

Draft date: 7/18/23

*Virtual Meeting*

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

Thursday, JULY 27, 2023

3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 P.m. PT

**ROLL CALL**

Tom Botsko, Chair	Ohio	Sandra Darby	Maine
Wanchin Chou, Vice Chair	Connecticut	Anna Krylova	New Mexico
Charles Hale	Alabama	Ni Qin	New York
Rolf Kaumann	Colorado	Will Davis	South Carolina
Virginia Christy	Florida	Miriam Fisk	Texas
Judy Mottar	Illinois	Adrian Jaramillo	Wisconsin

NAIC Support Staff: Eva Yeung

**AGENDA**

1. Consider Adoption of its June 16, and April 24 Minutes—*Tom Botsko (OH)* Attachment A
2. Consider Adoption of Catastrophe Risk (E) Subgroup Report—*Wanchin Chou (CT)* Attachment B
3. Consider Adoption of the 2023 Property/Casualty (P/C) Risk-Based Capital (RBC) Newsletter—*Tom Botsko (OH)* Attachment C
4. Discuss 2022 RBC Statistics—*Tom Botsko (OH)* Attachment D
5. Discuss its Working Agenda—*Tom Botsko (OH)* Attachment E
6. Discuss the Possibility of Reviewing and Analyzing the P/C RBC Charges That have Not Been Reviewed Since Developed—*Tom Botsko (OH)*
7. Hear Presentation from the American Academy of Actuaries (Academy) of a Report on “Update to Property and Casualty Risk-Based Capital Underwriting Factors – Investment Income Adjustment Factors” —*Ron Wilkins (Academy)* Attachment F
8. Discuss Any Other Matters Brought Before the Working Group—*Tom Botsko (OH)*
9. Adjournment

Draft: 6/20/23

Property and Casualty Risk-Based Capital (E) Working Group  
E-Vote  
June 16, 2023

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote that concluded June 16, 2023. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Rolf Kaumann (CO); Sandra Darby (ME); Anna Krylova (NM); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted Proposal 2023-02-P-MOD

The Working Group and the Subgroup conducted an e-vote to consider adoption of proposal 2023-02-P-MOD. The purpose of this modification is to update the H/F, WC, and CMP reserve factors due to an incorrect calculation.

Darby made a motion, seconded by Kaumann, to adopt proposal 2023-02-P-MOD (Attachment XX). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2023-2-Summer/PCBCWG/PC Email Vote 061623

Draft: 4/26/23

Property and Casualty Risk-Based Capital (E) Working Group  
Virtual Meeting  
April 24, 2023

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 24, 2023. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair, Jack Broccoli, and Qing He (CT); Virginia Christy and Nicole Crockett (FL); Judy Mottar (IL); Sandra Darby (ME); Anna Krylova (NM); HauMichael Ying (NY); Will Davis (SC); Miriam Fisk and Monica Avila (TX); and Adrian Jaramillo and Michael Erdman (WI). Also participating were: Jeff Cordell and Leo Liu (AR); Kevin Clark (IA); Julie Lederer (MO); Lindsay Crawford (NE); Doug Hartz (OR); Trey Hancock (TN); and Steve Drutz (WA).

1. Adopted its Spring National Meeting Minutes

Botsko said the Working Group met March 22.

Chou made a motion, seconded by Darby, to adopt the Working Group's March 22 minutes (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Four*). The motion passed unanimously.

2. Adopted Proposal 2023-02-P

Botsko said proposal 2023-02-P (Underwriting Risk Line 1 Factors) provided a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) risk-based capital (RBC) formula. He also stated that the Working Group did not receive any comments during the exposure period.

Darby made a motion, seconded by Krylova, to adopt proposal 2023-02-P (Attachment XX). The motion passed unanimously.

