

Capital Adequacy (E) Task Force RBC Proposal Form

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|---|---|--|
| <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 |

<p style="text-align: right;">DATE: <u>1/17/2019</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>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2019-02-P</u></p> <p>Year <u>2019</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p><input checked="" type="checkbox"/> ADOPTED <u>4/7/19 WG/TF</u></p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input checked="" type="checkbox"/> EXPOSED <u>3/22/19</u></p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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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 P&C RBC Instructions/PR016 to eliminate the observed inconsistency

REASON OR JUSTIFICATION FOR CHANGE **

Inconsistencies are observed between the current P/C RBC Instructions and the current P/C RBC Formula for the computation of the Selected Average Growth Rate.

Under the current P/C RBC Instructions, the Selected Growth Rate is the three-year average growth rate calculated using the four most recent years gross written premiums. If only the latest three years of premium are available, a two-year average growth rate is used. If only the most recent two years of premium are available, a one-year average growth rate is calculated, and a default 40% growth rate is used for the first year for a start-up company.

Under the current P/C RBC Formula, the Selected Growth Rate is also the three-year average growth rate if the four most recent years gross written premiums are available. However, if the gross written premium of the most four recent years are not available, a default 40% growth rate is assigned to the first year of which the premiums are available. The Selected Growth Rate is the average of the available growth rates.

For example, if a company has only three years of premiums, a two-year average growth rate will be calculated under the current P/C RBC Instructions. However, under the current RBC Formula, a three-year average growth rate will be computed

(with the third year growth rate being equal to 40%).

Two options are proposed to modify either the current P/C RBC Instructions or the P/C RBC Formula so that they are consistent with each other. Option One is to modify the P/C RBC formula (PR016) so that the revised formula will match with the current P/C RBC Instructions. Option Two is to modify the P/C RBC Instructions so that it match with the current P/C RBC Formula.

Additional Staff Comments:

2/20/19 – Per discussion in the Joint PC RBC WG and Cat Risk SG call, the members agreed to expose the option 2 for 30 days comment period.

4/7/19 -The P/C RBC WG adopted this proposal at the Spring National meeting.

4/7/19 – The Capital Adequacy Task Force adopted the proposal at the Spring National Meeting.

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

Revised 11-2013

EXCESSIVE PREMIUM GROWTH PR016

Current Formula

	(1) Company Gross Written Premiums*	(2) Company Adjustments	(3) Group Gross Written Premiums*	(4) Group Adjustments	(5) Selected Adjusted Gross Written Premium	(6) Statement Value	(7) Factor	(8) RBC Requirement
(1) 2018	0	0	1,500	0	1,500	xxx		xxx
(2) 2017	0	0	1,200	0	1,200	xxx		xxx
(3) 2016	0	0	1,000	0	1,000	xxx		xxx
(4) 2015	0	0	0	0	0	xxx		xxx
(5) 2018 Growth Rate=[L(1)-L(2)]/L(2)							0.250	
(6) 2017 Growth Rate=[L(2)-L(3)]/L(3)							0.200	
(7) 2016 Growth Rate=[L(3)-L(4)]/L(4)							0.400	
(8) Three Year Average Growth Rate							0.283	
(9) Two Year Average Growth Rate							0.225	
(10) One Year Average Growth Rate							0.250	
(11) Selected Average Growth Rate							0.283	
(12) RBC Average Growth Rate=L(11) - 10%, capped to fall between 0% and 30%							0.183	
(13) Excessive Growth Charge Applied to Loss/Expense Reserve from Schedule P Pt1 Summary C24 L12 x 1000 (in whole dollars)						0	0.082	0
(14) Excessive Growth Charge Applied to Net Written Premiums from U&I Exhibit Pt 1B C6 L35						0	0.041	0

*Enter Company and Group Gross Written Premiums in PR039. Click on the yellow cells to go to the worksheet.

