

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" 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 type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |

DATE: <u>4/29/21</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Dave Fleming</u> TELEPHONE: <u>816-783-8121</u> EMAIL ADDRESS: <u>dfleming@naic.org</u> ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u> NAME: <u>Philip Barlow, Chair</u> TITLE: <u>Associate Commissioner of Insurance</u> AFFILIATION: <u>District of Columbia</u> ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u>	Agenda Item # <u>2021-12-L</u> Year <u>2021</u> <b style="text-align: center;"><u>DISPOSITION</u> <input type="checkbox"/> ADOPTED <u>_____</u> <input type="checkbox"/> REJECTED <u>_____</u> <input type="checkbox"/> DEFERRED TO <u>_____</u> <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP <input checked="" type="checkbox"/> EXPOSED <u>4/29/21</u> <input type="checkbox"/> OTHER (SPECIFY) <u>_____</u>

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

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION OF CHANGE(S)

This proposal changes the description on line 15 on LR016 to allow for inclusion of amounts held for reciprocal jurisdiction reinsurance.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the credit in the life RBC formula is to avoid having both the total adjusted capital decreased by amounts re-established as liabilities and the authorized control level increased for the charge on reserve credit and recoverable amounts.

Additional Staff Comments:

- 4-29-21: Proposal was exposed for comments (DBF)

** This section must be completed on all forms.

Revised 2-2019

REINSURANCE

	Annual Statement Source	(1) Statement Value	(2) 100% Owned Affiliates	(3) RBC Subtotal	Factor	(4) RBC Requirement
<u>Reinsurance Ceded†</u>						
(1) Recoverable on Paid Losses (Life)	Schedule S Part 2 Column 6 Line 1199999				X 0.0078	=
(2) Recoverable on Paid Losses (A&H)	Schedule S Part 2 Column 6 Line 2299999				X 0.0078	=
(3) Recoverable on Unpaid Losses (Life)	Schedule S Part 2 Column 7 Line 1199999				X 0.0078	=
(4) Recoverable on Unpaid Losses (A&H)	Schedule S Part 2 Column 7 Line 2299999				X 0.0078	=
(5) Unearned Premiums (A&H)	Schedule S Part 3 Section 2 Column 9 Line 4599999				X 0.0078	=
(6) Other Reserve Credits (A&H)	Schedule S Part 3 Section 2 Column 10 Line 4599999				X 0.0078	=
(7) Reserve Credit (Life)	Schedule S Part 3 Section 1 Column 9 Line 4599999				X 0.0078	=
		(1) Statement Value	(2) Other than 100% Owned Affiliates	(3) RBC Subtotal	Factor	(4) RBC Requirement
<u>Reinsurance Assumed Credit</u>						
(8) Affiliate Reserve Credit (Life)	Schedule S Part 1 Section 1 Column 9 Line 0799999				X -0.0078	=
(9) Affiliate Reinsurance Payable (Life)	Schedule S Part 1 Section 1 Column 11 Line 0799999				X -0.0078	=
(10) Reinsurance Assumed on Unearned Premiums (A&H)	Schedule S Part 1 Section 2 Column 9 Line 0799999				X -0.0078	=
(11) Reinsurance Assumed Other Reserved Credits (A&H)	Schedule S Part 1 Section 2 Column 10 Line 0799999				X -0.0078	=
(12) Reinsurance Assumed - Losses (A&H)	Schedule S Part 1 Section 2 Column 11 Line 0799999				X -0.0078	=
<u>Reinsurance Payable Credit</u>						
(13) Reinsurance in Unauthorized and Certified Companies	Page 3 Column 1 Line 24.02				X -0.0078	=
(14) Funds Held in Unauthorized and Certified Reinsurers	Page 3 Column 1 Line 24.03				X -0.0078	=
(15) Funds Held in Authorized Reinsurers and Funds Held in Reciprocal Jurisdiction Reinsurers and Trusteed Collateral Supporting Authorized Reinsurance	Page 3 Column 1 Line 24.07 Line-25 in part and Company Records				X -0.0078	=
(16) Other Reinsurance Recoverable or Reserves "Reestablished" on Page 3	Page 3 Column 1 Line 25				X -0.0078	=
(17) Total Reinsurance	Sum of Lines (1) through (16)					

† Statement values should be net of policy loans if policy loans are part of the reinsurance transaction.

Denotes items that must be manually entered on the filing software.

REINSURANCE

LR016

Basis of Factors

There is a risk associated with recoverability of amounts from reinsurers. The risk is deemed comparable to that represented by bonds between risk classes 1 and 2 and is assigned a pre-tax factor of 0.78 percent. To avoid an overstatement of risk-based capital, the formula gives a 0.78 percent pre-tax credit for reinsurance with non-authorized and certified companies, for reinsurance among affiliated companies, for reinsurance with funds withheld or reinsurance with authorized reinsurers that is supported by equivalent trusted collateral that meets the requirements stipulated in Appendix A-785 (Credit for Reinsurance), where there have been regular bona fide withdrawals from such trusted collateral to pay claims or recover payments of claims during the calendar year covered by the RBC report, and for reinsurance involving policy loans. Withdrawals from trusted collateral that are less than the amounts due the ceding company shall be deemed to not be bona fide withdrawals.

Specific Instructions for Application of the Formula

Lines (1) through (7)

The first seven components of the reinsurance formula are charged against all reinsurance recoverables and ceded reserve credits as reported in Schedule S.

Lines (8) through (12)

A negative 0.78 percent pre-tax factor is applied to these five components. These adjustments should only be applied to business assumed from subsidiaries of the company. The adjustment should be multiplied by the proportion of the ceding company owned by the parent. The subsidiary's RBC is part of the individual company's RBC, and sister affiliate reinsurers should NOT be included. In addition, no adjustment should be made where an adjustment has already been taken in the re-established liability components above. This would be the case if the subsidiary reinsurer was unauthorized or the treaty with the company involved funds held.

Lines (13) through (16)

The last four components are primarily Page 3 liabilities (including Line 24.02 – Reinsurance in Unauthorized and Certified Companies ~~and~~ Line 24.03 – Funds Held under Reinsurance Treaties with Unauthorized and Certified Reinsurers, Line 24.07 – Funds Held under Coinsurance and Line 25 – Aggregate Write-ins for Liabilities). Line (15) is also to include amounts in support of Lines (1) through (7) and subject to the provisions of Credit for Reinsurance Model Regulation (#786). A pre-tax factor of negative 0.78 percent is applied. This considers that these liabilities reported on Page 3 have been reestablished in the balance sheet offsetting the reinsurance ceded reserve credits taken elsewhere.