PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP

Saturday, March 21, 2020
2:00 – 3:00 p.m.
Sheraton – Valley of the Sun AB – Level 2

ROLL CALL

Tom Botsko, Chair    Ohio
Richard Ford     Alabama
Mitchell Bronson/Eric Unger   Colorado
Wanchin Chou    Connecticut
Robert Ridenour    Florida
Judy Mottar     Illinois
Anna Krylova     New Mexico
Gloria Huberman/Sak-man Luk   New York
Will Davis     South Carolina
Miriam Fisk     Texas
Randy Milquet    Wisconsin

NAIC Support Staff: Eva Yeung/Jane Barr

AGENDA

1. Consider Adoption of the Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup Minutes—Tom Botsko (OH)  
   Attachment A

2. Consider Adoption of the Report of the Catastrophe Risk (E) Subgroup—Tom Botsko (OH)  
   Attachment B

3. Discuss the Possibility of Using the NAIC as a Centralized Location for Reinsurer Designations—Tom Botsko (OH)/Charles Therriault (NAIC)  
   Attachment C

4. Discuss the R3 Credit Risk and Re Cat Contingent Credit Risk Charges—Lou Felice (NAIC)/W. Scott Williamson (Reinsurance Association of America—RAA)  
   Attachment D

5. Discuss Referrals from the Statutory Accounting Principles (E) Working Group—Tom Botsko (OH)  
   a. Ref #2019-49: Retroactive Reinsurance Exception  
      Attachment E
   b. Ref #2019-40: Reporting of Installment Fees and Expenses
      Attachment E

6. Discuss the Referral from the Restructuring Mechanisms (E) Subgroup—Tom Botsko (OH)  
   Attachment F

7. Discuss the 2020 Property /Casualty (P/C) Risk-Based Capital (RBC) Working Agenda —Tom Botsko (OH)  
   Attachment G

8. Hear Updates on Current P/C RBC Projects from the American Academy of Actuaries (Academy)—Lauren Cavanaugh (Academy)

9. Discuss Any Other Matters Brought Before the Working Group—Tom Botsko (OH)

10. Adjournment
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Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup
Conference Call
February 3, 2020

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call Feb. 3, 2020, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Richard Ford (AL); Mitchell Bronson, Rolf Kaumann and Eric Unger (CO); Wanchin Chou (CT); Robert Ridenour (FL); Judy Mottar (IL); Anna Krylova (NM); Sak-man Luk (NY); Will Davis (SC); and Randy Milquet (WI). The following Subgroup members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Robert Ridenour, Vice Chair (FL); Kim Hudson and Laura Clements (CA); Mitchell Bronson, Rolf Kaumann and Eric Unger (CO); Wanchin Chou (CT); Judy Mottar (IL); Anna Krylova (NM); Sak-man Luk (NY); Andrew Schallhorn (OK); and Will Davis (SC). Also participating were: Julie Lederer (MO); and Steve Drutz (WA).

1. **Adopted the Catastrophe Risk (E) Subgroup’s 2019 Fall National Meeting Minutes**

Mr. Botsko said the Subgroup met Dec. 6, 2019, and took the following action: 1) adopted its Nov. 8, 2019, minutes; 2) adopted proposal 2019-14-CR (2019 U.S. and Non-U.S. Catastrophe Event Lists); 3) heard presentations from the American Academy of Actuaries (Academy) on Wildfires and the Actuaries Climate Index (ACI); 4) discussed the factor of using aggregate exceedance probability (AEP) basis vs. occurrence exceedance probability (OEP) basis; and 5) discussed modeling of projected losses.

Ms. Mottar made a motion, seconded by Mr. Chou, to adopt its Dec. 6, 2019, minutes (see NAIC Proceedings – Fall 2019, Capital Adequacy (E) Task Force, Attachment Four-A). The motion passed unanimously.

2. **Adopted the Property and Casualty Risk-Based Capital (E) Working Group’s 2019 Fall National Meeting Minutes**

Mr. Botsko said the Working Group met Dec. 8, 2019, and took the following action: 1) adopted its Nov. 8, 2019, minutes; 2) adopted the report of the Catastrophe Risk (E) Subgroup; 3) exposed proposal 2018-19-P (Vulnerable 6 or Unrated Risk Charge); 4) discussed the 2020 property/casualty (P/C) risk-based capital (RBC) working agenda; 5) discussed the possibility of using the NAIC as a centralized location for reinsurer designations; and 6) discussed the possible treatment of the R3 related to the runoff and captive companies.

Mr. Milquet made a motion, seconded by Ms. Mottar, to adopt its Dec. 6, 2019, minutes (see NAIC Proceedings – Fall 2019, Capital Adequacy (E) Task Force, Attachment Four). The motion passed unanimously.

3. **Adopted the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup’s E-Vote Minutes**

Mr. Botsko said the Working Group and the Subgroup conducted an e-vote to consider adoption of proposal 2019-14-CR (2019 U.S. and Non-U.S. Catastrophe Risk Event Lists).

Mr. Chou made a motion, seconded by Ms. Mottar, to adopt their Jan. 22 minutes (Attachment SixXX). The motion passed unanimously.

4. **Adopted Proposal 2018-19-P (Vulnerable 6 or Unrated Risk Charge) and Agreed to Refer the Schedule F Proposal to the Blanks (E) Working Group**

Mr. Botsko said the purpose of this proposal is to modify the instructions to reflect that the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified and reciprocal reinsurance.

W. Scott Williamson (Reinsurance Association of America—RAA) said the RAA supports the proposal and the associated Annual Statement changes. He agreed with the Working Group approach to consider moving, over time, towards a charge that is more aligned with risk-indicated factors used by the rating agencies. He also recommended that the Working Group should consider applying different charges for: 1) captives and runoff reinsurers, as they may not obtain financial strength ratings; 2)
reinsurer designation equivalent to categories 1 through 6 to reflect the most recent credit default experience and consistency with reinsurance recoverable credit risk factors in use by the rating agency capital models; and 3) lowering the cushion or margin for operational risk that is embedded in the credit risk factors. Matthew B. Vece (American Property Casualty Insurance Association—APCIA) said he is concerned that this proposal inappropriately combines two groups with inherently different risk characteristics. He recommended an alternative approach to retain the current seven categories for the RBC R3 credit risk charge, with the last two categories being: 1) vulnerable 6; and 2) unrated (whether authorized, unauthorized, certified or reciprocal). Mr. Williamson said that the unrated category includes vulnerable reinsurers in addition to solvent reinsurers. He agreed with the current proposal that eliminates the NAIC-7 designation code. If in the future, the Working Group defines a category for solvent runoff or other situations eligible for a capped factor, the NAIC-7 code could be re-activated at that time. Mr. Williamson asked if reclassifying NAIC-7 back to NAIC-6 creates more work for filing companies. Mr. Williamson replied that it is necessary to take this action to ensure that future RBC filings are not populated with “legacy” NAIC 7 codes if and when a new definition is adopted.

