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 [ ] Operational Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup [ ] P/C RBC (E) Working Group [ ] Longevity Risk (A/E) Subgroup

	DATE: 4/11/19	**FOR NAIC USE ONLY**
CONTACT PERSON:	Eva Yeung	Agenda Item # 2019-08-P
TELEPHONE:	816-783-8407	Year 2019
EMAIL ADDRESS:	eyeung@naic.org	**DISPOSITION**
ON BEHALF OF:	P/C RBC (E) Working Group	[x] ADOPTED 6/28/2019
NAME:	Tom Botsko	[ ] REJECTED
TITLE:	Chair	[ ] DEFERRED TO
AFFILIATION:	Ohio Department of Insurance	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	50 West Town Street, Suite 300	[x] EXPOSED 4/12/19
	Columbus, OH 43215	[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [ ] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions [x] Property/Casualty RBC Instructions [ ] Life and Fraternal RBC Blanks
[ ] OTHER _____

DESCRIPTION OF CHANGE(S)

The proposed changes will correct the following affiliated investment instructions to match the blanks:

1) Remove "Bonds" from the instructions as affiliated bonds are no longer included in the affiliated investments calculations;
2) Change "F" to "E" and "A" in the indirectly owned U.S. P&C Insurance Affiliates

REASON OR JUSTIFICATION FOR CHANGE **

The proposed changes provide some minor edits to the instructions to be consistent with the recent changes in the P/C affiliated investment calculations.

Additional Staff Comments:

The P/C RBC WG exposed this proposal for a 30-day public comment period ending May 12.
The P/C RBC WG adopted this proposal on May 17 conference call.
The Capital Adequacy Task Force adopted the proposal on June 28 conference call.

**** This section must be completed on all forms.** **Revised 2-2019**

Directly Owned U.S. Property & Casualty Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. property & casualty insurance affiliates in the Directly Owned U.S. Property & Casualty Insurance Affiliates worksheet. For each affiliate enter its name, affiliate code, NAIC company code, affiliate's Total RBC After Covariance, book/adjusted carrying value of the common stock from Schedule D Part 6 Section 1, and total outstanding common stock of that affiliate in Columns (1) through (8). The required RBC will be automatically calculated by the program. If no value is entered in the Total Value of Affiliate's Common Stock column, Column (7), then the program will assume 100 percent ownership. If the reporting company does not own any of the affiliate's common stock but does own ~~either~~ preferred stock~~s or bonds~~, the Total Value of Affiliate's Common Stock must be entered in Column (7) so that the program can calculate whether any excess RBC exists. The RBC charge for the ownership of the affiliate's common stock will be automatically calculated; however, the required RBC cannot exceed the book/adjusted carrying value of the common stock in Column (5).

The book / adjusted carrying value of any preferred stock must be entered in Column (10) and the total outstanding value of the affiliate's preferred stock must be entered in Column (11). Again, the percentage of ownership and the RBC required for the ownership of preferred stock will be automatically calculated. Even if the reporting company does not own any of the affiliate's preferred stock, the total outstanding value of that affiliate's preferred stock must be entered so that the program will correctly calculate any excess RBC.

The risk-based capital to be entered for each affiliate property and casualty insurer should be obtained by using a separate copy of the RBC program for each affiliate. Monoline financial guaranty insurers, monoline mortgage guaranty insurers and title insurers are not subject to risk-based capital. These affiliates and other similar affiliates should be reported as P&C Insurance Affiliates Not Subject to RBC.

Directly Owned U.S. Life Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. life insurance affiliates in the schedule for directly owned companies in the Affiliated ~~Bonds and~~ Stocks worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a U.S. life insurance affiliate is not subject to RBC, then it should be treated as Life Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Life affiliate should be obtained by using a separate copy of the Life RBC program for each affiliate.

Directly Owned Health Insurance Affiliates

Enter information regarding any top-layer directly owned Health Insurance affiliates in the schedule for directly owned companies in the Affiliated ~~Bonds and~~ Stocks worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a HEALTH INSURANCE affiliate is not subject to RBC, then it should be treated as Health Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Health Insurance affiliate should be obtained by using a separate copy of the Health RBC program for each affiliate.

Indirectly Owned U.S. P&C Insurance Affiliates

The first step in entering information on indirectly owned U.S. insurance affiliates that are subject to RBC is to allocate the reporting entity's book/adjusted carrying value of the holding company between any top-layer, indirectly owned insurance affiliates and the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. To do that, the carrying value of the holding company is first allocated based on the values shown on the holding company's balance sheet. The following example shows a hypothetical holding company, Holder Inc., that is 100 percent owned by Bigun Insurance Company and shows the allocation of Holder's carrying value among these categories:

Balance Sheet
Holder, Inc.
12/31/XXXX

ABC Life	$4,000,000	Long-Term Debt	$14,000,000
XYZ Casualty	$2,000,000	Other Liabilities	$5,000,000
Non-U.S. Casualty	$6,000,000		
GX Todd Real Estate	$4,000,000		
Cash	$5,000,000	Equity	$5,000,000
Other Assets	$3,000,000		
Total Assets	$24,000,000	Total Liab & Equity	$24,000,000

