### Capital Adequacy (E) Task Force

**RBC Proposal Form**

| Capital Adequacy (E) Task Force | Health RBC (E) Working Group | Life RBC (E) Working Group |
| Catastrophe Risk (E) Subgroup | Investment RBC (E) Working Group | SMI RBC (E) Subgroup |
| C3 Phase II/ AG43 (E/A) Subgroup | P/C RBC (E) Working Group | Stress Testing (E) Subgroup |

**DATE: 5-16-18**

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**EMAIL ADDRESS:** cbrown@naic.org  
**ON BEHALF OF:** Health RBC (E) Working Group  
**NAME:** Patrick McNaughton  
**TITLE:** Chief Financial Examiner/Chair  
**AFFILIATION:** WA Office of Insurance Commissioner  
**ADDRESS:** PO Box 40255  
**Olympia, WA 98504-0255**

**FOR NAIC USE ONLY**

**Agenda Item # 2018-12-H**  
**Year:** 2019

**DISPOSITION**

- [x] ADOPTED 04/07/2019
- [ ] REJECTED
- [ ] DEFERRED TO
- [ ] REFERRED TO OTHER NAIC GROUP
- [x] EXPOSED 30 days
- [ ] OTHER (SPECIFY)

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

- [x] Health RBC Blanks
- [ ] Property/Casualty RBC Blanks
- [ ] Life RBC Instructions
- [ ] Fraternal RBC Blanks
- [ ] Health RBC Instructions
- [ ] Property/Casualty RBC Instructions
- [ ] Fraternal RBC Instructions
- [ ] OTHER ____________

**DESCRIPTION OF CHANGE(S)**

Correct the Bond and Preferred Stock descriptions on page XR011.

**REASON OR JUSTIFICATION FOR CHANGE **

The bond descriptions on page XR011 have included the term “unaffiliated” since the formula’s inception in 1998, however, all bonds (affiliated and unaffiliated) should be included in the asset concentration consistent with the bond reporting on page XR007 which includes all bonds.

The preferred stock description should have the term “unaffiliated” added to the blanks page to be consistent with the RBC instructions for the asset concentration.

**Additional Staff Comments:**

5-18-18 cgb The WG agreed to expose the proposal for a 30 day comment period, ending June 19, 2018
6-19-18 cgb One comment letter was received from CT.
6-29-18 cgb Suggested modifications to insert “and hybrids” and delete “affiliated bonds” in paragraph 2 of the instructions has been included in the revised draft.
7-12-18 cgb the WG adopted proposal 2018-12-H, with modifications to add the terms “and hybrids” and delete the terms “affiliated bonds” from the second paragraph
4-7-19 cgb The Task Force adopted the proposal at the Spring National Meeting on 4/7/2019.

**This section must be completed on all forms.**

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## ASSET CONCENTRATION

<table>
<thead>
<tr>
<th>Issuer Name</th>
<th>Bk/Adj Carrying Value</th>
<th>Factor</th>
<th>Additional RBC</th>
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</thead>
<tbody>
<tr>
<td>(1) NAIC 02 Unaffiliated Bonds</td>
<td></td>
<td>0.0100</td>
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</tr>
<tr>
<td>(2) NAIC 03 Unaffiliated Bonds</td>
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<td>0.0200</td>
<td></td>
</tr>
<tr>
<td>(3) NAIC 04 Unaffiliated Bonds</td>
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<td>0.0450</td>
<td></td>
</tr>
<tr>
<td>(4) NAIC 05 Unaffiliated Bonds</td>
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<td>0.1000</td>
<td></td>
</tr>
<tr>
<td>(5) Collateral Loans</td>
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<td>0.0500</td>
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<tr>
<td>(6) Mortgages</td>
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<tr>
<td>(7) NAIC 02 Unaffiliated Preferred Stock</td>
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<td>0.0100</td>
<td></td>
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<tr>
<td>(8) NAIC 03 Unaffiliated Preferred Stock</td>
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<td>0.0200</td>
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<tr>
<td>(9) NAIC 04 Unaffiliated Preferred Stock</td>
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<td>0.0450</td>
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<tr>
<td>(10) NAIC 05 Unaffiliated Preferred Stock</td>
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<td></td>
</tr>
<tr>
<td>(11) NAIC 02 Hybrid Securities</td>
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<tr>
<td>(12) NAIC 03 Hybrid Securities</td>
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<td>(13) NAIC 04 Hybrid Securities</td>
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<td>(14) NAIC 05 Hybrid Securities</td>
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<td>(15) Other Long-Term Invested Assets</td>
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<tr>
<td>(16) NAIC 02 Working Capital Finance Investments</td>
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<td>(17) Federal Guaranteed Low Income Housing Tax Credits</td>
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<td>(18) Federal Non-Guaranteed Low Income Housing Tax Credits</td>
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<tr>
<td>(19) State Guaranteed Low Income Housing Tax Credits</td>
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<td>0.0014</td>
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<td>(20) State Non-Guaranteed Low Income Housing Tax Credits</td>
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<td>0.0260</td>
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<tr>
<td>(21) All Other Low Income Housing Tax Credits</td>
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</tr>
<tr>
<td>(22) Unaffiliated Common Stock</td>
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<tr>
<td>(23) Total of Issuer = Lines (1) through (22)</td>
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</tr>
</tbody>
</table>