Mr. Botsko understood the industry concerns. However, it was the Working Group’s intention to evaluate the data annually until reaching any agreed upon change to the factor and the structure. Mr. Botsko recommended that the Working Group consider: 1) adopting proposal 2018-19-P for 2020 RBC filing; 2) forwarding the blanks proposal to the Blanks (E) Working Group for consideration; and 3) documenting the industry concerns in the working agenda for future discussion.

Mr. Milquet made a motion, seconded by Mr. Ridenour, to refer the Schedule F proposal to the Blanks (E) Working Group and adopt proposal 2018-19-P, subject to adoption of the Schedule F blanks proposal from the Blanks (E) Working Group. The motion passed unanimously.

5. Received Referrals from the Statutory Accounting Principles (E) Working Group

Mr. Botsko said the Working Group received two referrals from the Statutory Accounting Principles (E) Working Group. The first referral is regarding Ref #2019-49: Retroactive Reinsurance Exception [Attachment XX]. He said this agenda item addresses a request from the Academy Committee on Property and Liability Financial Reporting (COPLFR) Working Group to clarify both the accounting and reporting for retroactive contracts, which are accounted for prospectively. The COPLFR noted that there is diversity in the current practice due to lack of specific guidance. The clarifications requested include: 1) both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same combined annual statement; and 2) the reporting method to be used if the ceding entity and assuming entity are not in the same group. Robin Marcotte (NAIC) said the Statutory Accounting Principles (E) Working Group is currently seeking: 1) input related to the RBC impacts; and 2) volunteers to assist with developing guidance. She encouraged volunteers to contact her.

Mr. Botsko said another referral is regarding Ref #2019-40: Reporting of Installment Fees and Expenses [Attachment XX]. Ms. Marcotte said the purpose of this exposure is to include a minor clarification of the current installment fee guidance in Statement of Statutory Accounting Principles (SSAP) No. 53—Property Casualty Contracts—Premiums and request input from the Working Group on the questions that are included in the referral regarding if incurred installment fee expenses should be allowed to be reported in other expenses. Excluding expenses from underwriting can have an impact on underwriting ratios. Mr. Bruggeman encouraged members and interested parties to review this referral and share their thoughts during the Spring National Meeting.

Mr. Botsko said the Working Group will coordinate with the Casualty Actuarial and Statistical (C) Task Force to determine how to approach these referrals and provide findings during the Spring National Meeting.

6. Discussed Other Matters

Mr. Botsko said the Working Group just received another referral [Attachment XX] from the Restructuring Mechanisms (E) Subgroup on Jan. 29. He stated that the purpose of the referral is requesting that the Working Group determine if changes should be made to the P/C formula to better assess companies in runoff. He encouraged interested parties to review the referral; the Working Group will have a more in-depth discussion at the Spring National Meeting. Mr. Bruggeman said the survey included in the referral provided some example definitions of the runoff companies. He encouraged members and interested parties to review the survey and share their thoughts at the Spring National Meeting.

Mr. Botsko also announced that the time of the Catastrophe Risk (E) Subgroup Spring National Meeting will change to 10:30 a.m. – 12:00 p.m. on March 20, 2020.

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Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup adjourned.

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Attachment B – Catastrophe Risk (E) Subgroup Meeting Summary
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MEMORANDUM

To: Thomas Botsko, Chair, Property and Casualty Risk-Based Capital (E) Working Group
   Members of the Property and Casualty Risk-Based Capital (E) Working Group

From: Charles Therriault, Director, NAIC Securities Valuation Office

Cc: Dan Daveline, Director, NAIC Financial Regulatory Services
    Julie Gann, Assistant Director, NAIC Financial Regulatory Services
    Eva Yeung, Sr. P/C RBC Analyst/Technical Lead, NAIC Financial Regulatory Services

Date: February 27, 2020

Re: Reinsurer financial strength ratings

The staff supporting the Property and Casualty Risk-Based Capital (E) Working Group inquired about the Security Valuation Office’s (SVO) access to financial strength ratings for reinsurers that are referenced in the Credit for Reinsurance Model Regulation (MDL-786). The SVO receives ratings data feeds from nine credit rating providers (CRP), nationally recognized statistical ratings organizations (NRSRO) that supply the NAIC with credit ratings data. This list of CRPs includes the four rating agencies identified as assigning acceptable financial strength ratings in MDL-786: Standard & Poor’s; Moody’s Investors Service; Fitch Ratings; and A.M. Best Company. The SVO receives issuer level financial strength ratings from these CRPs but that data is not currently stored within any NAIC system or database.

The NAIC uses credit rating data in its processes for investment securities but those ratings cannot be revealed to external parties outside of the NAIC, including NAIC members. This licensing restriction would also apply to any usage of the financial strength ratings for the Working Group. Similarly, external vendors sometimes report ratings, including financial strength ratings, within their applications and permit that information to be downloaded by a user into Microsoft’s Excel but there are often very strict licensing restrictions that limit the usage and redistribution of that ratings data by a user of the application that would prevent the NAIC from utilizing this data for any NAIC process.

The NAIC can initiate a project to utilize the data the SVO currently receives but does not store to create the reinsurer equivalent of an NAIC Designation; possibly, calling it a NAIC Reinsurer Designation. The SVO could administer such a process, as the only NAIC department licensed to access ratings data, and publish the results under its compilation instructions in a system like AVS+. The NAIC would be unable to share the actual financial strength ratings but there would be an NAIC measure of financial risk. This project would require support from the Working Group, the Capital Adequacy (E) Task Force and the Valuation of Securities (E) Task Force along with approval for funding through an NAIC fiscal request to the NAIC Executive Committee/Internal Administration (EX1) Subcommittee. It is likely that an NAIC technology project could easily require $300-500+ thousand and there may be additional licensing costs from the rating agencies. A more detailed requirements gathering, and cost estimate effort could be initiated if the Working Group receives approval to pursue this project.
This would be a substantial cost to the NAIC and, given other NAIC priorities, it may be necessary for this project to be self-funded through some type a fee structure that allows the NAIC to recoup its initial and ongoing costs from the industry, as generally such self-funded projects are more likely to be approved by the NAIC Executive Committee/Internal Administration (EX1) Subcommittee.
• Based on the data, about half the companies that were flagged as significant CAT risk writers have an increase of greater than 10% (percent not points) in RBC ratio by eliminating the 3% credit risk load. About 9% of the remaining companies that write CAT risk also have an increase in RBC ratio of greater than 10%. In neither case does a company in action level move out of action level because of the change.