3. Forwarded the Referral Regarding the Deferral of Adoption of Blanks Proposal 2023-01BWG

Botsko said the Blanks (E) Working Group exposed proposal 2023-01BWG (Attachment xx) on March 7. The purpose of this proposal is to remove pet insurance from the Inland Marine line within the existing P/C Annual Statement Blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit and add new Schedule P Parts 1 through 4 specifically to pet insurance. Botsko said the Working Group reviewed the proposal and suggested sending a referral (Attachment xx) to the Blanks (E) Working Group to delay this proposal for at least one year to allow state insurance regulators time to collect more industry information through other means. He also commented that cyber is also a significantly growing line of business, and it is using the supplemental data option. He indicated that while pet insurance seems to have grown significantly in the past few years, there are only a few carriers that write this line of business, and it is not clear if this supports adding an additional line of business without sufficient data support. Tip Tipton (Thrivent) said the Blanks (E) Working Group interested parties group supports a delayed implementation of at least one year as indicated in the attached memo. He stated that the interested parties group raised concerns about how the new line of business would address RBC and Market Conduct Annual Statement (MCAS) items.

After reviewing the referral, the Working Group agreed to forward the referral regarding the deferral of adoption of Blanks proposal 2021-01BWG to the Blanks (E) Working Group.

4. Discussed Annual Statement Blanks Proposal 2022-15BWG

Botsko said the Blanks (E) Working Group adopted proposal 2022-15BWG (Attachment xx) during its March 7 meeting, which removes the current 5% of premium filing exemption (FE) on the Schedule H, Part 5 for P/C annual statement filing. He stated that the Working Group had a discussion at the Spring National Meeting on whether the same 5% rule should be removed from the P/C RBC formula to be consistent with the change in the annual statement. Connie Jasper Woodroof (CJW Associates) commented that both items are not related at all. It is just a coincidence that 5% is mentioned in both circumstances. She also stated that it would lose some valuable information in the P/C RBC health section by removing the 5% accident and health (A&H) threshold. The Working Group agreed with Woodroof's comment; no adjustment will be made to the P/C RBC formula.

5. Heard Updates on Current P/C RBC Projects from the Academy

Botsko said the Property and Casualty Risk-Based Capital Committee of the American Academy of Actuaries (Academy) provided a presentation at the Spring National Meeting on the following: 1) an overview of the methodology used to determine premium and reserve risk factors; and 2) the adjustment for investment income to the Working Group. Also, he said the Academy will need the NAIC's assistance to perform different impact analyses before sharing the report with the Working Group. He said the Academy anticipates that the report will be delivered in June 2023. Then, the Academy will focus on additional analysis related to premium and reserve risk.

6. Discussed the Possibility of Reviewing and Analyzing the P/C RBC Charges That Have Not Been Reviewed Since Developed

Botsko said the Capital Adequacy (E) Task Force established the Risk Evaluation Ad Hoc Group at the Spring National Meeting to: 1) re-evaluate some of the missing risks to determine if it should now include them in the RBC calculation or whether it appropriately handles those risks utilizing other regulatory methods; and 2) review those factors and instructions that have never been reviewed since development to determine if modifications should be made. He stated that NAIC staff received more than 80 industry requests to be involved in the ad hoc group. He commented that being a member of the group will require active participation in the group discussions, and status updates will be provided in every Task Force meeting. He asked all the interested parties to contact Eva Yeung (NAIC) if they do not plan on participating in the group discussion. Lastly, he said the ad hoc group plans to schedule the first meeting in May.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2022 National Meeting/Task Forces/CapAdequacy/PCRBC WG/04-26propertyrbcwg.docx

*Virtual Meeting***CATASTROPHE RISK (E) SUBGROUP**

July 18, 2023

**Summary Report**

The Catastrophe Risk (E) Subgroup met July 18, 2023. During this meeting, the Subgroup:

1. Adopted its Spring National Meeting minutes.
2. Discussed its working agenda.
3. Received an update from its Catastrophe Model Technical Review Ad Hoc Group.
4. Discussed wildfire peril impact analysis.
5. Heard a presentation from Verisk on a severe convective storms model update and technical review.
6. Discussed the flood insurance market.

## Newsletter Items for Adoption for 2023 for Property and Casualty RBC:

Date: July 2023

Volume: 27.1

### Page 1: Intro Section:

#### **What Risk-Based Capital Pages Should Be Submitted?**

For year-end 2023 property/casualty (P/C) risk-based capital (RBC), hard copies of pages PR001–PR035, as well as pages PR038 and PR039, should be submitted to any state that requests a hard copy. Beginning with year-end 2011 RBC, a hard copy was not required to be submitted to the NAIC, but a portable document format (PDF) file representing the hard copy filing is part of the electronic filing with the NAIC.

