Weller (AHIP) thanked the task force for including the changes suggested in their comment letter.

Draft Pending Adoption

Commissioner Altmaier said that he received a comment that states there are some state that are allowing insurers permitted practices to adjust their RBC outside the accounting permitted practices to their financial statement. The wording in the preamble states that permitted practices are not allowed and the Task Force was not aware that this was allowed by any state.

Ms. Brown said that if permitted practices are allowed there should be some type of disclosure of the permitted practice and why it is allowed. She added that it was not a good idea to allow permitted practices in the RBC, which would be a disadvantage of companies who are following the rules. Mr. Barlow said that he has heard there are permitted practices in RBC, which he believes there should not because of the significant solvency to the insurance company. Mr. Bruggeman said that RBC is a tool used to monitor solvency, and when a company's RBC falls into various action levels that may require monitoring adjusting those numbers will skew their results. He added that permitted practices are allowed in the financial statement and that is where they belong, not by adjusting the RBC numerator. Mr. Fry said that there may be state laws that allow for a permitted practice in RBC. Mr. McNaughton said that this tool is a cornerstone to solvency regulation and since the RBC Model Law is an accreditation standard if this is allowed there could be some regulatory arbitrage.

Commissioner Altmaier said that the paragraph in question would be paragraph 10 of Attachment Eleven which states; "RBC instructions, RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the Commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions." so adoption would eliminate that states authority to allow permitted practices. Mr. Fry suggested that the task force table this adoption. Lou Felice said that RBC should not allow for permitted practices to the denominator, which would change the RBC formula and factors. The numerator could be an accounting permitted practices or a state permitted practice for RBC. Mr. Yanacheak said he was in favor of moving forward with the current wording today. Commissioner Altmaier said that if adopted, the Task Force could look into the states that are allowing a permitted practice and if the numerator or denominator is being adjusted.

Mr. Yanacheak made a motion, seconded by Mr. Barlow to adopt the RBC Preamble The motion passed.

8. Heard Comments on Exposed Referrals

Commissioner Altmaier said that the Task Force has received numerous referrals regarding investments that could impact the RBC formula. There referrals were exposed for a 30-day comment period ending Nov. 8 and the Task Force requested that the following questions be considered: a) if changes to the RBC formula were appropriate; if so, b) what was the best way for the Task Force to move forward; and c) what resources should the Task Force consider for research and analysis of these investments.

a. Comprehensive Fund Referral (Attachments Twelve and Thirteen)

Nancy Bennett (Academy) said that the risk in a single bond is not the same as the risk associated with comprehensive bonds. She added that using speculative risk analysis (default rate and credit experience) to rate bond funds may reduce the capital requirement for fund investments below regulators' state statistical level. Ms. Bennet said that the Academy recommends further analysis so that similar treatment does not under mind the RBC calculation.

Josh Bean representing American Council of Life Insurers (ACLI) and North American Securities Valuation Association (NASVA) said they encourage the Task Force to continue discussion on the bond and preferred stock focused fund structures risk profile and determine a risk-based factor appropriate for this investment portfolio. Mr. Bean said that these funds offer insurance companies access to diversification and solid risk adjusted returns, as well as liquidity and cash flows well suited to our asset/liability matching needs.

Chris Anderson – Anderson Insights (AI) said that for regulatory purposes open end funds (which include Exchange Traded Funds) should not be treated like closed end funds (actual bonds) and could encourage insurers to invest in assets with low C-1 factors for various reasons; a) do not have the same predictability and periodicity of cash flows of actual bonds; b) have indeterminate, not fixed lives; c) do not offer promises of cash flows that insurers can use to provide their projected future liability needs and due to time constraints will end with d) are not subject to credit analysis because there is no party to be evaluated making specific promises concerning the amounts of future cash flows. He asked that this Task Force determine whether it is appropriate to assign the same risk factor for these funds as if they were a bond or preferred stock.

Commissioner Altmaier said the comment letter form Everest is included in the materials.

Draft Pending Adoption

Erinn King – Payden&Rygel said that their asset management firm is in support of assigning bond factors for fixed income designation for all bond and preferred stock funds, and ETFs, both private and public, regardless of which schedule they are reported on in the annual statement that are determined/designated by the SVO. She added that funds allow smaller insurers to achieve better pricing economies of scale and diversification of investment risk than many can find purchasing individual securities, but the RBC charges are inconsistent across the formulas.