• The 3% overall basic operational risk charge added to the formula last year was set at that level in recognition that there are other operational risk charges embedded in the RBC formulas. However, it did recognize specific operational charges in the LRBC formula (C-4a) and offset for those charges. Like C-4a, it is not clear that the entire 3% credit risk charge included in the RCAT risk factor is all op risk. Some reasonable portion should be retained for other risks such as contractual, dispute and legal risks. Therefore, I would say that the PRBCWG did decide to adjust the factor the members could consider reducing the load from 3% to something smaller in line with the following comments.

• The notion of duplication of the op risk charge is based on duplication caused by the addition of a basic op risk charge that was added to all the RBC formulas. Therefore it seems that any reduction in RBC for duplication should be limited to the amount of the basic op risk charge as was done for Life RBC. Particularly for significant cat risk writers, changing the risk factor from 4.8% to 1.8% for cat risk (or for that matter even 2.8%) results in a much greater reduction to required RBC than simply eliminating the basic op risk charge. Going this route would seem to be akin to eliminating the business risk charge in the LRBC formula rather than essentially using the greater of the C-4a charge and the basic op risk charge. If the idea is to remove duplication, limiting the reduction in RBC to the amount of basic op risk charge would be the way to go for P/C. However, that would be more difficult to would into the P/C formula due to the cat risk credit risk being run through covariance.

As an alternative, in the aggregate a reduction in the Cat credit risk charge to 3.8% from 4.8% would achieve approximately a 3% reduction in overall RBC before op risk for the cohort of large cat writers (See chart below). A 3.9% factor would be just about equal to a 3% overall reduction.
<table>
<thead>
<tr>
<th>Group of Top RCAT writers @1.8% Factor</th>
<th>Decrease in RBC Reqmt After Cov before Basic Op risk</th>
<th>Revised Basic Operational Risk</th>
<th>Decrease in RBC in Excess of Basic Op risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of Top RCAT writers @3.8% Factor</td>
<td>53,333,750</td>
<td>44,654,729</td>
<td>(8,659,021)</td>
</tr>
<tr>
<td>All other RCAT writers @1.8% Factor</td>
<td>808,417,778</td>
<td>7,037,682,309</td>
<td>6,229,264,531</td>
</tr>
<tr>
<td>All other RCAT writers @3.8% Factor</td>
<td>282,128,183</td>
<td>7,053,514,072</td>
<td>6,771,385,909</td>
</tr>
</tbody>
</table>
Consideration of the Operational Risk Charge Components of RBC R3 & Rcat

Overview: The operational risk charge had been under development by the Operational Risk Subgroup since 2013, and the original proposal was to apply an explicit 3% operational risk factor to the greater of net premiums or net reserves, with a possible excessive growth risk component as well. Ultimately this “factor applied to net-proxies” approach was abandoned, and the existing excessive risk growth charge in R4 & R5 was retained. **Beginning with 2018 year-end reporting, the Capital Adequacy Task Force implemented a 3% capital add-on charge, applied to overall RBC after covariance.**

Part of the rationale for selecting 3% (which equates to a lower operational risk capital charge than in certain non-U.S. jurisdictions), was that many components of US RBC already implicitly contemplate operational risk.

However, contemporaneously with the development of the explicit operational risk “factor applied to net proxies” charge; the P&C RBC Working Group was developing an explicit operational risk charge applied to ceded reinsurance recoverable in RBC R3 credit risk. This was being done to ensure that the targeted 3% factor (being discussed by the Operational Risk Subgroup) would be applied to reinsurance; because a “net proxies” approach, by definition, would “net-out” ceded reinsurance.

When the “net proxies“ approach was abandoned in favor of an after-covariance capital add-on, the explicit operational risk charge in R3 had already been incorporated into the credit risk factors applicable to reinsurance recoverable. **This results in a double assessment of a charge for operational risk that gets applied to reinsurance recoverable.**

This explicit operational risk charge is inadvertently being applied again in Rcat because the reinsurance contingent credit risk component of Rcat borrows from the R3 credit risk factor, which is primarily comprised of operational risk. **Application of the 3% operational risk factor in Rcat is particularly burdensome because Rcat is calibrated at the 1-in-100-year modeled loss level.**

**R3 Reinsurance Credit Risk Charge:** Beginning with 2018 year-end reporting, the Capital Adequacy Task Force implemented a new risk-based approach for assessing the credit risk charge applicable to reinsurance recoverable. This approach replaced the previous 10% factor that applied across the board to all reinsurance recoverable. The basis of this new charge borrowed from the asset credit risk factors for reinsurance recoverable used by Standard and Poor’s in their capital model. These factors are derived from historical credit default experience associated with different reinsurer financial strength rating categories. **Table 1** below, demonstrates how the
current R3 factors were derived and how an explicit operational risk cushion was applied to mirror the “factor applied to net-proxies” approach.

**Table 1—How the R3 Factors were Derived:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Secure 1</th>
<th>Secure 2</th>
<th>Secure 3</th>
<th>Secure 4</th>
<th>Secure 5</th>
<th>Vulnerable 6 or NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>S&amp;P Credit Risk Asset Factors Based on Historical Reinsurer Defaults</td>
<td>0.6%</td>
<td>1.1%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>4.1%</td>
<td>14.9% to 50%</td>
</tr>
<tr>
<td>2</td>
<td>Adjusted S&amp;P Factors</td>
<td>0.6%</td>
<td>1.1%</td>
<td>1.8%</td>
<td>2.3%</td>
<td>4.1%</td>
<td>11.0%</td>
</tr>
<tr>
<td>3</td>
<td>Explicit Factor for &quot;Other Than Credit&quot;/Reinsurance Operational Risk</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>4</td>
<td>R3 Factors for Uncollateralized Amounts (Item 2 + Item 3)</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>5.3%</td>
<td>7.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>5</td>
<td>Factor Credit for Collateral (MBTs, LOCs &amp; Other Trust Funds, etc.)</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.3%</td>
<td>2.1%</td>
<td>9.0%</td>
</tr>
<tr>
<td>6</td>
<td>R3 Factors for Collateralized Amounts (Item 4 - Item 5)</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

(See the Appendix for more detail on S&P’s methodology)

Some stakeholders have commented in the past that the previous 10% credit risk charge contemplated “other than credit risk” to address things like dispute risk and adverse reserve development. Therefore, there is a stated rationale for keeping some additional amount of operational risk cushion in R3.