### Page 1+: Items Adopted for 2023:

#### **Underwriting Risk**

##### Underwriting and Investment Exhibit - Premiums Written (PR035)

The Capital Adequacy (E) Task Force adopted proposal 2022-07-P to modify the lines of business categories in PR035 during its Dec. 14, 2022, meeting. The purpose of this proposal is to provide consistency in the granularity of the Property and Casualty Underwriting Investment Exhibit pages.

##### New Industry Average Risk Factors - Annual Update

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509

p | 202 471 3990 f | 816 460 7493

Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197

p | 816 842 3600 f | 816 783 8175

New York One New York Plaza, Suite 4210, New York, NY 20004

p | 212 398 9000 f | 212 382 4207

During its April 25 meeting, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors. However, the Property and Casualty Risk-Based Capital (E) Working Group noticed the incorrect calculation of the reserve factors of H/F, WC, and CMP lines of business after the Task Force's adoption. The Working Group re-exposed the following updated factors for seven days. No comments were received during the exposure period. The Task Force re-adopted the modified proposal during its June 30 meeting.

PR017 Underwriting Risk - Reserves			
Line (1), Industry Development Factors			
Col.	Line of Business	2023 Factor	2022 Factor
(1)	H/F	0.999	1.001
(2)	PPA	1.047	1.022
(3)	CA	1.106	1.082
(4)	WC	0.873	0.906
(5)	CMP	1.026	1.037
(6)	MPL Occurrence	0.906	0.887
(7)	MPL Claims Made	0.984	0.983
(8)	SL	0.994	0.990
(9)	OL	0.969	0.995
(10)	Fidelity/Surety	0.852	0.842
(11)	Special Property	0.983	0.993
(12)	Auto Physical Damage	1.016	1.011
(13)	Other (Credit A&H)	0.946	0.955
(14)	Financial/Mortgage Guaranty	0.674	0.694
(15)	INTL	2.414	3.041
(16)	REIN. P&F Lines	0.924	0.917
(17)	REIN. Liability	1.024	1.008
(18)	PL	0.874	0.867
(19)	Warranty	0.995	0.998

PR018 Underwriting Risk - Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2021 Factor	2022 Factor
(1)*	H/F	0.679	0.665
(2)	PPA	0.791	0.793
(3)	CA	0.777	0.761
(4)	WC	0.651	0.664
(5)*	CMP	0.671	0.661
(6)	MPL Occurrence	0.767	0.750
(7)	MPL Claims Made	0.815	0.829
(8)*	SL	0.578	0.585
(9)	OL	0.641	0.637
(10)	Fidelity/Surety	0.363	0.366
(11)*	Special Property	0.550	0.547
(12)	Auto Physical Damage	0.727	0.718
(13)	Other (Credit A&H)	0.702	0.698
(14)	Financial/Mortgage Guaranty	0.209	0.203
(15)*	INTL	1.136	1.166
(16)*	REIN. P&F Lines	0.578	0.566
(17)*	REIN. Liability	0.743	0.725
(18)	PL	0.597	0.601
(19)	Warranty	0.652	0.665

\* Cat Lines

## Catastrophe Risk

### Modification to the Instructions of Obtaining Permission to Use the Own Model

As a result of the adoption of proposal 2022-08-CR by the Capital Adequacy (E) Task Force during its Dec. 14, 2022, meeting, the revised instructions to: 1) capture the spirit of the own model permission review; and 2) clarify the requirements expected from the company who submits its own model for permission are included in the PR027 instructions.

## Affiliated Investments

### Modification to the Affiliated Investment Structure and Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA during its March 23 meeting to revise the instructions and structure of the Affiliated Investment pages (pages PR003-PR005) to provide consistent treatment of affiliated investments between the Health, Life, and Property/Casualty (P/C) RBC formulas. The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA (MOD) during its June 30 call. The modified proposal clarified the examples provided for the Indirectly Owned Alien Insurance Affiliates/Subsidiaries section within the instructions and added a footnote for the "% Owned" column within the blank.

