NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Tom Botsko, Chair, and Members of the Capital Adequacy (E) Task Force

FROM: Steve Drutz, Chair, and Members of the Health Risk-Based Capital (E) Working Group

DATE: Dec. 12, 2022

RE: Request for Response for Input Regarding Runoff Companies

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At the Summer National Meeting, the Capital Adequacy (E) Task Force requested that the Health Risk-Based Capital (E) Working Group review and discuss the request from the Restructuring Mechanisms (E) Subgroup for input regarding runoff companies. The request was originally sent to the Property and Casualty Risk-Based Capital (E) Working Group. In its response, it suggested that the best course of action is to monitor these companies through state analysis and exam functions.

The Health Risk-Based Capital (E) Working Group discussed both the Restructuring Mechanisms (E) Subgroup and Property and Casualty Risk-Based Capital (E) Working Group letters on its Sept. 9 call. The Health Risk-Based Capital (E) Working Group drafted and requested comments on the following questions from its members, interested state insurance regulators, and interested parties. The Working Group received no comments.

1) What is the process for running off a health company? Are there any specific considerations to address for health companies?
2) Are there concerns with the functionality of the current health risk-based capital (RBC) formula for a health company in run-off? Are changes needed to the health RBC formula for a runoff company?
3) Could a company in run-off trigger the trend test or an excessive growth charge? If so, should the instructions be modified to include an exemption of these calculations if a company is in run-off?
4) Are there concerns with handling this process for health companies in the same manner as outlined by the Property and Casualty Risk-Based Capital (E) Working Group?
5) The Property and Casualty Risk-Based Capital (E) Working Group defined a runoff company as one that, "voluntary or involuntary, should include the following characteristics: 1) no renewing of policies for at least 12 months; 2) no new direct or new assumed business; and 3) no additional runoff blocks of business. In addition, the amount of renewal premium to reserves has also been identified as a characteristic of these types of companies when this ratio is de minimis."

   For health companies, a similar definition could be considered with some modification due to differences in the type of business and distinguish a runoff company from a start-up company or shell. A health runoff company, voluntary or involuntary, should include the following characteristics: 1) no renewing of policies for at least 12 months; 2) no plans or intentions to write new direct or new assumed business; 3) no additional runoff blocks of business; and 4) reserves reported for the remaining runoff business.

The health RBC formula sufficiently addresses runoff companies through the underwriting risk component when the RBC charge of a runoff company is reduced as premiums are reduced. The company would still have to maintain a minimum amount of surplus as it continues its run-off. However, as the premiums are reduced, the RBC requirement within the authorized control level (ACL) would also be reduced.

The Working Group agrees with the suggested recommendations of the Property and Casualty Risk-Based Capital (E) Working Group that monitoring these companies would be best accomplished through the state analysis and exam functions.

If a definition of a health runoff company is necessary, the Working Group recommends that it would be defined as one that, "voluntary or involuntarily, should include the following characteristics: 1) no renewing of policies for at least 12 months; 2) no plans or intentions to write new direct or new assumed business; 3) no additional runoff blocks of business; and 4) reserves reported for the remaining runoff business."

Please contact Crystal Brown, NAIC staff support for the Health Risk-Based Capital (E) Working Group, at cbrown@naic.org with any questions.