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

**DATE:** 3/22/22

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**ON BEHALF OF:** NAMIC and RAA

**NAME:** Jonathan Rodgers and Scott Williamson

**TITLE:**

**AFFILIATION:**

**ADDRESS:**

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**FOR NAIC USE ONLY**

<table>
<thead>
<tr>
<th>Agenda Item # 2021-17-CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
</tbody>
</table>
| 2022

**DISPOSITION**

- [x] ADOPTED TF adopted 4/28/22
- [ ] REJECTED
- [ ] DEFERRED TO
- [ ] REFERRED TO OTHER NAIC GROUP
- [x] EXPOSED 3/22/22
- [x] OTHER (SPECIFY) MOD 2021-17-CR

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**DESCRIPTION OF CHANGE(S)**

1. **PR027INT:** Add C (10) to the PR027INT Interrogatory allowing an exemption for companies that meet the specific requirements.
2. **PR027C:** Modify PR027C to include disclosure of estimated wildfire risk exposure on a gross and net of reinsurance basis in-lieu of modeled results for companies exempted under C (10).

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**REASON OR JUSTIFICATION FOR CHANGE**

For those smaller companies, where the modeling requirements would impose a cost and compliance burden that represent an outsized cost relative to the incremental benefit of providing the modeled data for information-only purposes. The exemption option is only intended to apply to the information-only reporting for wildfire, while the Subgroup continues to evaluate materiality and model maturity.

When wildfire is added to RBC as a capital requirement, this exemption option would no longer be available, and all companies would be required to provide modeled exposure data unless they qualify under the existing exemptions listed in PR027 Interrogatory items C (7), (8), or (9).
Additional Staff Comments:

The original proposal was adopted by the Subgroup on 2/22/2022.

This proposal would modify the originally adopted proposal to add a small company in-lieu-of-modeling reporting option.

3/22/22 – The Subgroup exposed the proposal for a 14-day public comment period ending April 5.
3/28/22 – The Subgroup received comments from Julie Lederer (MO).

** This section must be completed on all forms.  

Revised 2-2019
**CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE**

**PR027C**

**FOR INFORMATIONAL PURPOSES ONLY**

<table>
<thead>
<tr>
<th>Wildfire</th>
<th>Reference</th>
<th>(1) Direct and Assumed</th>
<th>(2) Net</th>
<th>3† Ceded Amounts Recoverable</th>
<th>4†† Ceded Amounts Recoverable with zero Credit Risk Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Worst Year in 50</td>
<td>Company Records</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Worst Year in 100</td>
<td>Company Records</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Worst Year in 250</td>
<td>Company Records</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Worst Year in 500</td>
<td>Company Records</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(5) Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?  

<table>
<thead>
<tr>
<th>Reference</th>
<th>Amount</th>
<th>Factor</th>
<th>RBC Requirement (C6) * Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) Net Wildfire Risk</td>
<td>L(2) C(2)</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>(7) Contingent Credit Risk for Wildfire Risk</td>
<td>L(2) C(5) - C(4)</td>
<td>0</td>
<td>0.018</td>
</tr>
<tr>
<td>(8) Total Wildfire Catastrophe Risk (AEP Basis)</td>
<td>If L(5) C(5) = &quot;N&quot;, L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise &quot;0&quot;</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>(9) Total Wildfire Catastrophe Risk (OEP Basis)</td>
<td>If L(5) C(5) = &quot;Y&quot;, L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise &quot;0&quot;</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>(10) Total Wildfire Catastrophe Risk</td>
<td>L(8) C(7) = L(9) C(7)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Disclosure in-lieu-of model-based reporting:**

(11) For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:

a. Provide the company's gross and net 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.

b. Provide details on how the company estimated the amounts shown in 11a.

c. Provide a narrative disclosure about how the company manages its wildfire risk.