## Accident and Health Business

### Health Premiums (PR019) and Health Underwriting Risk (PR020) References

As a result of the adoption of proposal 2022-13-CA by the Capital Adequacy (E) Task Force during its March 23 meeting, the Health Premiums (PR19) and the Health Underwriting Risk (PR020) references in the instructions and structure will be updated to provide consistent categories used in the Annual Statement, Schedule H, Part 1.

### Underwriting Risk Factors

The Capital Adequacy (E) Task Force adopted proposal 2022-16-CA during its June 30 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
\$0-\$3 Million	0.1434	0.0980	0.1148
\$3-\$25 Million	0.1434	0.0603	0.0711
Over \$25 Million	0.0838	0.0603	0.0711



### Stop Loss Premiums

The Capital Adequacy (E) Task Force adopted proposal 2023-01-CA to clarify the instructions to provide clarity on reporting stop loss premiums in the RBC formula during its June 30 meeting.

### Last Page: RBC Forecasting & Warning:

#### **Risk-Based Capital Forecasting and Instructions**

The P/C RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2023 NAIC Property & Casualty Risk-Based Capital Report Including Overview & Instructions for Companies*. The entire RBC publication, including the forecasting spreadsheet, can be downloaded from the [NAIC Account Manager](#) through the NAIC Publications Department. The User Guide is no longer included in the RBC publications.

**WARNING:** The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual financial statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

### Last Page: 2023 National Association of Insurance Commissioners:

2023 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut St., Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8300. Email: [prodserv@naic.org](mailto:prodserv@naic.org).