However, other aspects of R3 and the Schedule F Penalty already address many of these same concerns. For instance, 20% penalties are assessed on amounts in dispute, reinsurance recoverable over 90 days past due, and reinsurance recoverable from slow paying reinsurers. After all the Schedule F penalties are applied, R3 further “stresses”, or grosses-up by 20%, the reinsurance recoverable before applying the credit risk charges to further account for dispute risk, commutation risk, and overreliance on reinsurance, etc.

Some stakeholders have noted that even if an explicit operational risk charge is being assessed, essentially twice; making a change to R3 would not be all that material to RBC overall. However, addressing this issue does not involve extensive project and time resources on the part of regulators or industry and is as simple as adjusting the explicit operational risk factor shown in Item 3 in the table above.

**R3 Proposal:** Consider eliminating or reducing the 3% operational risk cushion as it is redundant to the 20% stressing, the Schedule F Penalties, and the 3% capital add-on; which already address the various elements of operational risk related to reinsurance credit risk.
**Rcat Reinsurance Contingent Credit Risk Charge (RCCRC):** Beginning with 2017 year-end reporting, the Capital Adequacy Task Force implemented a new Catastrophe Risk Charge (Rcat) based on 1-in-100-year modeled losses, separately calculated for the hurricane and earthquake perils. Rcat is first applied to gross losses, but credit is given for modeled reinsurance recoverable. So, in practice, it is a net-of reinsurance charge. There was never any intention to apply an explicit operational risk charge to Rcat. In fact, there is no element of Rcat that applies any operational risk charge to gross modeled losses.

However, because Rcat contemplates modeled reinsurance recoverable, it was decided to include a reinsurance contingent credit risk charge component. Rcat borrows from the credit risk factor matrix shown in Table 1 above.

**How the RCCRC Factor was Derived:**

About 63% of this 4.8% credit risk factor is attributable to another explicit, yet unintentional assessment of an operational risk charge on reinsurance recoverable; which again, was not the purpose of Rcat or the RCCRC. Stated another way, a 4.8% RCCRC is 2.66 times higher than the indicated credit risk.

Further, Rcat is different from other components of RBC because it is calibrated at a 1-in-100-year modeled loss level. Applying a 4.8% credit risk charge in R3 is akin to assessing the charge on an “average annual loss” type of balance. However, applying it in Rcat assesses the charge on a 1-in-100-year modeled balance. This calibration issue results in a disproportionate modeled reinsurance recoverable that can far exceed the targeted operational risk capital add-on charge.

**Table 2**, on the following page, shows the results of a NAIC staff analysis on the impact of the operational risk component of the RCCRC to a group of Florida market specialist (predominately writing hurricane exposed risks) relative to all others.

The analysis shows that “about half the companies that were flagged as significant CAT risk writers have an increase of greater than 10% (percent not points) in RBC ratio by eliminating the 3% credit risk load. About 9% of the remaining companies that write CAT risk also have an increase in RBC ratio of greater than 10%. In neither case does a company in action level move out of action level because of the change.”

Stated another way, the operational risk component of the RCCRC is producing after covariance capital requirements that are more than 3 times the capital add-on target of 3% after covariance for these Florida market specialists.
Table 2: NAIC Staff Analysis of Op Risk in RCCRC for FL Specialists vs. All Writers

<table>
<thead>
<tr>
<th>Category</th>
<th>Decrease in Current RBC Reqmt After Cov</th>
<th>Revised Basic Operational Risk</th>
<th>Decrease in RBC in Excess of Basic Op Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group of Top RCAT writers @ 1.8% Factor</strong></td>
<td>146,265,287</td>
<td>41,866,186</td>
<td>(104,399,101)</td>
</tr>
<tr>
<td>Decrease in RBC as % of RBC After Cov Before Op Risk</td>
<td>9.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group of Top RCAT writers @ 3.8% Factor</strong></td>
<td>53,313,750</td>
<td>44,654,729</td>
<td>(8,659,021)</td>
</tr>
<tr>
<td>Decrease in RBC as % of RBC After Cov Before Op Risk</td>
<td>3.40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All other RCAT writers @ 1.8% Factor</strong></td>
<td>808,417,778</td>
<td>7,037,682,309</td>
<td>6,229,264,531</td>
</tr>
<tr>
<td>Decrease in RBC as % of RBC After Cov Before Op Risk</td>
<td>0.32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All other RCAT writers @ 3.8% Factor</strong></td>
<td>282,128,163</td>
<td>7,053,514,072</td>
<td>6,771,385,909</td>
</tr>
<tr>
<td>Decrease in RBC as % of RBC After Cov Before Op Risk</td>
<td>0.12%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rcat-RCCRC Proposal: Consider completely, eliminating the 3% Operational Risk cushion from the RCCRC. Rcat was never intended to address operational risk. It is only being applied (inadvertently) with respect to the reinsurance component of the charge and is not applied at all in the modeled loss component. Further, the calibration of an explicit 3% operational risk charge to the reinsurance recoverable balances in Rcat is not at all comparable to R3 and causes significant overstatement of RBC for catastrophe-exposed writers that utilize reinsurance to diversify their risk.
Appendix

Standard and Poor’s Explanation of Asset Charge for Reinsurance Recoverable

Source: standardandpoors.com

Other Asset Credit Risk Charges

Reinsurance receivables plus reinsurance recoveries, less reinsurance deposits and LOCs

The risk inherent in reinsurance recoverable is often the largest asset-based risk for P/C companies; particularly those writing longer tailed lines of business. In that case, the primary company will estimate and record a reserve for notified outstanding claims and incurred but not reported claims and will offset any reinsurance arrangement that it believes will bear a portion of those claims. However, the reinsurer will not settle these potential obligations until the insurers have settled the gross claim, which may be a lengthy period. For this reason, Standard & Poor’s selected a single tenor of 10 years for nonlife insurance companies in computing the credit default factor. In the U.S., because this lag phenomenon in the life insurance sector is substantially reduced, a single tenor of one year was applied for life insurance companies.

Methodology for computing default factors. A single tenor of 10 years across the rating range for nonlife insurers and one year across the rating range for life insurers was selected. The factor applied to the recoverables from reinsurers will be subject to the specific reinsurer rating. To the extent that letters of credit from a financially secure financial institution or suitable trust assets are available to offset the recoverability risk, credit for up to 100% of the collateral could be used to offset the reinsurance recoverable credit risk charge. A surcharge of 20% on reinsurance recoverable balances related to asbestos and environmental pollution losses will be computed to reflect the prospective impact on capital due to disputed coverage. This surcharge will not apply to intragroup reinsurance recoverable where the reinsurer is highly rated.