Kelly Sweppenhiser – Vanguard focused on two important points from their research and that there is 1/10 of 1% of bond mutual funds that apply for designations, so there is minimal impact to RBC and secondly if bond funds were afforded bond like treatment in RBC that amount would slowly increase and a small subset of SEC-registered bonds would be submitted for designation.

b. Structured Notes Referral

Mr. Bean stressed that the RBC should exclude non-admitted structured notes from receiving an RBC charge. The RBC rules for P&C companies refer to the net book/adjusted carrying values (net of a non-admit amount) when calculating RBC charges which is inconsistent with the treatment in the Life RBC formula, (reducing Statutory Capital and Surplus by 100% of the net book/adjusted carrying value of the asset), the gross asset (before reducing it for non-admitted) has a RBC charge associated with it. Mr. Bean said that should an insurer receive a permitted practice to admit structured notes as “other derivatives” we recommend the RBC rules associated with Derivatives on Schedule DB be modified to treat such instruments like equity securities.

Commissioner Altmaier asked the Task Force members to consider the comments heard today so when the Task Force reconvenes a determination can be made on how to move forward.

10. Discussed Any Other Matters

Commissioner Altmaier thanked Mr. McNaughton for his years of service as chair of the Health Risk-Based Capital and expertise and diligence in with the health formula. He expressed admiration for Mr. McNaughton receiving the Robert Dineen Award for Outstanding Service and Contribution and looks forward to seeing him participate in a non-regulatory compacity.

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

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Draft: 2/4/20

Capital Adequacy (E) Task Force
Conference Call
January 27, 2020

The Capital Adequacy (E) Task Force met via conference call Jan. 27, 2020. The following Task Force members participated: Jillian Froment, Chair, represented by Tom Botsko (OH); Todd E. Kiser, Vice Chair, represented by Jake Garn (UT); Jim L. Ridling represented by Richard Ford (AL); Allen W. Kerr represented by Mel Anderson (AR); Richard Lara represented by Perry Kupferman (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); David Altmaier represented by Carolyn Morgan and Virginia Christy (FL); Doug Ommen represented by Kim Cross (IA); Robert H. Muriel represented by Kevin Fry and Vincent Tsang (IL); Vicki Schmidt represented by Tish Becker (KS); Steve Kelley represented by John Robinson (MN); Chlora Lindley-Myers represented by Julie Lederer (MO); Mike Causey represented by Jackie Obusek (NC); Marlene Caride represented by Diana Sherman (NJ); Barbara D. Richardson represented Joel Bengo (NV); Glen Mulready represented by Joel Sander (OK); Kent Sullivan represented by Mike Boerner (TX); Mike Kreidler represented by Patrick McNaughton and Steve Drutz (WA); and Mark Afable represented by Randy Milquet (WI).

1. Adopted its Dec. 30, 2019, Minutes

During its Dec. 30, 2019, meeting, the Task Force exposed a revised structure for reporting bond designations at year-end 2020 for a 45-day public comment period.

Mr. Chou made a motion, seconded by Ms. Obusek, to adopt the Task Force's Dec. 30, 2019, minutes. The motion passed unanimously.

2. Adopted the 2019 Catastrophe Events List

Mr. Boerner made a motion, seconded by Mr. Milquet, to adopt the catastrophe events list to be used for 2019 Property/Casualty (P/C) Risk-Based Capital (RBC) reporting subject to several non-substantive edits suggested by Mr. Robinson. The motion passed unanimously.

3. Sponsored Blanks (E) Working Group Proposal

The Task Force members agreed to sponsor proposed changes to Interrogatory #24 in all 2020 annual NAIC financial statement blanks. The change improves clarity on reporting of conforming versus non-conforming collateral related to securities lending. All RBC formulas rely on data from that interrogatory. The proposed blanks change will go to the Blanks (E) Working Group for further action.

Mr. Botsko thanked Commissioner Altmaier for his leadership as former chair of the Task Force.

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

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Draft: 5/4/20

Capital Adequacy (E) Task Force
Conference Call
April 30, 2020

The Capital Adequacy (E) Task Force met via conference call April 30, 2020. The following Task Force members participated: Jillian Froment, Chair, represented by Tom Botsko (OH); Todd E. Kiser, Vice Chair, represented by Jake Garn (UT); Jim L. Ridling represented by Richard Ford (AL); Alan McClain represented by Mel Anderson (AR); Ricardo Lara represented by Perry Kupferman (CA); Andrew N. Mais represented by Kathy Belfi and Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); David Altmaier represented by Ray Spudeck (FL); Doug Ommen represented by Mike Yanacheak (IA); Robert H. Muriel represented by Vincent Tsang (IL); Vicki Schmidt represented by Tish Becker (KS); Chlora Lindley-Myers represented by John Rehagen and William Leung (MO); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramage represented by Lindsay Crawford (NE); Raymond G. Farmer represented by Michael Shull (SC); Kent Sullivan represented by Mike Boerner (TX); Mike Kreidler represented by Steve Drutz (WA); and Mark Afile represented by Amy Malm (WI).