AGGREGATED P&C RBC DATA  
2022 Data as of June 29, 2023

	YR2022	YR2021	YR2020	YR2019	YR2018	YR2017	YR2016 (Including Catastrophe Risk)	YR2016 (Excluding Catastrophe Risk)	YR2015 (Including Catastrophe Risk)	YR2015 (Excluding Catastrophe Risk)	YR2014 (Including Catastrophe Risk)	YR2014 (Excluding Catastrophe Risk)	YR2013 (Including Catastrophe Risk)	YR2013 (Excluding Catastrophe Risk)	YR2012	YR2011	
# OF COMPANIES FILED RBC	2,522	2,511	2,477	2,490	2,465	2,486	2,492	2,492	2,494	2,494	2,520	2,520	2,567	2,567	2,588	2,582	
# OF COMPANIES FILED AST	2,626	2,626	2,599	2,593	2,607	2,620	2,628	2,628	2,644	2,644	2,673	2,673	2,707	2,707	2,747	2,768	
% OF RBC COMPANIES	96%	96%	95%	96%	95%	95%	95%	95%	94%	94%	94%	94%	95%	95%	95%	93%	
<b>GRAND TOTAL OF CO'S AT AN ACTION LEVEL</b>	<b>LEVEL</b>																
TREND TEST	1	19	17	24	17	17	16	30	28	21	22	16	15	27	27	32	30
COMPANY ACTION LEVEL	1	27	8	15	9	14	28	22	21	13	13	22	12	28	18	15	13
REGULATORY ACTION LEVEL	2	7	3	4	8	11	6	12	12	11	11	8	10	10	13	10	14
AUTHORIZED CONTROL LEVEL	3	3	6	3	2	1	5	9	8	7	7	13	12	13	10	9	10
MANDATORY CONTROL LEVEL	4	17	18	20	19	22	19	17	17	24	24	28	25	15	14	31	24
TOTAL	54	35	42	38	48	58	60	58	56	55	74	57	66	52	68	61	
% OF ACTION LEVEL COMPANIES	2.14%	1.39%	1.70%	1.53%	1.95%	2.33%	2.41%	2.33%	2.25%	2.21%	2.94%	2.26%	2.57%	2.03%	2.62%	2.36%	
<b>RRG'S AT AN ACTION LEVEL</b>	<b>LEVEL</b>																
RRG'S TREND TEST	1	5	8	8	9	4	4	11	11	8	8	7	7	9	8	4	6
RRG'S AT COMPANY ACTION LEVEL	1	11	4	5	4	6	12	8	8	5	5	5	5	9	9	6	5
RRG'S AT REGULATORY ACTION LEVEL	2	4	2	2	3	6	1	5	5	9	3	3	3	5	5	4	10
RRG'S AT AUTHORIZED CONTROL LEVEL	3	1	1	2	0	1	3	4	4	3	4	4	4	5	5	6	4
RRG'S AT MANDATORY CONTROL LEVEL	4	7	5	6	4	5	7	3	3	4	4	7	7	3	3	4	5
TOTAL RRG'S AT AN ACTION LEVEL	23	12	15	11	18	23	20	20	21	21	19	19	22	22	20	24	
TOTAL RRG'S	249	225	225	225	224	224	229	229	235	235	235	235	241	241	248	231	
% OF RRG'S AT AN ACTION LEVEL	9.24%	5.33%	6.67%	4.89%	8.04%	10.27%	8.73%	8.73%	8.94%	8.94%	8.09%	8.09%	9.13%	9.13%	8.06%	10.39%	
<b>TOTAL CO'S AT A LEVEL EXCLUDING RRG'S</b>	<b>LEVEL</b>																
TREND TEST	1	14	9	16	8	13	12	19	17	13	14	9	8	18	19	28	24
COMPANY ACTION LEVEL	1	16	4	10	5	8	16	14	13	8	8	17	7	19	9	8	
REGULATORY ACTION LEVEL	2	3	1	2	5	5	5	7	7	3	2	8	5	5	9	4	
AUTHORIZED CONTROL LEVEL	3	2	5	1	2	0	2	5	4	4	4	9	8	8	5	6	
MANDATORY CONTROL LEVEL	4	10	13	14	15	17	12	14	14	20	20	21	18	11	27	19	
TOTAL CO'S AT AN ACTION LEVEL EXCL. RRG'S	31	23	27	27	30	35	40	38	35	34	55	38	44	30	48	37	
TOTAL CO'S EXCLUDING RRG'S	2273	2286	2252	2265	2241	2262	2263	2263	2259	2259	2285	2285	2326	2326	2350	2351	
% OF ACTION LEVEL COMPANIES	1.36%	1.01%	1.20%	1.19%	1.34%	1.55%	1.77%	1.68%	1.55%	1.51%	2.41%	1.66%	1.89%	1.29%	2.04%	1.57%	
# OF COMPANIES WITH RBC RATIO > 10000%	378	364	542	540	525	485	448	453	444	449	439	443	417	426	402	404	
# OF COMPANIES WITH RBC RATIO > 1,000 & < 10,000%	1,007	1,037	832	836	836	850	893	926	873	903	834	888	873	916	929	921	
# OF COMPANIES WITH RBC RATIO > 500 & < 1,000%	611	634	620	627	682	682	684	681	707	707	731	718	722	721	741	740	
# OF COMPANIES WITH RBC RATIO > 300 & < 500%	380	359															
# OF COMPANIES WITH RBC RATIO > 250 & < 300%	55	46															
# OF COMPANIES WITH RBC RATIO < 500% > 250%			418	420	409	367	350	325	375	342	355	362	392	398	420	415	
# OF COMPANIES WITH RBC RATIO < 200 & < 250%	37	36	23	29	35	44	57	49	39	38	45	55	34	51	38	41	
# OF COMPANIES WITH RBC RATIO < 200 & <= 0%	54	35															
# OF COMPANIES WITH RBC RATIO OF ZERO	0	0															
TOTAL	2,522	2,511															
