**Instructions to obtain permission to use the own model on PR027A, PR027B, PR027C, PR027, AND PR027INT are revised.**

The instructions were implemented in 2019 and there are confusions in the instructions which need to be clarified. The revised instructions proposed is to capture the spirit of the own model permission review and clarify the requirements expected from the company who submits its own model for permission.

**Additional Staff Comments:**

8/9/22 - The Subgroup agreed to expose this proposal for a 30-public comment period ending Sept. 8.

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

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**CAPITAL ADEQUACY (E) TASK FORCE**

**RBC PROPOSAL FORM**

<table>
<thead>
<tr>
<th>Task Force/Group</th>
<th>Contact Person</th>
<th>Telephone</th>
<th>Email Address</th>
<th>On Behalf Of</th>
<th>Name</th>
<th>Title</th>
<th>Affiliation</th>
<th>Address</th>
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<tr>
<td>Capital Adequacy (E) Task Force</td>
<td>Eva Yeung</td>
<td>816-783-8407</td>
<td><a href="mailto:eyeung@naic.org">eyeung@naic.org</a></td>
<td>Catastrophe Risk (E) Subgroup</td>
<td>Wanchin Chou</td>
<td>Chair</td>
<td>Connecticut Department of Insurance</td>
<td>153 Market Street, Hartford, CT 06103</td>
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**DISPOSITION**

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

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<th>Property/Casualty RBC Blanks</th>
<th>Life and Fraternal RBC Instructions</th>
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**DESCRIPTION OF CHANGE(S)**

Instructions to obtain permission to use the own model on PR027A, PR027B, PR027C, PR027, AND PR027INT are revised.

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**Additional Staff Comments:**

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CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027C, PR027, AND PR027INT

Detail Eliminated To Conserve Space

To obtain permission to use the own model, the insurer must provide the domestic or lead state insurance regulator with written evidence of each of the following:

1. The use of the own model is reasonable considering the nature, scale, and complexity of the insurer’s catastrophe risk. The nature, scale, and complexity of the insurer’s catastrophe risk make it reasonable for the insurer to use its own model.

2. The own model is used for catastrophe risk management, capital assessment, and the capital allocation process and the model has been used for at least the last 3 years.

3. The perils included in the RBC Catastrophe Risk Charge have been validated by the insurer and that these perils include both US and global exposures, where applicable. The insurer has validated the own model(s) for each of the perils included in the RBC catastrophe risk charge. The insurer is including both U.S. and non-U.S. exposures in the calculation of the RBC charge.

4. The insurer has individuals with experience in developing, testing and validating internal models or engages third parties with such experience.

5. The own model has been developed using reasonable data and assumptions and that model results used in determining the RBC Catastrophe Risk Charge reflect exposure data that is no older than six months.

6. The insurer has individuals with experience in developing, testing and validating internal models or engages third parties with such experience. The insurer must provide supporting model documentation and/or the differences from the vendor models if modified from the vendor models, supporting that the model was developed using reasonable data and assumptions. The insurer must provide a copy of the latest validation report and the insurer is solely responsible for the relevant cost. For each peril included in the RBC Catastrophe Risk Charge, the validation report should attest that the projected losses are a reasonable quantification of the exposure of the reporting entity. The validation report must provide a description of the scope, content, results and limitations of the validation, the individual qualifications of validation team and the date of the validation. Both the model documentation and the model validation report must be provided at a minimum once every five years, or whenever the lead or domestic state calls an examination; whenever there is a material change in the model; or whenever there is a material change in the insurer’s exposure to catastrophe exposure.

7. The results of the own model for each relevant peril should be compared with the results produced by at least one of the following models: AIR, CoreLogic for earthquake and hurricane only, RMS, KCC, ARA HurLoss (hurricane only), or the Florida Public Model for hurricane. The insurer must provide the comparison and an explanation of the drivers of differences between the results produced by the internal model vs. results produced by the selected prescribed model. Evidence that the own model produces reasonable results must be provided at a minimum once every five years, or whenever the lead or domestic state calls an examination; whenever there is a material change in the model; or whenever there is a material change in the insurer’s exposure to catastrophe exposure.

8. If the own model has been approved or accepted by the non-US lead supervisor for use in the determination of regulatory capital, the insurer must submit evidence, if available, from the non-US lead supervisor of the most recent approval/acceptance including the description of scope, content, results and limitations of the approval/acceptance process and dates of any planned future approval/acceptance, if known. The name and the contact information of a contact person at the non-US lead supervisor should also be provided for questions on the approval/acceptance process.

If the lead domestic state determines that permission to use the own model cannot be granted, the insurer shall be required to determine the RBC Catastrophe Risk Charge through the use of one of the third-party commercial vendor models (AIR, CoreLogic for earthquake and hurricane only, RMS, KCC, ARA HurLoss (hurricane only)), or the Florida Public Model for hurricane, as advised by the lead domestic state.