1. Heard Introductory Remarks

Mr. Botsko announced that the Task Force was given special allowances to hold its April 30 conference call in order to adopt the required changes for 2020 year-end reporting and to meet its risk-based capital (RBC) forecasting publication deadlines. All other non-COVID-19 related topics or discussion items will resume after the Summer National Meeting.

2. Adopted Proposal 2019-16-CA (Bond Designation Structure)

Mr. Rehagen made a motion, seconded by Mr. Drutz, to adopt proposal 2019-16-CA. The motion passed unanimously.

3. Adopted Proposal 2019-13-L (Charge for Longevity Risk for Life/Fraternal)

Mr. Barlow explained that a new schedule in the life/fraternal RBC formula for longevity risk should be considered to determine the appropriate guardrails and factor. Therefore, more information must be obtained in order to develop the guardrails and factors, and it is important that the structure be in place for 2020 year-end with zero factors in order to collect this information.

Mr. Barlow made a motion, seconded by Mr. Boerner, to adopt proposal 2019-13-L. The motion passed unanimously.

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

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Capital Adequacy (E) Task Force

RBC Proposal Form

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| <input checked="" type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> SMI RBC (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

DATE: <u>04/15/2020</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Jane Barr</u> TELEPHONE: <u>816-783-8413</u> EMAIL ADDRESS: <u>jbarr@naic.org</u> ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u> NAME: <u>Tom Botsko</u> TITLE: <u>Chair</u> AFFILIATION: <u>Ohio Department of Insurance</u> ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u>	Agenda Item # <u>2020-05-CA</u> Year <u>2020</u> <b style="text-align: center;"><u>DISPOSITION</u> <input type="checkbox"/> ADOPTED _____ <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input checked="" type="checkbox"/> EXPOSED <u>Ending 5/15/2020</u> <input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|--|---|--------------------------------------|
| <input type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Life and Fraternal RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions | |
| <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions | |

DESCRIPTION OF CHANGE(S)

Insert the word "Overview" in the page heading on page iv and modify the Table of Contents to include only the page heading and delete references to the individual sections of the Overview.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the proposal to clarify the overview of the RBC pages and make the references for this page consistent with the other page references in the Table of Contents.

Additional Staff Comments:

4/15/20 Exposed for 30-day comment period ending on May 15, 2020.
 5/15/20 No comments received during comment period.

** This section must be completed on all forms.

Revised 11-2013

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Overview of the NAIC Health Risk-Based Capital Report

Introduction

Risk-based capital (RBC) is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the capital requirement in which the degree of risk taken by the insurer is the primary determinant. The five major categories of risks involved are:

Insurance Affiliates H-0 And Misc. Other			This is the risk from declining value of insurance subsidiaries as well as risk from off-balance sheet and other misc. accounts (e.g. DTAs).
Asset Risk – Other	H-1		This is the risk of assets’ default of principal and interest or fluctuation in market value.



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Detail Eliminated To Conserve Space

[Overview of the NAIC Life and Fraternal Risk-Based Capital Report](#)

Introduction

Risk-based capital (RBC) is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the capital requirement in which the degree of risk taken by the insurer is the primary determinant. The five major categories of risks involved are:

Insurance Affiliates and Misc. Other	C-0	This is the risk from declining value of insurance subsidiaries as well as risk from off-balance sheet and other misc. accounts (e.g., DTAs).
Asset Risk - Other	C-1	This is the risk of assets’ default of principal and interest or fluctuation in fair value.
Insurance Risk	C-2	This is the risk of underestimating liabilities from business already written or inadequately pricing business to be written in the coming year.



Detail Eliminated To Conserve Space

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Detail Eliminated To Conserve Space

[Overview of the NAIC Property and Casualty Risk-Based Capital Report](#)

Introduction

Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the minimum capital requirement in which the degree of risk taken by the insurer is the primary determinant.

A company's risk-based capital is calculated by applying factors to various asset, premium and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of a company's actual capital may then be measured by a comparison to its risk-based capital as determined by the formula.

Risk-based capital standards will be used by regulators to set in motion appropriate regulatory actions relating to insurers that show indications of weak or deteriorating conditions. It also provides an additional standard for minimum capital requirements that companies should meet to avoid being placed in conservatorship.



