### Capital Adequacy (E) Task Force

#### RBC Proposal Form

| [ ] 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 |

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#### ON BEHALF OF:
Life Risk-Based Capital (E) Working Group

#### NAME:
Philip Barlow, Chair

#### TITLE:
Associate Commissioner of Insurance

#### AFFILIATION:
District of Columbia

#### ADDRESS:
1050 First Street, NE Suite 801
Washington, DC 20002

#### DATE: 4/29/21

#### FOR NAIC USE ONLY

#### Agenda Item # 2021-12-L

#### FOR NAIC USE ONLY

#### Year: 2021

#### DISPOSITION

- [ X ] ADOPTED 6/30/21
- [ ] REJECTED
- [ ] DEFERRED TO
- [ ] REFERRED TO OTHER NAIC GROUP
- [ ] EXPOSED
- [ ] OTHER (SPECIFY)

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

- [ ] Health RBC Blanks
- [ ] Property/Casualty RBC Blanks
- [ x ] Life and Fraternal RBC Instructions
- [ ] Health RBC Instructions
- [ ] Property/Casualty RBC Instructions
- [ x ] Life and Fraternal RBC Blanks
- [ ] 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)
- 6/30/21 (jdb) Instructions Adopted by the Task Force.

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

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## Reinsurance

<table>
<thead>
<tr>
<th>Reinsurance Ceded†</th>
<th>Annual Statement Source</th>
<th>(1) Statement Value</th>
<th>(2) 100% Owned Affiliates</th>
<th>(3) RBC Subtotal</th>
<th>(4) Factor</th>
<th>(5) RBC Requirement</th>
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</thead>
<tbody>
<tr>
<td>(1) Recoverable on Paid Losses (Life)</td>
<td>Schedule S Part 2 Column 6 Line 1199999</td>
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<td>(2) Recoverable on Paid Losses (A&amp;H)</td>
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<td>(3) Recoverable on Unpaid Losses (Life)</td>
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<td>(5) Unearned Premiums (A&amp;H)</td>
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<td>(6) Other Reserve Credits (A&amp;H)</td>
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<td>(7) Reserve Credit (Life)</td>
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<th>Annual Statement Source</th>
<th>(1) Statement Value</th>
<th>(2) 100% Owned Affiliates</th>
<th>(3) RBC Subtotal</th>
<th>(4) Factor</th>
<th>(5) RBC Requirement</th>
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<tbody>
<tr>
<td>(8) Affiliate Reserve Credit (Life)</td>
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<td>(9) Affiliate Reinsurance Payable (Life)</td>
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<td>(10) Reinsurance Assumed on Unearned</td>
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<td>(12) Reinsurance Assumed - Losses (A&amp;H)</td>
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<th>(3) RBC Subtotal</th>
<th>(4) Factor</th>
<th>(5) RBC Requirement</th>
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<tr>
<td>(13) Reinsurance in Unauthorized and Certified Companies</td>
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<td>(14) Funds Held in Unauthorized and Certified Reinsurers</td>
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<td>(15) Funds Held in Authorized Reinsurers and Funds Held in Reciprocal Jurisdiction Reinsurers and Trusteed Collateral Supporting Authorized Reinsurance</td>
<td>Page 3 Column 1 Line 24.07 Line 25 in part and Authorized Reinsurance Company Records</td>
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<td>(16) Other Reinsurance Recoverable or Reserves &quot;Reestablished&quot; on Page 3</td>
<td>Page 3 Column 1 Line 25</td>
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<td>(17) Total Reinsurance</td>
<td>Sum of Lines (1) through (16)</td>
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† 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.
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 trusteed collateral that meets the requirements stipulated in Appendix A-785 (Credit for Reinsurance), where there have been regular bona fide withdrawals from such trusteed 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 trusteed 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.