

Date: 7/22/24

*2024 Summer National Meeting
Chicago, Illinois*

**JOINT MEETING OF THE PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP
AND CATASTROPHE RISK (E) SUBGROUP**

Wednesday, August 14, 2024

10:00 – 11:00 a.m.

McCormick Place Convention Center—S103—Level 1

ROLL CALL

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

Tom Botsko, Chair	Ohio	Melissa Robertson	New Mexico
Wanchin Chou, Vice Chair	Connecticut	Ni Qin	New York
Charles Hale	Alabama	Will Davis	South Carolina
Rolf Kaumann/Eric Unger	Colorado	Miriam Fisk	Texas
Virginia Christy	Florida	Adrian Jaramillo	Wisconsin
Sandra Darby	Maine		

NAIC Support Staff: Eva Yeung

CATASTROPHE RISK (E) SUBGROUP

Wanchin Chou, Chair	Connecticut	Alexander Vajda	New York
Virginia Christy, Vice Chair	Florida	Tom Botsko	Ohio
Rolf Kaumann/Eric Unger	Colorado	Andrew Schallhorn	Oklahoma
Travis Grassel	Iowa	Will Davis	South Carolina
Sandra Darby	Maine	Miriam Fisk	Texas
Melissa Robertson	New Mexico		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of the Working Group and Subgroup’s Minutes Attachment One
—*Tom Botsko (OH)*
 - A. Property and Casualty Risk-Based Capital (E) Working Group’s June 17 and April 25 Minutes
 - B. Catastrophe Risk (E) Subgroup’s June 10 and April 23 Minutes
 - C. Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup’s Spring National Meeting Minutes



2. Consider Adoption of the 2024 Property/Casualty (P/C) Risk-Based Capital (RBC) Newsletter—*Tom Botsko (OH)* Attachment Two
3. Discuss 2023 RBC Statistics—*Tom Botsko (OH)* Attachment Three
4. Discuss the Working Group’s Working Agenda—*Tom Botsko (OH)* Attachment Four
5. Discuss the Geographic Concentration Issue—*Wanchin Chou (CT)*
6. Hear Updates on the Severe Convective Storm Peril—*Wanchin Chou (CT)*
7. Discuss the Wildfire Peril Impact Analysis—*Wanchin Chou (CT)*
8. Discuss the CoreLogic Wildfire Model Review—*Virginia Christy (FL)*
9. Discuss the Possibility of Adding Flood Peril to the Rcat Component—*Wanchin Chou (CT)*
10. Discuss With the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) How to Handle the Flood Peril—*Donna Sirmons (FCHLPM)* Attachment Five
11. Hear an Update from the American Academy of Actuaries (Academy) Property and Casualty Risk-Based Capital Committee on Current and Future Research Topics—*Ron Wilkins (Academy)*
12. Discuss Any Other Matters Brought Before the Working Group and Subgroup—*Tom Botsko (OH)*
13. Adjournment

Draft: 7/16/24

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
June 17, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 17, 2024. The following Working Group members participated: Tom Botsko, Chair, Brad Wolfenbarger, and Stewart Trego (OH); Wanchin Chou, Vice Chair, and Amy Waldhauer (CT); Eric Unger and Rolf Kaumann (CO); Virginia Christy and Trim Bradley (FL); Sandra Darby (ME); Melissa Robertson (NM); HauMichael Ying and Ni Qin (NY); Will Davis (SC); Miriam Fisk, Monica Avila, and Rebecca Armon (TX); and Adrian Jaramillo and Michael Erdman (WI). Also participating were: Adrienne Lupo (DE); Jennifer Niles (IL); Tish Becker (KS); Julie Lederer (MO); Liz Ammerman (RI); Hui Wattanaskolpant (TN); and Steven Drutz (WA).

1. Adopted Proposal 2023-14-P

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provides a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) risk-based capital (RBC) formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the American Academy of Actuaries (Academy) is in the process of reviewing the Line 1 calculation methodology; recommendations will be provided soon. In addition, Botsko said the Working Group exposed this proposal for a 30-day public comment period ending May 25 during its April 30 meeting. No comments were received.

Chou made a motion, seconded by Kaumann, to adopt proposal 2023-14-P (Attachment XXX). The motion passed unanimously.

2. Discussed Potential Modification in the RBC Statistics

Botsko said that during the 2023 Summer National Meeting, the Capital Adequacy (E) Task Force mentioned some interested parties suggested that adding the operational risk component would provide a complete picture of the RBC formula. The Task Force agreed to include the operational risk amount in the 2023 RBC statistics for all lines of business. He encouraged all interested parties to submit comments to the Working Group before the Summer National Meeting if there is any additional aggregate RBC information they want to be included in the RBC statistics. Botsko said the 2023 RBC statistics will be provided at the Summer National Meeting. Chou asked whether the Working Group has a plan to review the operational risk item in the near future. Botsko said the Capital Adequacy (E) Task Force was asked to consider establishing a new working group to review different non-investment risk items, and operational risk is one of the items that will be further reviewed by either the new working group or the Task Force in the future.