TOTAL ADJUSTED CAPITAL	1,211,723,945,518	1,295,396,441,237	1,147,914,269,354	1,073,407,595,862	931,224,541,048	935,853,540,871	876,880,715,466	876,880,715,466	833,471,054,728	833,471,054,728	830,075,697,234	830,075,697,234	802,846,214,956	802,846,214,956	732,755,479,582	690,062,777,245	
AUTHORIZED CONTROL LEVEL RBC	206,730,000,454	209,812,119,487	186,945,420,616	171,329,036,103	151,112,834,048	149,906,691,631	138,674,310,776	129,689,495,515	133,774,578,223	123,913,249,094	133,899,222,712	123,675,484,440	129,392,024,942	120,006,078,091	113,136,973,572	108,391,831,794	
AGGREGATE RBC %	58%	61%															
MEDIAN RBC %	1145%	1167%															
Total R0 (R0 - asset risk-subsidiary insurance companies)	82,520,919,036	84,025,196,294	76,046,027,452	68,455,409,790	58,785,678,885	59,734,593,232	N/A	51,108,811,684	N/A	49,900,393,442	N/A	49,176,072,264	N/A	48,287,366,588	48,202,673,668	45,123,897,875	
Total R0A (R0A - asset risk-subsidiary insurance companies)	N/A	N/A	N/A	N/A	N/A	N/A	53,372,325,366	N/A	52,971,730,939	N/A	51,557,210,875	N/A	48,287,366,588	N/A	N/A	N/A	
Total R1 (R1 - asset risk-fixed income)	19,282,260,346	19,509,016,149	9,673,549,747	8,753,606,104	8,046,031,430	8,576,187,292	N/A	8,765,165,437	N/A	8,742,706,647	N/A	8,256,026,919	N/A	8,073,537,182	7,934,813,366	7,933,158,197	
Total R1A (R1A - asset risk-fixed income)	N/A	N/A	N/A	N/A	N/A	N/A	8,245,138,135	N/A	8,606,694,725	N/A	8,083,584,394	N/A	8,073,537,182	N/A	N/A	N/A	
Total R2 (R2 - asset risk-equity)	174,361,118,092	192,082,618,520	161,553,769,065	144,697,616,270	119,069,344,182	123,865,731,113	N/A	105,029,779,766	N/A	96,330,956,505	N/A	100,045,213,943	N/A	95,237,418,680	80,503,813,540	74,306,481,513	
Total R2A (R2A - asset risk-equity)	N/A	N/A	N/A	N/A	N/A	N/A	104,755,558,433	N/A	96,162,709,544	N/A	99,596,445,434	N/A	95,237,418,680	N/A	N/A	N/A	
Total R3 (R3 - asset risk-credit)	8,287,161,773	11,388,107,162	10,387,430,318	9,357,397,726	9,301,202,060	18,434,231,938	15,209,538,138	15,209,538,138	13,816,109,339	13,816,109,339	13,174,662,626	13,174,662,626	13,175,047,151	13,175,047,151	13,710,240,293	15,506,957,456	
Total R3A (R3A - asset risk-credit)	N/A	N/A	N/A	N/A	N/A	9,848,015,193	9,498,603,942	9,498,603,942	6,647,507,689	6,647,507,689	N/A	N/A	N/A	N/A	N/A	N/A	
Total R4 (R4 - underwriting risk - reserves)	154,267,900,707	145,492,505,595	130,302,138,858	123,165,959,122	114,979,409,018	115,358,602,270	108,983,784,131	108,983,784,131	107,554,282,338	107,554,282,338	106,736,363,643	106,736,363,643	102,887,821,123	102,887,821,123	103,357,565,995	102,052,746,060	
Total R4A (R4A - underwriting risk - reserves)	N/A	N/A	N/A	N/A	N/A	N/A	111,147,867,287	N/A	104,563,384,511	N/A	103,210,396,738	N/A	103,210,396,738	N/A	N/A	N/A	
Total R5 (R5 - underwriting risk - net written premium)	88,254,096,856	81,117,342,335	78,327,294,222	74,813,906,575	75,532,307,468	68,756,100,751	N/A	73,468,980,677	N/A	68,279,553,819	N/A	67,650,432,627	N/A	63,741,313,990	60,141,171,547	55,605,084,809	
Total R5A (R5A - Underwriting Risk - net written premium)	N/A	N/A	N/A	N/A	N/A	N/A	69,209,100,248	N/A	62,755,777,944	N/A	59,601,481,811	N/A	55,380,551,560	N/A	N/A	N/A	
Total R6 (R6 - Catastrophe Risk for Earthquake)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	28,719,453,448	N/A	26,071,879,510	N/A	24,172,075,606	N/A	N/A	N/A	
Total R7 (R7 - Catastrophe Risk for Hurricane)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	52,717,782,097	N/A	52,565,472,147	N/A	51,851,291,264	N/A	N/A	N/A	
Total Rcat	56,443,376,138	54,458,108,356	55,405,268,158	53,740,016,069	52,510,292,783	50,710,820,614	59,104,956,618	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