<table>
<thead>
<tr>
<th>Reinsurance Credit Risk Factors</th>
<th>Reinsurance recoverable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cedent Rating</td>
<td>AAA</td>
</tr>
<tr>
<td>AAA rated reinsurer</td>
<td>0.8</td>
</tr>
<tr>
<td>AA rated reinsurer</td>
<td>1.3</td>
</tr>
<tr>
<td>A rated reinsurer</td>
<td>2.3</td>
</tr>
<tr>
<td>BBB rated reinsurer</td>
<td>5.0</td>
</tr>
<tr>
<td>BB rated reinsurer</td>
<td>18.4</td>
</tr>
<tr>
<td>B rated reinsurer</td>
<td>34.1</td>
</tr>
<tr>
<td>CCC' rated reinsurer</td>
<td>55.5</td>
</tr>
<tr>
<td>Nonrated reinsurer</td>
<td>40.7</td>
</tr>
<tr>
<td>Regulatory supervision</td>
<td>50.0</td>
</tr>
</tbody>
</table>
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TO: Phil Vigliaturo, chair representative of Steve Kelley, Chair, (MN), of the Casualty Actuarial and Statistical (C) Task Force
    Tom Botsko, OH), Chair of the Property and Casualty Risk Based Capital Working Group

FROM: Dale Bruggeman (OH), Chair of the Statutory Accounting Principles (E) Working Group

DATE: January 7, 2020

RE: Ref #2019-49: Retroactive Reinsurance Exception

This referral has been provided to notify the Casualty Actuarial and Statistical (C) Task Force of a current Statutory Accounting Principles (E) Working Group agenda item to allow for ongoing coordination. This agenda item is to address a request from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries Working Group. The request, which was also received by the Task Force, was to clarify the accounting and reporting for retroactive reinsurance which meets the SSAP No. 62R—Property and Casualty Reinsurance exceptions to be accounted for as prospective reinsurance. The comment deadline for the public exposure is January 31, 2020, but the Working Group is primarily notifying the Task Force of the project and requesting volunteers.

During the 2019 Fall National Meeting, the Statutory Accounting Principles (E) Working Group exposed agenda item 2019-49: Retroactive Reinsurance Exception which includes a request for comments and for industry and regulator volunteers to assist with developing guidance. The goal is to clarify both the accounting and reporting for retroactive contracts which are accounted for prospectively, including:

- Both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.
- The reporting method to be used if the ceding entity and assuming entity are not in the same group.

Comments are specially requested regarding the preferred approaches to reporting and the advantages and disadvantages to each approach being used, including both the Schedule P (and related loss analysis) and risk-based capital impacts.

Because the items under discussion can have impact on information reported in Schedule P, the Working Group directed notification of the exposure to seek your input. Please contact, Robin Marcotte, NAIC staff Rmarcotte@naic.org of the Statutory Accounting Principles (E) Working Group with any questions or volunteers.

Cc: Julie Gann, Robin Marcotte, Fatima Sediqzad, Jake Stultz, Jim Pinegar, Kris DeFrain, Eva Yeung; Jane Barr
February 27, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Via email

Dear Mr. Bruggeman:

I am writing on behalf of the American Academy of Actuaries¹ Committee on Property and Liability Financial Reporting (COPLFR). We are following up on previous correspondence regarding Schedule P Instructions for Retroactive Reinsurance between Affiliates and Non-Affiliates.

COPLFR appreciates that the Statutory Accounting Principles Working Group (SAPWG) is looking into certain inconsistencies that were identified in our May 21, 2019, letter to you. In July, Julie Lederer, acting in her capacity as a member of the Casualty Actuarial and Statistical (C) Task Force, posed several questions about specific details in our initial comment letter. Her comments and COPLFR’s replies are presented here.

**Julie Lederer’s Comment**

1. I’m not sure what Allianz/Allianz Re agreement the letter is referring to. The letter suggests that this agreement was enacted in 2015 and that the accounting changed between year-ends 2015 and 2016, but Allianz Re’s 2018 MD&A (which is said to be included as an attachment to COPLFR’s letter but is not) suggests that the agreements between Allianz and Allianz Re weren’t enacted until 2016. Allianz Re did assume retroactive business from a different entity, Fireman’s Fund, in 2015:

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¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
There’s hardly any workers comp data in Allianz’s 2015 Schedule P. There’s a lot of WC data at year-end 2016, which appears to be due to the addition of Firemen’s Fund to the pooling agreement.

When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. There is significant assumed premium reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior. I think this is related to Allianz Re’s transaction with FFIC (as mentioned in the MD&A above), not with Allianz.

COPLFR’s Response

The May 21, 2019, COPLFR letter is referring to the July 1, 2015, reinsurance agreement between FFIC and Allianz Reinsurance America ("Allianz Re"), where Allianz Re agreed to reinsurance certain workers’ compensation (WC) and construction defect liabilities. The 2015 Schedule P, Part 1 of Allianz Re (page 4 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year direct and assumed WC earned premium, presumably this Loss Portfolio Transfer. The 2016 Schedule P of Allianz Global Risk US Ins Co. ("Allianz or FFIC") (page 7 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year WC ceded earned premium, about equal to the assumptions of the Allianz Re premium discussed in the prior sentence. Allianz Global Risk US is synonymous with FFIC, as we understand it.

In our May 21, 2019, letter, we did state that “Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year (‘AY’) 2015.” We did only include the 2016 Allianz Schedule P; it would have been clearer to include the 2015 Allianz Schedule P as well, which we have attached as page 15 of the May 21 letter PDF (Attachment A). We agree with the comment in a. above that the additional data is due to the addition of Fireman’s Fund in the pooling agreement. Similarly, for b., we only show Allianz Re’s 2015 Schedule P.; we should additionally obtain Allianz Re’s 2016 Schedule P. We would not expect much change from the 2015 to 2016 Schedule P. Finally, our comments were not intended to suggest that the agreement between Allianz and Allianz Re was not enacted until 2016. We did, however, want to point out that as of Dec. 31, 2015, Allianz included all of the ceded losses in AY 2015, and in the following year, as of Dec. 31, 2016, Allianz recorded the ceded losses across the subject AYs 2012 and prior, as shown in Schedule P, Part 2 of Allianz (see page 8 of the PDF).