Footnote	Name of Involuntary Residual Market (For Servicing Carrier only)	Adjustment Amount
(0000001)		
(0000002)		
(0000003)		
(0000004)		
(9999999) Total		0

**EXCESSIVE PREMIUM GROWTH
PR016**

Studies have shown that rapidly growing companies tend to have larger reserve deficiencies than other insurers with more normal growth. Companies with an average annual premium growth rate of more than 10 percent will be charged with additional risk-based capital to reflect this additional risk. For members of a group, the growth rate is based on a group growth rate rather than the individual member's growth rate. A group consists of all Property and Casualty companies with the same NAIC Group Code number. Enter four years of group gross written premiums for the current year group code even though the reporting company was not part of the group for all years. If the reporting company is not a member of a group, the premium to be entered is the premium of the individual company. Enter both company written premiums and group written premiums if the reporting company is a member of a group.

Servicing Carriers may exclude Gross Written Premiums from involuntary pool business from the Group Gross Written Premium. In the context of residual markets and/or assigned-risk business, a servicing carrier is a licensed insurer that, either through a competitive bid process or by virtue of a state appointment, administers the business. Such administration may include policy issuance, billing and collection, rating, fraud control, medical management and claim payment. In general, the accounts are written on the servicing carriers paper; however, the results are pooled and distributed to all licensed companies (for that particular line of business) in the state, that are assessed by market share. The servicing carrier is paid a fee for the administrative services it provides. If the company for which this report is being prepared is part of a group of companies, enter the group adjustments in Column (4); otherwise, enter the individual company adjustments in Column (2). **DO NOT DEDUCT PARTICIPATION IN RESIDUAL MARKET MECHANISMS.** However, an adjustment is required for carriers that are servicing carriers for an assigned risk mechanism. Those carriers shall exclude gross written premiums from involuntary pool business for any of those years. That adjustment for the company and for the group must be entered on the appropriate lines in the program.

The growth rate used in this calculation is a three-year average growth rate of gross written premiums. Gross written premiums are direct written premiums plus written premiums assumed from non-affiliates and are calculated from the Underwriting and Investment Exhibit, Part 1B as the sum of Column 1, Line 35 plus Column 3, Line 35. The four most recent years of data are required to compute the growth rate. However, an adjustment is allowed for carriers which are servicing carriers for an assigned risk mechanism. Those carriers may exclude gross written premiums from involuntary pool business for any of those years. That adjustment for the company and for the group must be entered on the appropriate lines in the program.

In determining the gross written premium, all years of gross written premium should be included for any P&C affiliate that was acquired during the four-year period. Similarly, all years of gross written premium should be excluded for any P&C affiliate that was divested during the four-year period. The exception to this rule applies to a P&C affiliate acquired without the parent assuming any of the affiliate's liability obligations (i.e., the parent acquired a "shell" company). In that case, the gross written premiums of the acquired insurer(s) should be excluded. Similarly, if a P&C affiliate is divested but the parent retains the affiliate's liability obligations (that is, the parent divested a "shell" company), then the gross written premiums of that affiliate should remain in the parent's group gross written premiums.

When ~~the only the most recent three years gross written premium are available, a 40 percent growth rate is assigned to the third year growth rate and the three-year average growth rate is computed. If only the most two recent years gross written premium are available, a 40 percent growth rate is assigned to the second year growth rate, and the two-year average growth rate is computed~~ data necessary to calculate a three-year average growth rate is not available, a two-year average growth rate should be calculated using the latest three years of premiums. ~~If only the most recent two years of gross written premiums are available, then a one-year average growth rate should be calculated.~~ If the company has no gross written premiums in the latest year, then the growth rate will be set to zero. A default growth rate of 40 percent is used in the first year for a start-up company.

Each individual year's growth rate is capped at 40 percent. The Selected Average Growth Rate is the average of individual years' growth rates. The excess of the growth rate over 10 percent is the RBC Average Growth Rate Factor. This factor is multiplied by 0.45 to determine the excessive growth charge factor for loss and expense reserves and

by .225 to determine the excessive growth charge factor for written premiums. The total amount of loss & expense reserves from Schedule P Part 1–Summary C24 L12 is multiplied by 1,000 to bring it up to whole dollars, and this amount is entered on the appropriate line on the CD Rom to calculate the required RBC for excessive growth. The total net written premiums from the Underwriting and Investment Exhibit Part 1B L35 C6 are entered on the appropriate line to calculate the excessive growth for net written premiums.