Detail Eliminated To Conserve Space

Capital Adequacy (E) Task Force RBC Proposal Form

- | | | |
|---|---|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input checked="" type="checkbox"/> Longevity Risk (A/E) Subgroup |

DATE: <u>6/4/20</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Dave Fleming</u> TELEPHONE: <u>816-783-8121</u> EMAIL ADDRESS: <u>dfleming@naic.org</u> ON BEHALF OF: <u>Longevity Risk (A/E) Subgroup</u> NAME: <u>Rhonda Ahrens, Chair</u> TITLE: <u>Chief Actuary</u> AFFILIATION: <u>Nebraska Department of Insurance</u> ADDRESS: <u>1135 M Street, Suite 300</u> <u>Lincoln, NE 68501-2089</u>	Agenda Item # <u>2020-06-L</u> Year <u>2020</u> <u>DISPOSITION</u> <input type="checkbox"/> ADOPTED _____ <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input checked="" type="checkbox"/> EXPOSED <u>4/30/20</u> <input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION OF CHANGE(S)

This proposal creates the instructions necessary to complete the new longevity risk schedule.

REASON OR JUSTIFICATION FOR CHANGE **

The Longevity Risk (A/E) Subgroup was charged with providing recommendations for recognizing longevity risk in statutory reserves and/or RBC, as appropriate. The Subgroup's recommendation for the structure necessary was adopted by the Life Risk-Based Capital (E) Working Group on 2-14-20 in proposal 2019-13-L.

Additional Staff Comments:

- 4-30-20: The instructions including zero factors was exposed for comment (DBF)

** This section must be completed on all forms.

Revised 2-2019

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LONGEVITY RISK

LRtbd

Basis of Factors

The factors chosen represent surplus needed to provide for claims in excess of reserves resulting from increased policyholder longevity calibrated to a 95th percentile level. For the purpose of this calibration aggregate reserves were assumed to provide for an 85th percentile outcome.

Longevity risk was considered over the entire lifetime of the policies since these annuity policies are generally not subject to repricing. Calibration of longevity risk considered both trend risk based on uncertainty in future population mortality improvements, as well as level or volatility risk which derives from misestimation of current population mortality rates or random fluctuations. Trend risk applies equally to all populations whereas level and volatility risk factors decrease with larger portfolios consistent with the law of large numbers.

Statutory reserve was chosen as the exposure base as a consistent measure of the economic exposure to increased longevity. Factors were also scaled by reserve level since number of insured policyholders is a less accessible measure of company specific volatility risk. Factors provided are pre-tax and were developed assuming a 21% tax adjustment would be subsequently applied.

Specific Instructions for Application of the Formula

Annual statement reference is for the total life contingent reserve for the products in scope. The scope includes annuity products with life contingent payments where benefits are to be distributed in the form of an annuity. It does not include annuity products that are not life contingent, or deferred annuity products where the policyholder has a right but not an obligation to annuitize. Line (3) for General Account Life Contingent Miscellaneous reserves is included in the event there are any reserves for products in scope reported on Exhibit 5 line 0799999; it is not meant to include cash flow testing reserves reported on this line. Included in scope are:

- Single Premium Immediate Annuities (SPIA) and other payout annuities in pay status
- Deferred Payout Annuities which will enter annuity pay status in the future upon annuitization
- Structured Settlements for annuitants with any life contingent benefits
- Group Annuities, such as those associated with pension liabilities with both immediate and deferred benefits

The total reserve exposure is then further broken down by size as in a tax table. This breakdown will not appear on the RBC filing software or on the printed copy, as the application of factors to reserves is completed automatically. The calculation is as follows:

<u>Line (5)</u>	<u>Life Contingent Annuity Reserves</u>	(1) <u>Statement Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
	First 250 Million	_____	X 0.0000 =	_____
	Next 250 Million	_____	X 0.0000 =	_____
	Next 500 Million	_____	X 0.0000 =	_____
	Over 1,000 Million	_____	X 0.0000 =	_____
	Total Life Contingent Annuity Reserves	=====		=====

Longevity Risk

	<u>Annual Statement Source</u>	(1) <u>Statement Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
(1) <u>Life Contingent Annuity Reserves</u>				
(1) General Account Life Contingent Annuity Reserves	Exhibit 5 Column 2 Line 0299999, in part ‡			
(2) General Account Life Contingent Supplemental Contract Reserves	Exhibit 5 Column 2 Line 0399999, in part ‡			
(3) General Account Life Contingent Miscellaneous Reserves	Exhibit 5 Column 2 Line 0799999, in part ‡			
(4) Separate Account (SA) Life Contingent Annuity Reserves	S/A Exhibit 3 Column 2 Line 0299999, in part ‡			
(5) Total Life Contingent Annuity Reserves	Lines (1) + (2) + (3) + (4)		X † =	