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Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, or KCC’s or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.
INTERROGATORY TO SUPPORT EXEMPTION FROM COMPLETING PR027 (To be completed by companies reporting no RBC charge in either Lines 1 through 3)  

A Earthquake Exemption (To be completed by companies reporting no RBC charge in PR027 Line 1) -

1. The company has not entered into a reinsurance agreement covering earthquake exposure with a non-affiliate or a non-US affiliate and, either
   1a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for earthquake risks; Or
   1b) the company cedes 100% of its earthquake exposures to its US affiliate(s), leaving no net exposure for earthquake risks
2. The company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
3. The company has written Insured Value - Property that includes earthquake coverage in the Earthquake-Prone areas representing less than 10% of its surplus as regards policyholders

For any company qualifying for the exemption under 3 provide details about how the "geographic areas in the New Madrid Seismic Zone" were determined.

3a) What resource was used to define the New Madrid Seismic Zone?
3b) Was exposure determined based on zip codes or counties in the zone, was it based on all of the earthquake exposure in the identified states or was another methodology used? Describe any other methodology used.

Note: "Earthquake-Prone areas" include any of the following states or commonwealths: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

B Hurricane Exemption (To be completed by companies reporting no RBC charge in PR027 Line 2) -

4. The company has not entered into a reinsurance agreement covering hurricane exposure with a non-affiliate or a non-US affiliate and, either
   4a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for hurricane risks; Or
   4b) the company cedes 100% of its hurricane exposures to its US affiliate(s), leaving no net exposure for hurricane risks
5. The company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
6. The company has written Insured Value - Property that includes hurricane coverage in the Hurricane-Prone areas representing less than 10% of its surplus as regards policyholders

Note: "Hurricane-Prone areas" include Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean, and/or Gulf of Mexico including Puerto Rico.

C Wildfire Exemption (To be completed by companies reporting no RBC charge in PR027 Line 3) -

7. The company has not entered into a reinsurance agreement covering wildfire exposure with a non-affiliate or a non-US affiliate and, either
   7a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for wildfire risks; Or
   7b) the company cedes 100% of its wildfire exposures to its US affiliate(s), leaving no net exposure for wildfire risks
8. The company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
9. The company has written Insured Value - Property that includes wildfire coverage in the wildfire-Prone areas representing less than 10% of its surplus as regards policyholders
10. The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than $50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril; and the company does not currently utilize NAIC approved third party commercial vendor wildfire catastrophe models.

Note: "Wildfire-Prone areas" include any of the following states: California, Idaho, Montana, Oregon, Nevada, Wyoming, Colorado, New Mexico, Washington, Arizona, and Utah.

Denotes items that must be manually entered on the filing software.
* Item C is for informational purposes only.
Hi Eva,

The proposal 2021-17-CR (MOD) seems reasonable. I have a few minor comments and points of clarification:

1. On PR027C, item 11a says, “Provide the company’s gross and net wildfire 1-in-100-year equivalent exposure on a best estimate basis in-lieu-of model-based reporting.” I’m not sure what “equivalent exposure” means here. Does this mean losses? (i.e., provide the estimated gross and net 1-in-100-year losses?)

2. On PR027C, the “in-lieu-of” in item 11a does not need hyphens.

3. On PR027C, I believe item 11b is asking the company to describe how it estimated the dollar amounts in 11a. If that is the case, clearer wording might be “Provide details on how the company estimated the amounts shown in 11a.” Otherwise, it’s not clear how 11b and 11c are different.

4. On PR027C, the “it’s” in item 11c should be “its” (with no apostrophe).

5. PR027INT item C(10) says, “The company writes less than $50 million in direct and assumed premium (gross premium written) in the following Annual Statement lines – Fire, Allied Lines, Earthquake,...” Does the proposal intend for a company to sum its gross premium across the listed annual statement lines (in wildfire-prone areas) and compare the total to $50 million? If so, maybe wording such as the following would be clearer: “The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than $50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multiple Peril; and the company does not currently...”

Thanks for letting me provide comments.

Best regards,

Julie

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