Since ABC Life Insurance Company makes up 1/6 ($4,000,000/$24,000,000) of the total assets for Holder, Inc., then this indirectly owned U.S. affiliate represents 1/6 of the carrying value of Holder, Inc. on the statement of Bigun Insurance Company. Similarly, the indirectly owned U.S. affiliate XYZ Casualty represents 1/12 of the carrying value ($2,000,000/$24,000,000) of Holder on Bigun's annual statement. Non-U.S. Casualty, which is an alien insurance affiliate, represents 1/4 of the carrying value ($6,000,000/$24,000,000) of Holder on Bigun's annual statement. One-half of the carrying value of Holder, Inc. ($12,000,000/$24,000,000) represents the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. If Bigun Insurance Company carries Holder, Inc. on its annual statement at $30,000,000 (assume that this is the current fair value of shares in Holder, which was a publicly traded corporation of which Bigun has just acquired 100 percent ownership), then Bigun will allocate 1/6 of that $30,000,000 to ABC Life, 1/12 of that $30,000,000 to XYZ Casualty, 1/4 of that $30,000,000 to Non-U.S. Casualty, and 1/2 to Holder under the category Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC charge for the indirect ownership of common stock in ABC Life will be computed as the lesser of ABC Life's Total RBC After Covariance or $5,000,000 (1/6 of $30,000,000). The RBC charge for the indirect ownership of XYZ Casualty will be the lesser of XYZ's Total RBC After Covariance or $2,500,000 (1/12 of $30,000,000).

If Bigun only acquired 50 percent of the shares of Holder, then these values must be adjusted to reflect Bigun's partial ownership and a determination made as to the nature of the carrying value of Holder. If Holder's carrying value is based on other than fair value, then the allocations follow as described in (a). If the carrying value of Holder is based on its fair value, then the allocations and any additional RBC due to the use of fair value are described in (b).

(a) Now the carrying value (not based on fair value) on Bigun's annual statement is $15,000,000 which is allocated as $2,500,000 to ABC Life (1/6 of $15,000,000), $1,250,000 to XYZ Casualty (1/12 of $15,000,000) as Indirectly Owned U.S. Insurance Affiliates, $3,750,000 to Non-U.S. Casualty (1/4 of $15,000,000) as Indirectly Owned Alien Insurance Affiliate, and $7,500,000 to Holder as the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC After Covariance for the indirectly owned U.S. insurance affiliates is also adjusted by 50% to reflect Bigun's percentage of ownership. Therefore, Bigun will enter $2,500,000 as the carrying value for ABC Life in Column (5) and $5,000,000 ($2,500,000 / 0.50) as the total outstanding common stock in Column (7).

(b) In this example, the carrying value (based on fair value) on Bigun's annual statement is $18,000,000, which will be allocated in the same manner described in (a) above. However, one additional step is added regarding the indirectly* owned U.S. Insurance Affiliates that are subject to RBC. For example, assume that the carrying value (based on fair value) of ABC on Bigun's annual statement is larger than ABC's RBC After Covariance (prorated 50 percent for its partial ownership), the amount of Holder applicable to ABC Life ($3,000,000: 1/6 of $18,000,000) will be reduced by its statutory surplus** (prorated 50 percent for its partial ownership), and if a positive amount results, then the larger of that amount times 22.5 percent or the excess of ABC's RBC After Covariance (prorated 50 percent for its ownership) over the value obtained from step (a) will be reported as a R2 component of such stock in the formula. The same will apply to XYZ Casualty.

The information for all top-layer, indirectly owned U.S. property and casualty insurance affiliates and indirectly owned U.S. life insurance affiliates is entered in the appropriate columns in the Affiliated Stocks worksheet. For each affiliate enter its name, affiliate code, NAIC company code and the pro-rata share of risk-based capital along with all other information required in Columns (1) through (11). If the amount in Column (5) is based on ~~fair value~~equity method, then place an "~~F~~E" in Column (6), otherwise place an "A" in Column (6). ~~and~~

~~the~~Then place the affiliate's statutory capital and surplus (adjusted for ownership) in Column (8). The RBC charge (if any) will be calculated by the formula with the result appearing in Columns (13) and (14).

Indirectly Owned U.S. Life Insurance Affiliates

Indirectly owned U.S. life insurance affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

Indirectly Owned Managed Care Organizations

Indirectly owned Managed Care affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

Affiliates that are Not Subject to RBC

This category includes these categories of affiliated investments:

7. Investment Affiliates
8. Directly Owned Alien Insurance Affiliates
9. Indirectly Owned Alien Insurance Affiliates
10. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates
11. Investment in Upstream Affiliate (Parent)
12. P&C Insurance Affiliates Not Subject to RBC
13. Life Insurance Affiliates Not Subject to RBC
14. Health Insurance Affiliates Not Subject to RBC
15. Other Affiliates

The RBC charge for these investments is calculated by multiplying a factor times the book/adjusted carrying value of the common stocks, and preferred stocks ~~and bonds~~ of those affiliates.

Detail Eliminated To Conserve Space