† The tiered calculation is illustrated in the Longevity Risk section of the risk-based capital instructions.
 ‡ Include only the portion of reserves for products in scope per the instructions

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

Company Name

Confidential when Completed

[CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)]

	Source	(1) RBC Amount	Tax Factor	(2) RBC Tax Effect
(134) Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	_____	X 0.2100	= _____
(135) Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (8)	_____	X 0.2100	= _____
(136) Group Insurance C-2 Risk	LR025 Life Insurance Column (2) Lines (20) and (21)	_____	X 0.2100	= _____
(136b) Longevity C-2 Risk	LR024 Longevity Risk Column (2) Line (5)	_____	X 0.2100	= _____
(137) Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	_____	X 0.2100	= _____
(138) Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	_____	X 0.0000	= _____
(139) Total C-2 Risk	L(133) + L(134) + L(137) + L(138) + Square Root of [(L(135) + L(136))² + L(136b)² + 2 * (TBD Correlation Factor) * (L(135) + L(136)) * L(136b)]	=====		=====
(140) Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	_____	X 0.2100	= _____
(141) Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	_____	X 0.0000	= _____
(142) Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	_____	X 0.2100	= _____
(143) Business Risk	LR029 Business Risk Column (2) Line (40)	_____	X 0.2100	= _____
(144) Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	_____	X 0.0000	= _____
(145) Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)	=====		=====

Alternative with Guardrail Factor:

L(133) + L(134) + L(137) + L(138) + Greatest of [Guardrail Factor * (L(135)+L(136)), Guardrail Factor * L(136b), Square Root of [(L(135) + L(136))² + L(136b)² + 2 * (TBD Correlation Factor) * (L(135) + L(136)) * L(136b)]]

Company Name

Confidential when Completed

Attachment Five
NAIC Company Code

	(1) RBC
<u>Insurance Risk (C-2)</u>	
(43) Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (8)
(44) Group and Credit Life Insurance and FEGLI/SGLI	LR025 Life Insurance Column (2) Lines (20) and (21)
(44b) Longevity Risk	LR025 Life Insurance Column (2) Line (5)
(45) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)
(46) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)
	$L(45) + L(46) + \text{Square Root of } [(L(43) + L(44))^2 + 2 * (\text{TBD Correlation Factor}) * (L(43) + L(44)) * L(44b)]$
(47) Total (C-2) - Pre-Tax	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)
(48) (C-2) Tax Effect	Line (47) - Line (48)
(49) Net (C-2) - Post-Tax	
<u>Interest Rate Risk (C-3a)</u>	
(50) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)
(51) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)
(52) Net (C-3a) - Post-Tax	Line (50) - Line (51)
<u>Health Credit Risk (C-3b)</u>	
(53) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)
(54) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)
(55) Net (C-3b) - Post-Tax	Line (53) - Line (54)
<u>Market Risk (C-3c)</u>	
(56) Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)
(57) (C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)
(58) Net (C-3c) - Post-Tax	Line (56) - Line (57)

Alternative with Guardrail Factor:
 $L(45) + L(46) + \text{Greatest of } [\text{Guardrail Factor} * (L(43)+L(44)), \text{Guardrail Factor} * L(44b), \text{Square Root of } [(L(43) + L(44))^2 + 2 * (\text{TBD Correlation Factor}) * (L(43) + L(44)) * L(44b)]]$

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

DATE: <u>12/3/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2018-19-P</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2020</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>P/C RBC WG</u>	<input checked="" type="checkbox"/> ADOPTED <u>4/30/20</u>
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u>	<input checked="" type="checkbox"/> EXPOSED <u>12/8/19</u>
<u>Columbus, OH 43215</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|---|---|--|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life RBC Instructions |
| <input type="checkbox"/> Fraternal RBC Blanks | <input type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions |
| <input type="checkbox"/> Life RBC Blanks | <input type="checkbox"/> Fraternal RBC Instructions | <input type="checkbox"/> OTHER _____ |

DESCRIPTION OF CHANGE(S)

Modify the instruction to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

REASON OR JUSTIFICATION FOR CHANGE **

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.
2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

Additional Staff Comments:

12/8/19 – The PCRBC WG agreed to expose this proposal for a 45-day public comment period ending Jan. 21.

1/9/20 – The RAA submitted a comment letter.

1/21/20 – The APCIA submitted a comment letter.