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

**CAPITAL ADEQUACY (E) TASK FORCE  
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2023**

2023 #	Owner	2023 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
<b>Ongoing Items – P&amp;C RBC</b>							
P1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2023 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	4/26/21 - 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 <del>different-severe</del> convective storm models. <u>7/18/23-The SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC, and Corelogic.</u>	4/26/2021
<b>Carryover Items Currently being Addressed – P&amp;C RBC</b>							
P2	P&C RBC WG	1	Year-end 2020 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.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018

P3	P&C RBC WG	1	2023 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.			6/10/2019
P4	P&C RBC WG	1	2023 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
<del>P5</del>	<del>PCRBCWG</del>	<del>1</del>	<del>2023 Spring Meeting</del>	<del>Changing the RBC PR035 Line of Business categories to match the Lines of Business categories in the Annual Statement, Underwriting and Investment Exhibit, Part 1B.</del>	<del>-</del>	<del>8/9/22—The WG exposed proposal 2022-07-P for a 30-day comment period. 12/14/22—The TF adopted the proposal</del>	<del>7/7/2022</del>
<del>P6</del> <u>P5</u>	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.			3/23/2023
<del>P7</del> <u>P6</u>	Cat Risk SG	1	2024 Spring Meeting	Quantify the R5 Ex-cat Factors for wildfire peril (for informational purposes only) Evaluate the possibility of adding PR018A to determine the R5 including the wildfire peril			3/21/2023
<del>P8</del> <u>P7</u>	Cat Risk SG	2	2025 Spring Meeting	Evaluate the impact of flood peril to the insurance market			3/21/2023
<b>New Items – P&amp;C RBC</b>							
<u>P8</u>	<u>PCRBCWG</u>	<u>1</u>	<u>2024 Spring Meeting</u>	<u>Adding pet insurance line in the RBC PR017, 018, 035 and RBC Schedule P, parts due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.</u>			<u>7/27/2023</u>

# Property and Casualty Risk-Based Capital Committee—Release of Recent Report

Ronald Wilkins, MAAA, FCAS  
Vice Chairperson  
Property and Casualty Risk-Based Capital Committee

Discussion of Report on Investment Income Adjustment Factors and  
Catastrophe-Adjusted Risk Factors

July 27, 2023

# Topics Covered Today

- Background
- Summary of Results
- Adjustment for Catastrophe Risk

# Status of Final Report

- In the coming days, the American Academy of Actuaries will publish on its website a final report to this working group.
- The report is currently undergoing public policy review by the Academy.

Please refer to the final report for explanations of the methodology and implications of the analysis which produced the results presented here.

# Key Topics Covered in Report

1. Summary of Results
  - And impacts to industry ACL
2. Interest Rates
  - Use of recent and historical U.S. Treasury rates
3. Payment Patterns
  - 40-year runoff payment pattern
  - Risk development horizon/40-year truncated payment pattern
4. Present Value Method
  - Discount historical datapoints by then-prevailing U.S. Treasury interest rates, which have declined across the experience period
5. Safety Level Calculations
  - These calculations are included to support potential future discussions and should not be used as the basis for increasing the safety margin
6. Adjustment for Catastrophe Risk Captured in  $R_{cat}$