3. Discussed the Study of Flood Risk in the Catastrophe Risk (E) Subgroup

Chou said that due to recent climate change, some interested parties started asking about the availability and affordability of flood insurance. He said flood peril is currently handled by the National Flood Insurance Program (NFIP) for the flood zones; however, more companies are beginning to offer their own private flood insurance, which typically includes additional coverage, lower cost, and higher limits of protection. Chou said that in order to provide a better understanding of the private flood market, he planned to invite industry members and the major flood modelers to further discuss this issue during the Catastrophe Risk (E) Subgroup's upcoming meeting.

Chou also indicated that the flood reviewing process will follow the other perils process, which will be based on *Actuarial Standard of Practice (ASOP) 38: Using Models Outside the Actuary's Area of Expertise* and *ASOP 39: Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*. He anticipated that the reviewing process would begin in the fall. Botsko said this is a great synopsis of the plan to approach this peril. However, he also recommended the Working Group consider: 1) continuing to monitor the exposure of flood risk to the industry, primarily through the supplemental data from the annual statement; 2) continuing to listen to comments from industry members about this issue; 3) performing different analyses; and 4) hearing from different vendors about their flood models.

4. Heard Updates from the Academy on its Current Underwriting Risk Projects

Ron Wilkins (Academy) said the Academy is currently working on the following projects: 1) diversification of line of business; 2) considering inclusion of the wildfire, severe convective storm, and flood perils in Rcat, and corresponding adjustments to R5 to avoid double counting that peril; 3) updating the calibration of premium and reserve risk charges to reflect more recent experience; and 4) considering ways to improve the efficiency of the risk charge calibration computations and the industry average computations. He also stated that the Academy plans to: 1) monitor the extent of the relationship between risk factors and interest rates; and 2) assess the growth charge. Wilkins said the Academy will provide more detailed updates on its project during the Summer National Meeting. Regarding the growth charge, Drutz said the Health Risk-Based Capital (E) Working Group looked at the risk in several different ways, and, ultimately, the Working Group found that the current formula is working reasonably well. Wilkins said the Academy will review the works from the Health Risk-Based Capital (E) Working Group before proceeding on this project. Ralph Blanchard (Retired Actuary) said he was concerned that the year 2020 data does not reflect the distortion from the COVID-19 pandemic. Wilkins agreed and said this would be a key topic for the Academy to consider.

5. Discussed Other Matters

Botsko said the Working Group plans to meet at the Summer National Meeting to continue discussing outstanding items.

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

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Draft: 5/22/24

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
April 25, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 25, 2024. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Wanchin Chou, Vice Chair, and Susan Gozzo Andrews (CT); Eric Unger and Mitchell Bronson (CO); Virginia Christy and Nicole Crockett (FL); Sandra Darby (ME); Michael Ying, Ni Qin, Rajesh Bhandula, Harriette Resnick, and Christopher Esteban (NY); Miriam Fisk and Rebecca Armon (TX); and Adrian Jaramillo (WI). Also participating were: Rabab Charafeddine (CA); Adrienne Lupo (DE); Danny Chan (HI); Jennifer Niles Tish Becker (KS); Greg Ricci (MD); Kari Leonard (MT); Julie Lederer and Danielle Smith (MO); Lindsay Crawford (NE); Liz Ammerman (RI); Trey Hancock (TN); and Jay Bruns (WA).

1. Adopted Proposal 2023-17-CR

Chou said the Catastrophe Risk (E) Subgroup met April 23 to adopt proposal 2023-12-CR (Climate Scenario Analysis). He stated that the Subgroup appreciates all the valuable comments submitted by different industry parties during the exposure period. After reviewing industry comments, the Solvency Workstream of the Climate and Resiliency (EX) Task Force and the Subgroup made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the Line 7 question in PR027BI, PR027BII, PR027CI, and PR027CII. Chou reiterated that the intent of this proposal is to collect some useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. He said the Subgroup and the Solvency Workstream have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also indicated that the Subgroup will re-evaluate the information in the future to determine whether further enhancement should be made to these pages.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, “the Associations”) appreciated the modification of including the three-year sunset clause in the proposal. He stated that the Associations came up with an alternative proposal, which they believe will be less expensive to provide state insurance regulators with information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils. Kelly Hereid (Liberty Mutual Insurance) said the alternative required insurers to calculate the Rcat charge and perform catastrophe model runs on their current books of business with: 1) a 50% increase in the frequency of major hurricanes (Category 3 and higher, and for wind only); and 2) a 50% increase in all wildfire events. Darby agreed with the latest revisions the Subgroup provided and said this toll will continue to be evaluated based on the company reporting.