2/3/20 – The PCRBC WG adopted the proposal at the Joint Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup conference call. Also the Blank's proposal has been forwarded to the Blank's (E) Working Group.

** This section must be completed on all forms.

Revised 11-2013

PR012 - Credit Risk for Receivables

Reinsurance Recoverables

Detail Eliminated To Conserve Space

For the purpose of the credit risk-based capital charge, the equivalent rating category assigned will correspond to current financial strength rating received from an approved rating agency as outlined in the table below. Ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. If the reinsurer does not have at least one financial strength rating, it should be assigned the “Vulnerable 6 or Unrated Reinsurers” equivalent rating. Amounts recoverable from unrated voluntary pools should be assigned the “Secure 3” equivalent rating. An authorized association including incorporated and individual unincorporated underwriters or a member thereof may utilize the lowest financial strength group rating received from an approved rating agency. The table below shows the R3 reinsurer equivalent rating categories and corresponding factors for A.M. Best, Standard and Poor’s, Moody’s and Fitch ratings.

Reinsurer Designation Equivalent Rating Category and Corresponding Factors—For RBC R3 Credit Risk Charge							
Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unauthorized Unrated	
Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F	
S&P	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	
Fitch	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	
Collateralized Amounts Factors	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%	
Uncollateralized Amounts Factors	3.6%	4.1%	4.8%	5.3%	7.1%	14%	

Detail Eliminated To Conserve Space

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right; margin: 0;">DATE: <u>2/3/20</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>P/C RBC WG</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u></p>	FOR NAIC USE ONLY
	Agenda Item # _____ Year <u>2020</u> Changes to Existing Reporting <input checked="" type="checkbox"/> [X] New Reporting Requirement <input type="checkbox"/> []
	REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT
	No Impact <input checked="" type="checkbox"/> [X] Modifies Required Disclosure <input type="checkbox"/> []
	DISPOSITION
	<input type="checkbox"/> [] Rejected For Public Comment <input type="checkbox"/> [] Referred To Another NAIC Group <input type="checkbox"/> [] Received For Public Comment <input type="checkbox"/> [] Adopted Date _____ <input type="checkbox"/> [] Rejected Date _____ <input type="checkbox"/> [] Deferred Date _____ <input type="checkbox"/> [] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> [X] ANNUAL STATEMENT | <input checked="" type="checkbox"/> [X] INSTRUCTIONS | <input type="checkbox"/> [] CROSSCHECKS |
| <input type="checkbox"/> [] QUARTERLY STATEMENT | <input type="checkbox"/> [] BLANK | |
| <input type="checkbox"/> [] Life, Accident & Health/Fraternal | <input type="checkbox"/> [] Separate Accounts | <input type="checkbox"/> [] Title |
| <input checked="" type="checkbox"/> [X] Property/Casualty | <input type="checkbox"/> [] Protected Cell | <input type="checkbox"/> [] Other _____ |
| <input type="checkbox"/> [] Health | <input type="checkbox"/> [] Health (Life Supplement) | |

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the Annual Statement Instructions to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated by PCRBC WG to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.
2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

Revised 7/18/2018

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE F – PART 3**CEDED REINSURANCE**
AS OF DECEMBER 31, CURRENT YEAR**Detail Eliminated to Conserve Space**

Column 34 – Reinsurer Designation Equivalent

Following is a listing of the valid codes.

1	2	3	4	5	6	
---	---	---	---	---	---	--

Utilize the table below and report a reinsurer designation equivalent code of 1 through 6 (where 6 represented vulnerable 6 or unrated). The equivalent designation category assigned will correspond to a current financial strength rating received from an approved rating agency as outlined in the table below. Ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. If the reinsurer does not have at least one financial strength rating, it should be assigned the “Vulnerable 6 or Unrated Reinsurers” equivalent rating. Amounts recoverable from unrated voluntary pools should be assigned the “reinsurer equivalent code of 3.” An authorized association including incorporated and individual unincorporated underwriters or a member thereof may utilize the lowest financial strength group rating received from an approved rating agency.