Julie Lederer’s Comment

2. I believe some of the attachments noted in the letter are missing:
   a. The letter includes Allianz Re’s 2015 Schedule P and Allianz’s 2016 Schedule P, but the text of the letter suggests that Allianz’s 2015 and 2016 Schedule Ps are included.
Regardless, it’s pretty hard to compare Allianz’s 2015 and 2016 Schedule Ps anyway, since Fireman’s Fund was added to the intercompany pool in 2016 and the historical AYs in Allianz’s 2016 Schedule P were adjusted accordingly.

When I compare Allianz Re’s 2015 and 2016 Schedule Ps, I don’t see major changes. The assumed premium is reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior.

Attachment A1SAO (Allianz Re’s 2018 SAO) is missing. I looked up the SAO myself and found this passage, which is rather vague, doesn’t name the counterparties, and doesn’t discuss the accounting for the agreements:

The Company entered into several significant reinsurance arrangements during calendar years 2015 – 2018, some of which serve to mitigate the risk factors discussed above.

1. Effective January 1, 2015, the Company entered into a reinsurance agreement whereby the Company assumed and agreed to reinsure certain A&E reserves. Effective July 1, 2015, the Company further assumed and agreed to reinsure certain WC and CD reserves.

2. Effective January 1, 2016, the Company entered into a reinsurance agreement by which the Company ceded 50% of the Company’s carried A&E, WC, and CD liabilities acquired in 2015. Additionally, effective January 1, 2016, the Company entered into reinsurance agreements whereby the Company assumed and agreed to reinsure certain Professional Healthcare liabilities and certain A&E, GL/Excess and WC liabilities. Effective July 1, 2016, the Company entered into another reinsurance agreement by which the Company assumed and agreed to reinsure certain GL/Excess exposure.

Attachment A2MDA (Allianz Re’s 2018 MD&A) is missing. I looked this up myself and included a relevant passage above in item #1.

COPLFR’s Response
The attachments were in the Academy’s submission to the CASTF and were in the CASTF materials for a call in June, but apparently were omitted by NAIC staff in materials provided for subsequent calls and referrals.

We too consider the excerpt you provided to be vague. To help clarify the issue, we are attaching MD&As from 2015 and 2016 that include Fireman’s Fund Insurance Company in their scope (attachments B and C). One of the difficulties in tracking this issue is the series of actions taken by Allianz since 2015.

Julie Lederer’s Comment

GEICO’s Note 21, included as an attachment, is useful, but it’s not clear what we should take away from GEICO’s 2014 Schedule P alone. It might have been useful to attach the 2013 Schedule P as well. By comparing the 2013 and 2014 Schedule Ps, it’s clear that GEICO made significant cessions in 2014 and that these were spread among older AYs.

COPLFR’s Response
Our takeaway from GEICO’s 2014 Schedule P alone is that Schedule P, Part 2 (page 13 of the PDF) shows $3.3 billion of decreased development. This is a distortion as we understand it and is supported by the 2013 and 2014 comparison noted above. That distortion would carry over to the RBC filings of the respective entities (based on our understanding of the RBC formula and
related instructions). Industry Schedule P data can also be distorted based on what is and is not included in industry totals based on the data scrubbing performed.

We believe that this additional information clarifies our original comments and will help SAPWG to move forward with its own analysis. If you have additional questions, contact Marc Rosenberg, the Academy’s senior casualty policy analyst, at 202-785-7865 or rosenberg@actuary.org.

Sincerely,

Kathy Odomirok, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries

3 attachments
TO: Phil Vigliaturo, chair representative of Steve Kelley, Chair, (MN), of the Casualty Actuarial and Statistical (C) Task Force

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

FROM: Dale Bruggeman (OH), Chair of the Statutory Accounting Principles (E) Working Group

DATE: January 7, 2020

RE: Ref #2019-40: Reporting of Installment Fees and Expenses

This referral has been provided to notify the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group of a current Statutory Accounting Principles (E) Working Group exposure to allow for comments. The comment deadline for the public exposure is January 31, 2020, but the Working Group can provide additional time if needed.

During the 2019 Fall National Meeting, the Statutory Accounting Principles (E) Working Group exposed agenda item 2019-40: Reporting of Installment Fees and Expenses. The exposure included a minor clarification noting that the current installment fee guidance in SSAP No. 53—Property and Casualty Contracts - Premium, which allows installment fees which meet the criteria to be excluded from premium and reported as other income, is to be narrowly applied. This clarification is being added because the Working Group was made aware of some writers (particularly non-standard writers) who were attempting to use the language to exclude a material portion of fees from premium.

In addition, the Working Group requested input on whether to develop guidance that allows for different reporting on related installment fee expenses. Both the exposed language and the questions for exposure are excerpted on the following pages.

Because the items under discussion can have impact on the loss ratios and information reported in Schedule P, the Working Group directed notification of the exposure to seek your input. Please contact NAIC staff of the Statutory Accounting Principles (E) Working Group with any questions.

Cc: Julie Gann, Robin Marcotte, Fatima Sediqzad, Jake Stultz, Jim Pinegar, Kris DeFrain, Eva Yeung; Jane Barr

G:\FRS\DATA\Stat Acctg\1. Statutory\E. Referrals\2019\2019-40 SAPWG to Castf-PCRBC.doc
Issue 1 - Exposed the following revisions to the existing footnote in SSAP No. 53:

6. Written premiums for all other contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired. Flat fee service charges on installment premiums (fees charged to policyholders who pay premiums on an installment basis rather than in full at inception of contract) are reported in the Other Income section of the Underwriting and Investment Exhibit as Finance and Service Charges. Flat fee service charges on installment premiums, which do not meet the requirements outlined in footnote 1 (e.g., policy may be cancelled for non-payment of fee or fee is refundable), shall be recorded as written premium on the effective date of the contract and subject to the unearned premium guidelines included in paragraph 8.

1 If the policyholder elects to pay an installment rather than the full amount or the full remaining balance, the policyholder is traditionally charged a flat fee service charge on the subsequent billing cycle(s). The amount charged is primarily intended to compensate the insurer for the additional administrative costs associated with processing more frequent billings and has no relationship to the amount of insurance coverage provided, the period of coverage, or the lost investment income associated with receiving the premium over a period of time rather than in a lump sum. As described, there is no underwriting risk associated with this service charge. If a policyholder does not pay the service charge, the policy is not cancelled (unlike non-payment of premium), but instead the policy is converted back to an annual pay plan. If a policyholder cancels coverage, the premium is returned but the service charge is not, as the service charge is not a part of premium. Note that this footnote on flat fee service charges on installment premium is intentionally narrow and specific and this guidance should not be applied to other fees or service charges. Clarification reporting of installment fees in finance and service charges as other income should not be construed as having any bearing on whether such charges are subject to premium taxation, which remains an issue of state law and regulation.

