



Draft date: 6/3/24

Virtual Meeting

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

Monday, June 17, 2024

10:00 – 11:00 a.m. ET / 9:00 – 10:00 a.m. CT / 8:00 – 9:00 a.m. MT / 7:00 – 8:00 a.m. PT

ROLL CALL

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
Virginia Christy	Florida	Adrian Jaramillo	Wisconsin
Sandra Darby	Maine		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of Proposal 2023-14-P (Underwriting Risk Line 1 Factors)—*Tom Botsko (OH)* Attachment One
2. Discuss the Potential Modification in the RBC Statistics—*Tom Botsko (OH)*
3. Discuss the Study of Flood Risk in the Catastrophe Risk (E) Subgroup—*Wanchin Chou (CT)*
4. Hear Updates from the American Academy of Actuaries (Academy) on its current Underwriting Risk Projects—*Ron Wilkins (Academy)* Attachment Two
5. Discuss Any Other Matters Brought Before the Working Group—*Tom Botsko (OH)*
6. Adjournment

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"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>4/12/24</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 (E) Working Group</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 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2024-14-P</u> Year <u>2024</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WF) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>04/25/2024</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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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 Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

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

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

Schedule P Line of Business	LOB	Proposed for adoption - 2024 Industry Average Development Ratio	2023 Industry Average Development	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development	2015 Industry Average Development
H/F	A	1.020	0.999	1.001	0.998	0.993	0.989	0.989	0.984	0.972	0.962
PPA	B	1.061	1.047	1.022	1.025	1.035	1.026	1.022	1.012	1.002	1.002
CA	C	1.115	1.106	1.082	1.083	1.078	1.087	1.060	1.034	1.015	0.987
WC	D	0.882	0.873	0.906	0.912	0.916	0.955	0.952	0.971	0.971	0.961
CMP	E	1.024	1.026	1.037	0.999	1.016	0.992	0.967	0.956	0.942	0.938
MM Occurrence	F1	0.910	0.906	0.887	0.874	0.861	0.864	0.871	0.868	0.841	0.966
MM Clms Made	F2	0.996	0.984	0.983	0.973	0.940	0.907	0.886	0.854	0.822	0.839
SL	G	0.996	0.994	0.990	0.976	0.963	0.938	0.933	0.926	0.919	0.975
OL	H	0.993	0.969	0.995	0.964	0.968	0.971	0.966	0.952	0.929	0.923
Fidelity / Surety	K	0.875	0.852	0.842	0.915	0.907	0.995	0.996	1.016	1.035	1.016
Special Property/Pet Insurance Plan	I/U	0.989	0.983	0.993	0.978	0.977	0.972	0.971	0.982	0.973	0.991
Auto Physical Damage	J	0.999	1.016	1.011	0.989	0.993	0.996	1.000	1.001	0.995	0.995
Other (Credut, A&H)	L	0.942	0.946	0.955	0.965	0.971	0.973	0.976	0.981	0.986	1.041
Financial / Mortgage Guaranty	S	0.493	0.674	0.694	0.723	0.682	0.788	0.870	0.820	0.853	1.185
Intl	M	2.168	2.414	3.041	1.104	1.162	1.037	0.851	0.855	0.897	1.350
Rein. Property & Financial Lines	NP	0.930	0.924	0.917	0.893	0.886	0.872	0.834	0.814	0.814	1.002
Rein. Liability	O	1.054	1.024	1.008	0.989	0.985	0.955	0.945	0.914	0.896	0.938
PL	R	0.882	0.874	0.867	0.879	0.900	0.913	0.921	0.935	0.937	1.072
Warranty	T	0.991	0.995	0.998	1.007	1.013	1.017	1.015	0.989	0.977	0.994

Schedule P Line of Business	LOB	Proposed 2024 Industry Average Loss & Expense Ratio	2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio	2015 Industry Average Loss & Expense Ratio
H/F	A	0.695	0.679	0.665	0.681	0.678	0.681	0.687	0.688	0.701	0.701
PPA	B	0.799	0.791	0.793	0.795	0.810	0.810	0.806	0.800	0.792	0.786
CA	C	0.787	0.777	0.761	0.761	0.759	0.737	0.724	0.706	0.689	0.684
WC	D	0.646	0.651	0.664	0.682	0.705	0.726	0.744	0.751	0.752	0.751
CMP	E	0.684	0.671	0.661	0.673	0.672	0.666	0.664	0.647	0.648	0.655
MM Occurrence	F1	0.752	0.767	0.750	0.731	0.726	0.730	0.780	0.777	0.767	0.880
MM Clms Made	F2	0.828	0.815	0.829	0.821	0.797	0.768	0.747	0.722	0.691	0.697
SL	G	0.583	0.578	0.585	0.593	0.603	0.593	0.569	0.567	0.572	0.630
OL	H	0.649	0.641	0.637	0.635	0.639	0.638	0.633	0.629	0.618	0.616
Fidelity / Surety	K	0.375	0.363	0.366	0.394	0.384	0.399	0.417	0.430	0.464	0.462
Special Property/ Pet Insurance Plan	I/U	0.559	0.550	0.547	0.559	0.553	0.554	0.563	0.555	0.559	0.571
Auto Physical Damage	J	0.733	0.727	0.718	0.726	0.732	0.730	0.732	0.727	0.711	0.703
Other (Credit, A&H)	L	0.711	0.702	0.698	0.693	0.684	0.682	0.709	0.712	0.699	0.706
Financial / Mortgage Guaranty	S	0.158	0.209	0.203	0.252	0.513	0.811	1.099	1.175	1.293	1.096
Intl	M	1.153	1.136	1.166	0.769	0.758	0.795	0.584	0.565	0.607	1.150
Rein. Property & Financial Lines	NP	0.587	0.578	0.566	0.558	0.534	0.522	0.486	0.459	0.512	0.723
Rein. Liability	O	0.760	0.743	0.725	0.713	0.708	0.679	0.666	0.609	0.600	0.749
PL	R	0.594	0.597	0.601	0.617	0.645	0.656	0.671	0.670	0.684	0.715
Warranty	T	0.641	0.652	0.665	0.681	0.691	0.695	0.732	0.645	0.611	0.799

American Academy of Actuaries P&C Risk-Based Capital Committee Current and Future Research Topics, June 2024

- (Current) Diversification by line of business.
- (Current) Considering inclusion of the wildfire peril in R_{cat} , and corresponding adjustments to R_5 to avoid double counting that peril. Similarly considering other perils for R_{cat} , e.g., severe convective storm and flood.
- (Current) Updating the calibration of premium and reserve risk charges to reflect more recent experience (The committee's 2023 Report used insurance industry experience through the 2017 Annual Statement). Considering ways to improve the efficiency of the risk charge calibration computations and the industry average computations (also known as Line 1 factors in the RBC formula).
- (Future) Monitor the extent to which the relationship between risk factors and interest rates continues, i.e., the validity of the PV Method described in the 2023 Report.
- (Future) Assess the growth charge. The current growth risk charge was calibrated in the 1990s, and the calibration has not been reviewed.