Code	Reinsurer Designation Equivalent Category						
	1	2	3	4	5	6	
Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unrated Reinsurers	
Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F	
S&P	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	
Fitch	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	

Column 35 – Credit Risk on Collateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

Code	1	2	3	4	5	6	
Factor	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%	

Column 36 – Credit Risk on Uncollateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

Code	1	2	3	4	5	6	
Factor	3.6%	4.1%	4.8%	5.3%	7.1%	14.0%	


Detail Eliminated to Conserve Space


W:\QA\BlanksProposals\Proposals In Progress\Schedule F Part 3 RBC Change\Schedule_F_Part_3_RBC_Related_Proposal.doc

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Capital Adequacy (E) Task Force**RBC Proposal Form**

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |

DATE: <u>4/9/20</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2020-01-P</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2020</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>P/C RBC (E) Working Group</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>50 West Town Street, Suite 300</u>	<input checked="" type="checkbox"/> EXPOSED <u>4/9/20</u>
<u>Columbus, OH 43215</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|--|--|--|
| <input type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION OF CHANGE(S)

The proposed change would update the Line 1 Factors for PR017 and PR018.

REASON OR JUSTIFICATION FOR CHANGE **

The proposed change would provide routine annual update of the industry underwriting factors (premium and reserve) in the PCRBC formula.

Additional Staff Comments:

The P/C RBC WG exposed this proposal for a 30-day public comment period ending May 9.

** This section must be completed on all forms.

Revised 2-2019

Schedule P Line of Business	LOB	Short tailed	Proposed for adoption - 2020 PR017 Line 1	2019 PR017 Line 1	2018 PR017 Line 1	2017 PR017 Line 1	2016 PR017 Line 1	2015 PR017 Line 1	2014 PR017 Line 1	2013 PR017 Line 1	2012 PR017 Line 1	2011 PR017 Line 1	2010 PR017 Line 1	2009 PR017 Line 1	2008 PR017 Line 1	2007 PR017 Line 1
H/F	A		0.993	0.989	0.989	0.984	0.972	0.962	0.967	0.960	0.949	0.962	0.984	0.983	0.983	0.995
PPA	B		1.035	1.026	1.022	1.012	1.002	1.002	0.994	0.986	0.991	0.989	0.992	0.998	1.003	1.007
CA	C		1.078	1.087	1.060	1.034	1.015	0.987	0.979	0.986	0.998	0.992	1.015	1.031	1.045	1.062
WC	D		0.916	0.955	0.952	0.971	0.971	0.961	0.986	0.980	0.990	0.999	1.005	1.016	1.033	1.051
CMP	E		1.016	0.992	0.967	0.956	0.942	0.938	0.941	0.927	0.932	0.952	0.962	0.993	1.034	1.037
MM Occurrence	F1		0.861	0.864	0.871	0.868	0.841	0.966	0.966	0.991	1.072	1.048	1.213	1.251	1.343	1.333
MM Clms Made	F2		0.940	0.907	0.886	0.854	0.822	0.839	0.808	0.824	0.887	0.925	0.981	1.033	1.083	1.140
SL	G		0.963	0.938	0.933	0.926	0.919	0.975	0.990	0.954	0.942	0.931	0.998	1.043	1.060	1.108
OL	H		0.968	0.971	0.966	0.952	0.929	0.923	0.916	0.919	0.914	0.954	0.959	0.963	1.006	1.015
Fidelity / Surety	K	X	0.907	0.995	0.996	1.016	1.035	1.016	1.050	1.126	1.194	1.191	1.253	1.247	1.290	1.274
Special Property	I	X	0.977	0.972	0.971	0.982	0.973	0.991	0.992	1.035	1.113	1.097	1.144	1.097	1.102	1.102
Auto Physical Damage	J	X	0.993	0.996	1.000	1.001	0.995	0.995	1.005	1.054	1.105	1.105	1.155	1.107	1.110	1.106
Other (Credit, A&H)	L	X	0.971	0.973	0.976	0.981	0.986	1.041	1.061	1.113	1.138	1.177	1.277	1.262	1.325	1.282
Financial / Mortgage Guaranty	S	X	0.682	0.788	0.870	0.820	0.853	1.185	1.444	1.256	1.087	1.276	0.841	0.893	1.483	1.495
Intl	M		1.162	1.037	0.851	0.855	0.897	1.350	0.742	0.813	0.869	1.015	1.102	1.181	1.175	1.291
Rein. Property & Financial Lines	NP		0.886	0.872	0.834	0.814	0.814	1.002	0.976	0.934	0.921	0.937	0.965	0.969	1.025	1.048
Rein. Liability	O		0.985	0.955	0.945	0.914	0.896	0.938	0.905	1.009	1.089	1.169	1.304	1.259	1.314	1.296
PL	R		0.900	0.913	0.921	0.935	0.937	1.072	1.018	0.981	0.978	1.009	1.063	1.073	1.109	1.112
Warranty	T	X	1.013	1.017	1.015	0.989	0.977	0.994	1.040	1.082	1.197	1.268	1.717	1.634	n/a	n/a

