

## Draft Pending Adoption

Attachment **x**  
Capital Adequacy (E) Task Force  
03/23/21

Draft: 03/17/21

Property and Casualty Risk-Based Capital (E) Working Group  
Virtual Meeting (*in lieu of meeting at the 2021 Spring National Meeting*)  
March 15, 2021

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met March 15, 2021. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Wanchin Chou (CT); Robert Ridenour (FL); Judy Mottar (IL); Anna Krylova (NM); Sak-man Luk (NY); Miriam Fisk (TX); and Randy Milquet (WI).

1) Adopted the Minutes of the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group

a) Catastrophe Risk (E) Subgroup

Mr. Chou said the Catastrophe Risk (E) Subgroup met March 8 and took the following action: 1) adopted its Jan. 27 minutes; 2) adopted proposal 2020-08-CR (Clarification to PR027 Interrogatories); 3) adopted proposal 2020-11-CR (Remove Operational Risk Factor from Contingent Credit Risk); 4) discussed the development progress of wildfire modeling and a risk-based capital (RBC) charge; 5) discussed its 2021 working agenda; 6) discussed the internal catastrophe model evaluation process; and 7) established an ad hoc group to conduct a more in-depth review on different wildfire models. Steve Broadie (American Property Casualty Insurance Association—APCIA) recommended the Subgroup take appropriate time to decide: 1) whether wildfire peril needs to be added to the Rcat component; and 2) how to implement the wildfire in the Rcat component if decision is made.

b) Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup

Mr. Chou said the Property and Casualty Risk-Based (E) Working Group met in joint session with the Catastrophe Risk (E) Subgroup to conduct an e-vote that concluded Jan. 27 to adopt the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Mr. Chou made a motion, seconded by Ms. Krylova, to adopt the Catastrophe Risk (E) Subgroup's March 8 minutes (Attachment **Six-xx**) and the joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's Jan. 27 minutes (Attachment **Six-xx**). The motion passed unanimously.

2. Adopted Proposal 2020-08-CR (Clarification to PR027 Interrogatories)

Mr. Chou said some insurers with minimal or no gross earthquake and/or hurricane exposure did not file PR027A or PR027B, and the Interrogatories on PR027 will create some validation issues in the catastrophe risk component. He said the purpose of this proposal is to add instructions to PR027 Interrogatories that clarify how insurers with minimal or no gross exposure to the catastrophe risk should complete the interrogatories. Mr. Chou also stated that the Subgroup received no comments during the exposure period.

Mr. Chou made a motion, seconded by Mr. Luk, to adopt proposal 2020-08-CR. The motion passed unanimously.

3. Adopted Proposal 2020-11-CR (Remove Operational Risk Factor from Rcat)

Mr. Chou said the operational risk is now separately addressed in the risk-based capital (RBC) formula as a stand-alone capital add-on. The purpose of this proposal is to remove the embedded 3% operational risk charge in the Rcat component to avoid double-counting of the charge. He also stated that the Subgroup received comment letters from the APCIA and Reinsurance Association of America (RAA) during the exposure period. They both support this proposal to eliminate the duplicative application of operational risk charges for modeled reinsurance recoverable in the Rcat component.

Mr. Chou made a motion, seconded by Ms. Krylova, to adopt proposal 2020-08-CR. The motion passed unanimously.

4. Received an Update from its Subgroup on the Development Process of Wildfire Modeling and an RBC Charge

## Draft Pending Adoption

Attachment x  
Capital Adequacy (E) Task Force  
03/23/21

Mr. Chou said understanding the wildfire model and engaging the state insurance regulators and industry to get involved in the development of the RBC charge are the two key elements of implementing the RBC charge properly. He stated that the Subgroup met three times since the 2020 Fall National Meeting in regulator-to-regulator session to discuss wildfire models. He said the Subgroup planned to continue with more in-depth technical reviews of different model assumptions, limitations and impact studies in the upcoming months. Also, Mr. Chou urged the interested parties to provide thoughts regarding the wildfire peril during Subgroup's next meeting on: 1) other key items to be considered during the RBC charge development phases; 2) using the worst year in 100 in the calculation of the RBC charge; and 3) expected actual implementation reporting year.

### 5. Exposed Proposal 2021-03-P (Credit Risk Instruction Modification)

Mr. Botsko said the purpose of this proposal is to provide examples to clarify how the reporting companies should select the designation in the Annual Statement Schedule F, Part 3, Reinsurer Designation Equivalent Rating column if the reporting entities subscribe to one or multiple rating agencies. He also stated that since the accurate reporting on reinsurer designation equivalent rating in the Schedule F, Part 3 is crucial to calculate the R3 charge appropriately, NAIC staff will conduct a more in-depth review on Schedule F, Part 3 in the near future.

The Working Group agreed to expose proposal 2021-03-P for a 30-day public comment period ending April 14.

### 6. Heard an Update from its Runoff Ad Hoc Group

Mr. Botsko said an ad hoc group was formed to determine the best course of treatment of run-off companies during the 2020 Fall National Meeting. Mr. Botsko stated that the ad hoc group identified those companies that: 1) stopped renewing policies for at least 12 months; 2) are closed to new business; 3) are large on reserves to premium written ratio; and 4) have zero premium written on the reserves to premium written ratio. He also stated that the ad hoc group is reviewing: 1) the possibility of adding an identifier in the annual statement; and 2) the current risk-based capital (RBC) calculation including R5 and operational risk components. Since different lines of business may have their own definition of runoff, Mr. Botsko said the ad hoc group will share its progress and findings with not only the Working Group and the Restructuring Mechanisms (E) Subgroup, but also the Life Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group for their consideration.

### 7. Discussed its 2021 Working Agenda

Mr. Botsko summarized the changes to the Working Group's 2021 working agenda: 1) changed "Evaluate other catastrophe risks for possible inclusion in the charge" item expected completion date to year-end 2022 or later; 2) removed "Evaluate the possibility of using the NAIC as a centralized location for reinsurer designations" and "Evaluate the RBC impact on two different retroactive reinsurance exception approaches"; 3) modified "Evaluate the possibility of allowing additional third-party models to calculate the cat model losses" to "Evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses," and the expected completion date was changed to year-end 2021 or later; and 4) added "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)" in the new items section.

Mr. Chou made a motion, seconded by Mr. Luk, to adopt the Working Group's 2021 working agenda. The motion passed unanimously.

### 8. Heard Updates on Property/Casualty RBC Underwriting Risk Factors from the Academy

David Traugott (American Academy of Actuaries—Academy) said the Academy report *Update to Property and Casualty Risk-Based Capital Underwriting Factors Experience Through December 31, 2017* (Attachment Six-xx) was based on data from annual statements reporting between 1989 and 2017 and RBC filings between 1997 and 2017. He stated that the approach in this report is broadly the same as the approach in the 2016 report, with some refinements. Mr. Traugott also said the Academy planned to devote more time to discuss this report in the upcoming Working Group meeting to allow state insurance regulators and interested parties to have chance to review it. In addition, he stated that the investment income adjustment factors and the loss/premium concentration factor reports will be provided to the Working Group later.

## Draft Pending Adoption

Attachment **x**  
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Mr. Botsko said he planned to schedule another meeting to discuss this report and other Working Group outstanding items in April.

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

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