# Indicated Changes in Risk Charges by Line

(1)	Premium Risk			Reserve Risk		
	(2)	(3)	(4)= (3)/(2)-1	(5)	(6)	(7)= (6)/(5)-1
LOB	Risk Charge		Change in Risk Chg	Risk Charge		in Risk Chg
	Current	Indicated		Current	Indicated	
A-HO	0.182	0.188	3.0%	0.138	0.166	20.4%
B-PPA	0.125	0.137	10.1%	0.094	0.129	37.2%
C-CA	0.185	0.201	9.1%	0.162	0.259	59.7%
D-WC	0.138	0.126	-8.8%	0.116	0.082	-28.9%
E-CMP	0.148	0.160	8.7%	0.309	0.325	5.1%
F1-MPL-O	0.534	0.363	-32.0%	0.196	0.094	-51.9%
F2-MPL-C	0.189	0.244	28.8%	0.127	0.050	-60.5%
G-SL	0.166	0.164	-1.1%	0.161	0.238	48.5%
H-OL	0.130	0.135	3.5%	0.304	0.293	-3.9%
I-SP	0.120	0.062	-48.5%	0.204	0.213	4.8%
J-APD	0.044	0.050	13.0%	0.127	0.112	-12.0%
K-Fid/Sur	0.272	0.105	-61.2%	0.289	0.440	52.4%
L-Other	0.142	0.143	1.2%	0.180	0.147	-18.4%
M-Intl	0.556	0.804	44.7%	0.188	0.852	353.6%
N-Re-Prop	0.312	0.162	-48.3%	0.275	0.204	-25.7%
O-Re-Liab	0.295	0.227	-23.2%	0.388	0.266	-31.5%
R-PL	0.307	0.286	-6.9%	0.515	1.013	96.6%
S-FG/MG	0.754	1.534	103.5%	0.092	0.050	-45.8%
T-Wrnty	0.030	0.215	617.5%	0.289	0.302	4.6%
Total/Avg	0.135	0.133	-1.7%	0.195	0.202	3.5%

# Indicated Changes in ACL by Type of Company

(1)	(2)	(3)	(4)	(5)	(6)
Row	Type of Company	ACL Value with 2019 Risk Charges (\$Billions)	% Change in:		
			Reserve Risk Charge	Premium Risk Charge	ACL
1	Commercial	64.9	4.8%	-4.5%	2.1%
2	Med Prof Liab	2.4	-52.2%	4.8%	-14.3%
3	NOC	0.9	21.3%	-17.6%	1.4%
4	Personal	84.3	12.4%	4.2%	1.6%
5	Reinsurance	8.2	-18.6%	-23.5%	-2.2%
6	Workers Comp	10.1	-9.7%	-2.9%	-4.8%
7	Total	170.6	3.4%	-0.8%	1.0%

# Distribution of Number of Companies by Indicated Change in ACL Values

(1)	(2)	(3)
% Changes in ACL RBC	# companies	% companies
Less Than -50%	9	0%
-50% to -25%	96	5%
-25% to -15%	117	6%
-15% to -5%	194	11%
-5% to 5%	951	52%
5% to 15%	298	16%
15% to 25%	95	5%
25% to 50%	71	4%
Over 50%	6	0%
<b>Total</b>	<b>1,837</b>	<b>100%</b>

# Key Topics Covered in Report

1. ✓ Summary of Results
  - And impacts to industry ACL
2. Interest Rates
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4. Present Value Method
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5. Safety Level Calculations
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6. Adjustment for Catastrophe Risk Captured in  $R_{cat}$

# Premium Risk—Catastrophe Adjustments

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
LOB	Current Cat Adjustment	Data	Data	(3)-(4)	Selected Cat Adjustment	(3)+exp-100%	(6)/(7)
		87.5th Total LR	87.5th Non Cat LR	Indicated Cat Adjustment		87.5th Total Risk Charge	Cat Adj As % of Risk Charge
A-HO	2.8%	91.5%	88.9%	2.6%	2.6%	20.4%	12.7%
E-CMP	1.8%	83.3%	81.7%	1.6%	1.6%	18.9%	8.6%
G-SL	1.6%	96.0%	91.7%	4.3%	4.3%	29.8%	14.4%
I-SP	1.6%	82.8%	79.4%	3.4%	3.4%	12.9%	26.3%
J-APD	0.0%	84.8%	84.2%	0.6%	0.6%	8.0%	7.5%
M-Intl	0.0%	192.1%	159.3%	32.8%	15.0%	136.0%	11.0%
N-Re-Prop	6.9%	122.1%	96.2%	25.9%	25.9%	48.8%	53.0%
O-Re-Liab	0.0%	100.5%	100.2%	0.4%	0.4%	27.2%	1.3%
R-PL	0.0%	100.8%	100.6%	0.3%	0.0%	33.8%	0.0%

# Contact

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