PR018 Line 1 Factors

Schedule P Line of Business	LOB	Cat Lines	Short tailed	Proposed for adoption - 2020 PR018 Line 1	2019 PR018 Line 1	2018 PR018 Line 1	2017 PR018 Line 1	2016 PR018 Line 1	2016 PR018A Line 1	2015 PR018 Line 1	2015 PR018A Line 1	2014 PR018 Line 1	2014 PR018A Line 1	2013 PR018 Line 1	2013 PR018A Line 1	2012 PR018 Line 1	2011 PR018 Line 1	2010 PR018 Line 1	2009 PR018 Line 1	2008 PR018 Line 1	2007 PR018 Line 1
H/F	A	*		0.678	0.681	0.687	0.688	0.701	0.687	0.701	0.680	0.713	0.684	0.725	0.693	0.728	0.726	0.736	0.737	0.742	0.750
PPA	B			0.810	0.810	0.806	0.800	0.792	0.792	0.786	0.786	0.780	0.780	0.784	0.784	0.792	0.804	0.815	0.821	0.831	0.836
CA	C			0.759	0.737	0.724	0.706	0.689	0.689	0.684	0.684	0.676	0.676	0.668	0.668	0.669	0.679	0.705	0.737	0.763	0.784
WC	D			0.705	0.726	0.744	0.751	0.752	0.752	0.751	0.751	0.749	0.749	0.750	0.750	0.755	0.766	0.78	0.805	0.83	0.847
CMP	E	*		0.672	0.666	0.664	0.647	0.648	0.647	0.655	0.638	0.652	0.633	0.653	0.631	0.644	0.654	0.674	0.695	0.710	0.727
MM Occurrence	F1			0.726	0.730	0.780	0.777	0.767	0.767	0.880	0.880	0.883	0.882	0.874	0.874	0.916	0.952	1.031	1.104	1.195	1.231
MM Clms Made	F2			0.797	0.768	0.747	0.722	0.691	0.691	0.697	0.697	0.680	0.687	0.695	0.695	0.718	0.771	0.860	0.928	1.003	1.091
SL	G	*		0.603	0.593	0.569	0.567	0.572	0.562	0.630	0.609	0.645	0.621	0.649	0.629	0.597	0.599	0.582	0.673	0.709	0.732
OL	H			0.639	0.638	0.633	0.629	0.618	0.618	0.616	0.616	0.617	0.617	0.620	0.620	0.637	0.662	0.687	0.714	0.738	0.758
Fidelity / Surety	K		X	0.384	0.399	0.417	0.430	0.464	0.464	0.462	0.462	0.473	0.473	0.496	0.496	0.528	0.555	0.584	0.586	0.583	0.582
Special Property	I	*	X	0.553	0.554	0.563	0.555	0.559	0.549	0.571	0.551	0.572	0.548	0.574	0.551	0.562	0.559	0.565	0.575	0.590	0.568
Auto Physical Damage	J		X	0.732	0.730	0.732	0.727	0.711	0.711	0.703	0.703	0.686	0.683	0.681	0.676	0.683	0.681	0.692	0.697	0.705	0.716
Other (Credit, A&H)	L		X	0.684	0.682	0.709	0.712	0.699	0.699	0.706	0.706	0.754	0.754	0.778	0.778	0.794	0.786	0.691	0.697	0.737	0.789
Financial / Mortgage Guaranty	S		X	0.513	0.811	1.099	1.175	1.293	1.293	1.096	1.096	1.242	1.242	1.271	1.271	1.206	1.142	0.738	0.605	0.805	0.827
Intl	M	*		0.758	0.795	0.584	0.565	0.607	0.563	1.150	1.142	1.131	1.117	1.093	1.080	0.931	0.937	0.954	0.956	0.930	0.874
Rein. Property & Financial Lines	NP	*		0.534	0.522	0.486	0.459	0.512	0.440	0.723	0.648	0.764	0.665	0.766	0.699	0.757	0.805	0.828	0.924	0.977	0.994
Rein. Liability	O	*		0.708	0.679	0.666	0.609	0.600	0.588	0.749	0.743	0.748	0.736	0.782	0.782	0.841	0.915	1.010	1.107	1.165	1.164
PL	R			0.645	0.656	0.671	0.670	0.684	0.684	0.715	0.715	0.716	0.716	0.683	0.683	0.697	0.714	0.747	0.780	0.802	0.822
Warranty	T		X	0.691	0.695	0.732	0.645	0.611	0.611	0.799	0.799	0.789	0.789	0.864	0.864	0.862	0.916	0.860	0.800	n/a	n/a