Issue 2 – Exposed a request for regarding if incurred installment fee expenses should be allowed to be reported in other expenses?

As background note the following:

- SSAP No. 53 allows for installment fee income that meets specified criteria to be excluded from premium and reported as other income with finance and service charges, however it does not separately address the related installment fee expenses incurred by the reporting entity.
- The annual statement instructions provide that the expenses that are most commonly associated with installment expense such as postage printing and stationery are reported in underwriting expenses. These expenses and their related revenue are typically immaterial for most property and casualty products but are material for some nonstandard product writers. Having a mismatch between underwriting revenue / underwriting expenses and other revenue / other expenses can affect a reporting entity’s combined ratio as the combined ratio considers the losses, loss adjusting expenses and underwriting expenses.
- From a purely conceptual basis, it might be more consistent if the installment fee expenses are reported in other expenses. This is because it is a theoretical mismatch in the annual statement to report the installment fees in other revenue and have the related expenses in underwriting expenses. While this might be better theoretical match to have both the revenue and expense in the same category, NAIC staff notes that not having “other expenses” in the property and casualty income statement seems to be an intentional choice as there are no “other expense” reporting lines. Therefore an “other expense” would have to be reported as a contra revenue.
- If incurred installment fee expenses were to be reported in other expenses, a reporting location would need to be determined as there is not an annual statement line to accommodate such reporting. If it was reported, it would most like have to be report as a contra amount in “Aggregate Write-Ins for Miscellaneous Income” (not in underwriting expenses) as netting it in Finance and service charges would not provide transparency. Further, if reported, limitations would need to be determined – i.e. expenses not to exceed installment fee revenue.
• Ultimately adoption of any such guidance would also require updates to the existing annual statement instructions.

Questions exposed:
  a. Should the Working Group develop guidance to allow installment fee expenses associated with fees that are reported in other income according to the criteria in SSAP No. 53 be permitted reported in or as an expense in “Other Income”?
  b. If included in Other Income, should the expense be classified as a contra revenue in or “Aggregate Write-Ins for Miscellaneous Income”?
  c. Installment fees and expenses are often immaterial for property and casualty except for nonstandard writers. Comments are also requested on allowing diversity in reporting installment fee expenses (that is optional to report as other expense category of contra other revenue Aggregate Write-Ins for Miscellaneous Income,” particularly for immaterial amounts.
Thank you for the opportunity to comment on the Statutory Accounting Principles (E) Working Group’s (“SAPWG”) exposure draft of changes proposed to Footnote 1 of SSAP No. 53 - Property Casualty Contracts–Premiums.

As you know, the Property and Casualty Risk Based Capital Working Group (P&C RBC WG) exists under the National Association of Insurance Commissioners (NAIC) Capital Adequacy Task Force and ultimately the Financial Condition (E) Committee. The Task Force’s mission is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers. The Property and Casualty Risk Based Capital Working Group supports the Task Force from the Property and Casualty Risk Based Capital perspective. One of the charges for the Working Group is monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the Accounting Practices and Procedures Manual to ensure that model laws, publications, formulas, analysis tools, etc., supported by the Task Force continue to meet regulatory objectives. Our members include the state insurance regulators tasked with reviewing and maintaining the Property and Casualty Risk Based Capital formula in accordance with monitoring minimum capital requirements. As such, we have interest in the SAPWG’s proposed changes to Footnote 1 of SSAP No. 53 - Property Casualty Contracts–Premiums.

As noted in Footnote 1 of SSAP No. 53, an installment fee “has no relationship to the amount of insurance coverage provided, the period of coverage, or the lost investment income associated with receiving the premium over a period of time rather than in a lump sum” and “there is no underwriting risk” associated with an installment fee. As such, an installment fee is not related to the transfer of risk and should not be reported as premium. In addition, there may be other fees that may need to be considered as not related to the transfer of risk. These may include, but not limited to Non-Sufficient Funds or Late Fees. However, there are other charges and fees that are related to the transfer of risk and that should be reported as premium, such as a policy fee. The members of P&C RBC WG support clarification that ensures fees and charges associated with the transfer of risk are reported as premium and that fees and charges not associated with the transfer of risk will not be reported as premium. This will help ensure that the minimum capital requirement appropriately reflects the risk of the company.

For these reasons, the members of P&C RBC WG support the revisions proposed to Footnote 1 of SSAP No. 53 as detailed in SAPWG’s Ref# 2019-40. We are also open to your recommendations for additional reporting categories for these fees.

Please contact, Eva Yeung, NAIC staff eveung@naic.org of the Property and Casualty Risk-Based Capital (E) Working Group with any questions.

Cc: Julie Gann, Robin Marcotte, Fatima Sediqzad, Jake Stultz, Jim Pinegar, Eva Yeung
MEMORANDUM

TO: Thomas Botsko (OH)
Chair of the Property Casualty Risk-Based Capital (E) Working Group

FROM: David Smith & Doug Stolte (VA)
Co-Chairs of the Restructuring Mechanisms (E) Subgroup

DATE: January 29, 2020

RE: Request for Input

The Financial Condition (E) Committee formed the Restructuring Mechanisms (E) Working Group and Restructuring Mechanisms (E) Subgroup in early 2019. The Subgroup has determined that its priority in addressing its charges is to develop best practices as it relates to reviewing and considering such transactions for approval. While the Subgroup intends to leverage existing practices used by international regulators and other practices proposed in the past for liability-based restructuring, addressing this priority charge is expected to take some time. Among other things, the Subgroup is also charged with the following:

Consider the need to make changes to the RBC formula to better assess the minimum surplus requirements for companies in runoff. Complete by the 2020 Fall National Meeting.

In order to be responsive to the RBC charge noted above, the Subgroup requests your Working Group to take the lead in addressing this charge. More specifically, as the subject matter experts of the Property Casualty RBC formula, you are best equipped to determine if changes should be made to the formula to better assess companies in runoff. As the issues and positions are identified, we ask that P&C RBC also to take the lead in coordinating with other RBC working groups including Life and Health.

We note that the above charge is for companies in run-off rather than for blocks of business only in run-off. The subgroup’s survey of states asked questions regarding the definition of run-off. These responses are shared with the Working Group on the following page for discussion.

As noted above, our charge has a due date of the 2020 Fall National Meeting; therefore to the extent you are unable to come to a conclusion prior to that date, please notify us and include in such a notification a more appropriate date under which you could make such a determination. From there, the Subgroup will request an extension based upon your suggestion.

Please contact me or NAIC staff for this project, Robin Marcotte rmarcotte@naic.org, if you have any questions.

