



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: David Smith (VA) and Doug Stolte (VA), Co-chairs of the Restructuring Mechanisms (E) Subgroup

FROM: Tom Botsko (OH), Chair of the Property and Casualty Risk-Based Capital (E) Working Group

DATE: April 27, 2021

RE: Response to Request for Input Regarding the Definition of Run-Off Companies

In order to be responsive to this request, the Property and Casualty Risk-Based Capital (E) Working Group formed a small ad hoc group to discuss this topic and try to determine the best course of action. The Restructuring Mechanisms (E) Subgroup has previously requested that the Property and Casualty Risk-Based Capital (E) Working Group take the lead in addressing the charges of:

1. Reviewing the definition of the property/casualty (P/C) companies in run-off

During a series of discussions, the ad hoc group agreed that a run-off company, voluntary or involuntary, should include the following characteristics: 1) no renewing of policies for at least 12 months; and 2) no new direct or new assumed business. The amount of renewal premium to reserves has been identified as a topic for further discussion. Initial discussions lean toward it either be a large ratio or the amount of written premium should be at zero or below. Also, the ad hoc group discussed the possibility of adding a run-off identifier in the annual statement to allow the domiciliary state the ability to verify during the annual company financial analysis process.

2. Considering the need to make changes to the P/C Risk-Based Capital (RBC) formula to better assess the minimum surplus requirements for companies in run-off

Some of the perspectives that the ad hoc group is currently investigating are whether: 1) companies in run-off have a higher risk than other ongoing companies; and 2) some parts of the current RBC calculation—such as R5 component, operational risk and trend test—should be exempt for the run-off companies. It may be possible that a new risk category may be added for these types of companies.

3. Coordinating with other RBC working groups as the issues and positions are identified

As the ad hoc group continues to investigate this topic, it will share its progress and findings with the Restructuring Mechanisms (E) Subgroup, the Property and Casualty Risk-Based Capital (E) Working Group, the Life Risk-Based Capital (E) Working Group and the Health Risk-Based Capital (E) Working Group, as each group may have different risk exposures that require individual group consideration.



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The Working Group appreciates the Subgroup's willingness to extend our response to the Summer National Meeting to allow us adequate time to review this subject. Please contact, Eva Yeung, NAIC staff support for the Property and Casualty Risk-Based Capital (E) Working Group, at eyeung@naic.org with any questions.

Cc: Robin Marcotte; Dan Daveline; Eva Yeung

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