Note: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

Denotes items that must be manually entered on filing software.
The purpose of the asset concentration calculation is to reflect the additional risk of high concentrations of certain types of assets in single exposures, termed “issuers.” An issuer is a single entity, such as IBM or the Ford Motor Company. When the reporting entity has a large portion of its asset portfolio concentrated in only a few issuers, there is a heightened risk of insolvency if one of those issuers should default. An issuer may be represented in the reporting entity’s investment portfolio by a single security designation, such as a large block of NAIC 02 bonds, or a combination of various securities, such as common stocks, preferred stocks, and bonds. The additional RBC for asset concentration is applied to the ten largest issuers.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the ten largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds, unaffiliated preferred stock and hybrids; affiliated common stock; affiliated preferred stock; affiliated bonds; property and equipment; U.S. government guaranteed bonds; NAIC 01 bonds, unaffiliated preferred stock and hybrids; any other asset categories with risk-based capital factors less than 1 percent, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting entity is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the federal Investment Company Act and providing this information upon request of the Commissioner, Director or Superintendent of the Department of Insurance. The reporting entity is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the Commissioner, Director or Superintendent upon request.

The assets that **ARE INCLUDED** in the calculation when determining the 10 largest issuers are as follows:

- NAIC 02 **Unaffiliated** Bonds
- NAIC 03 **Unaffiliated** Bonds
- NAIC 04 **Unaffiliated** Bonds
- NAIC 05 **Unaffiliated** Bonds
- Collateral Loans
- Mortgage Loans
- NAIC 02 Unaffiliated Preferred Stock
- NAIC 03 Unaffiliated Preferred Stock
- NAIC 04 Unaffiliated Preferred Stock
- NAIC 05 Unaffiliated Preferred Stock
- NAIC 02 Hybrids
- NAIC 03 Hybrids
- NAIC 04 Hybrids
- NAIC 05 Hybrids
- Other Long-Term Assets
- NAIC 02 Working Capital Finance Investments
- Federal Guaranteed Low Income Housing Tax Credits
Federal Non-Guaranteed Low Income Housing Tax Credits
State Guaranteed Low Income Housing Tax Credits
State Non-Guaranteed Low Income Housing Tax Credits
All Other Low Income Housing Tax Credits
Unaffiliated Common Stock

The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) for assets held in the 10 largest issuers. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in Column (2), Lines (1) through (22). Aggregate all similar asset types before entering the amount in Column (2). To determine the 10 largest issuers, first pool all of the assets subject to the concentration factor. From this pool, aggregate the various securities by issuer. The aggregate book/adjusted carrying values for the assets are computed, and the 10 largest are subject to the concentration factor. For example, an organization might own $10,000,000 in NAIC 02 bonds of IBM plus $5,000,000 of common stock. The total investment in that issuer is $15,000,000. If that is the largest issuer, then the identifier (“IBM Corporation”) would be entered in the space allowed for the first Issuer Name, and the $10,000,000 would be entered under the book/adjusted carrying value column for Line (1) (NAIC 02 unaffiliated bonds) and the $5,000,000 would be entered on Line (22) (unaffiliated common stock).

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