Cc: Dan Daveline, Eva Yeung; Jane Barr
W:\National Meetings\2020\Spring\Cmte\E\Restructuring\Subgroup\Jan 28 call\Memo from RMSG to PCRBC.docx
1. Does your state have a definition for “Runoff Companies”?  

   a. Yes – 4 states  
   b. No – 29 states however, 4 provided responses.

<table>
<thead>
<tr>
<th>State</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Yes (none was provided). Comment in RBC it discusses running off or run off but not definition.</td>
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<tr>
<td>2.</td>
<td>Yes. There is no formal definition. It is understood to mean companies that, voluntary or not, have ceased writing premium except for mandatory renewals required by regulation in various states.</td>
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<tr>
<td>3.</td>
<td>Yes. Licensed companies that are no longer writing business and have no plans to write in the future.</td>
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<tr>
<td>4.</td>
<td>Yes. Under the state’s laws &quot;Run-off insurer&quot; means an insurer that: (i) Is domiciled in the state; (ii) Has liabilities under policies for property and casualty lines of business; (iii) Has ceased underwriting new business; and (iv) Is only renewing ongoing business to the extent required by law or by contract. However, for purposes of the Restructuring Mechanism Subgroup, we believe the following definition is appropriate to define &quot;Runoff Companies&quot; in general: &quot;Companies that are no longer actively writing new insurance business or collecting premiums except where required to in accordance with contractual or regulatory obligations, and whose sole material business is the management of an existing or assumed group of insurance policies or contracts through their termination.&quot;</td>
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<tr>
<td>5.</td>
<td>No. However, in practice, a run-off company services only existing business, does not write new business, and has no intent to acquire or engage in the business of run-off by acquiring other run-off blocks of business</td>
</tr>
<tr>
<td>6.</td>
<td>No. The state’s insurance law does not define “runoff companies;” however, the state applies a general concept of “runoff companies” to include an insurer that writes no new premium or has had no new policyholders for several years leading to claims administration only.</td>
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<tr>
<td>7.</td>
<td>No. This concept is something we plan to institute internally in 2019. The details have yet to be determined.</td>
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<tr>
<td>8.</td>
<td>No. There is no formal definition for &quot;Runoff Companies&quot; in the statutes or regulations.</td>
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</table>

1 State numbers are just for the responses and state 1 in a chart may be a different state in the next chart.
TO: David Smith & Doug Stolte (VA)  
Co-Chairs of the Restructuring Mechanisms (E) Subgroup  

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

DATE: March 22, 2020 

RE: Request for Extension 

The Property and Casualty Risk-Based Capital (E) Working Group is responding to the request from the Restructuring Mechanisms (E) Working group for taking the lead in addressing the charges of: 1) considering the need to make changes to the Property and Casualty RBC formula to better assess the minimum surplus requirements for companies in runoff; and 2) coordinating with other RBC working groups as the issues and positions are identified. 

As noted in the request memo, the due date of the charge is 2020 Fall National Meeting. At this time, the Working Group requests an extension until the 2021 Spring National Meeting in order to have the necessary time to review the definition of the Property and Casualty companies in run-off to better address the issues when determining future factor changes to the Vulnerable 6 or Unauthorized Unrated category in R3 component of the Risk-Based Capital Formula. The Working Group anticipated that this issue would require extensive discussions to make determination in the future. 

The Working Group appreciates this opportunity to take the lead to address these charges. Please contact, Eva Yeung, NAIC staff eyeung@naic.org of the Property and Casualty Risk-Based Capital (E) Working Group with any questions. 

Cc: Eva Yeung; Robin Marcotte; Dan Daveline.
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## Capital Adequacy (E) Task Force

### Working Agenda Items for Calendar Year 2020

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
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<tr>
<td><strong>Carry-Over Items Currently being Addressed – P&amp;C RBC</strong></td>
<td></td>
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<tr>
<td>13</td>
<td>Cat Risk SG</td>
<td>1</td>
<td></td>
<td>Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:</td>
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<td></td>
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<td></td>
<td>a) Evaluate other catastrophe risks for possible inclusion in the charge</td>
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<td>- determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.</td>
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<td><strong>Year-end 2020</strong></td>
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<td>b) Evaluate the AEP vs OEP factors.</td>
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<td><strong>Year-end 2020</strong></td>
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<td>The WG agreed to keep the factors the same at this time. We may revisit this issue if needed.</td>
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<td>14</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020 or later</td>
<td>Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsurers that do not trigger growth risk in their own right.</td>
<td>Refer from Operational Risk Subgroup</td>
<td>1/25/2018</td>
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<tr>
<td>15</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>Evaluate the impact to RBC on a) Pre-Tax vs. After Tax; b) Tax reform on Total Adjusted Capital</td>
<td>Tax impact on RBC was not material</td>
<td>1/25/2018</td>
</tr>
<tr>
<td>16</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2021 or later</td>
<td>Continue development of RBC formula revisions based on the Covered Agreement: a) consider eliminating the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers; b) consider whether the factor for uncollateralized, unrated reinsurers, runoff and captive companies should be adjusted c) Evaluate the possibility of using NAIC as a centralized location for reinsurer designations.</td>
<td>Refer from Operational Risk Subgroup</td>
<td>8/4/2018</td>
</tr>
<tr>
<td>17</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>2021 Summer Meeting or later</td>
<td>Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.</td>
<td>6/10/2019</td>
<td></td>
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<tr>
<td>18</td>
<td>Cat Risk SG</td>
<td>1</td>
<td>Year-end 2020 or later</td>
<td>Evaluate the possibility of allowing additional third party models to calculate the cat model losses</td>
<td>12/6/2019</td>
<td></td>
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<tr>
<td><strong>Carry-Over Items not Currently being addressed - P&amp;C RBC</strong></td>
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<td><strong>New Items – P&amp;C RBC</strong></td>
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<tr>
<td>19</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>Evaluate the RBC impact on two different retroactive reinsurance exception approaches.</td>
<td>1/7/20 - received a referral from the SAPWG</td>
<td>1/9/2020</td>
</tr>
<tr>
<td>20</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>Evaluate the RBC impact on the modification of the installment fees and expenses reporting guidance.</td>
<td>1/7/20 - received a referral from the SAPWG</td>
<td>1/9/2020</td>
</tr>
<tr>
<td>21</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>2021 Spring Meeting</td>
<td>Evaluate if changes should be made to the P/C formula to better assess companies in run-off.</td>
<td>1/29/20 - received a referral from the Restructuring Mechanisms (E) WG</td>
<td>2/3/2020</td>
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</tbody>
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