Chou made a motion, seconded by Darby, to adopt proposal 2023-17-CR (Attachment XXX). The motion passed unanimously.

2. Adopted Proposal 2024-10-P

Botsko said proposal 2024-10-P (Other Health Line) would address the current double-counting issue for companies with stop-loss premium, as the stop-loss premium is expected to be entered on Line 9 of PR019. He also stated that the Working Group exposed this proposal for a 30-day public comment period during the Spring National Meeting. No comments were received.

Darby made a motion, seconded by Unger, to adopt proposal 2024-10-P (Attachment). The motion passed unanimously.

3. Adopted Proposal 2024-11-P

Botsko said that at the Spring National Meeting, the Working Group agreed to expose proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors) with the: 1) 50% indicated change with capped international and product liability lines in 2024, and 100% indicated change with capped international and product liability lines in 2025 for reserve factors; and 2) 50% indicated change with capped financial mortgage guaranty line in 2024, and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors for a 30-day public comment period. No comments were received.

Chou made a motion, seconded by Christy, to adopt proposal 2024-11-P (Attachment XX). The motion passed unanimously.

4. Exposed Proposal 2024-14-P

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provided a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) risk-based capital (RBC) formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the American Academy of Actuaries (Academy) is in the process of reviewing the Line 1 calculation methodology; recommendations will be provided soon.

The Working Group agreed to expose proposal 2023-14-P for a 30-day public comment period ending May 25.

5. Discussed Other Matters

Botsko said the Academy's Property and Casualty Risk-Based Capital Committee is currently working on: 1) researching diversification by line of business for premium and reserve risk; 2) analyzing the potential inclusion of the wildfire peril in the Rcat component and corresponding adjustments to premium risk charges to avoid double counting that peril; and 3) updating the calibration of premium and reserve risk charges to reflect more recent experience. He said he anticipates the Academy will provide another update on its projects during the Summer National Meeting.

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

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Draft: 7/16/24

Catastrophe Risk (E) Subgroup
Virtual Meeting
June 10, 2024

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 10, 2024. The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair, Richie Frederick, and Nicole Crockett (FL); Eric Unger (CO); Travis Grassel, Mike Yanacheak, and Kim Cross (IA); Elouisa Macias and Tim Vigil (NM); Tom Botsko (OH); Cuc Nguyen (OK); and J'ne Byckovski, Nicole Elliott, and Marianne Baker (TX). Also participating were: Chad Bennett (AK); Travis Taylor (AL); Lori Munn (AZ); Giovanni Muzzarelli, Mitra Sanadajifar, Laura Clements, and Lucy Jabourian (CA); NuDasha Fludd (DC); Jessica Luff (DE); Paula Shamburger (GA); Jennifer Niles and Julie Rachford (IL); Julie Holmes (KS); Chris Cerniauskas (LA); Jackie Horigan and Matthew Mancini (MA); Greg Ricci (MD); Paige Dickerson, Christopher Slovinski, Renee Campbell, and Chris Arth (MI); Jeana Thomas (MO); Jackie Obusek (NC); Gennady Stolyarov (NV); Shannen Logue (PA); Zachary Crandall, Vickie Trice, Devon Suttles, and Matt Mickelson (TN); Steve Drutz and David Forte (WA); and Allan L. McVey (WV).

1. Exposed a Referral from the Capital Adequacy (E) Task Force Regarding Geographic Concentration Issue

Chou said the Capital Adequacy (E) Task Force agreed to disband the Risk-Based Capital Geographic Concentration Ad Hoc Subgroup and refer its outstanding issues to the Subgroup. He also stated that the Task Force recommends the Subgroup consider: 1) further investigating all outstanding issues; 2) possibly modifying the property and casualty (P/C) risk-based capital (RBC) formula; and 3) providing updates on this project at each national meeting until its completion. Chou also indicated that the Ad Hoc Subgroup had several conference calls with Florida and Louisiana state insurance regulators and rating agency representatives to gain a better understanding of how they monitor and handle the potential geographic concentration risk exposures. He urged all interested parties to review the referral to gain a better understanding of this issue and provide feedback to the Subgroup at its next meeting.

The Subgroup agreed to expose this referral for a 30-day public comment period ending July 10.

2. Heard an Update Regarding the Severe Convective Storm Peril

Chou said the Severe Convective Storm Review Ad Hoc Group was established in late 2022 to conduct a more in-depth review of various severe convective storm catastrophe vendor model assumptions, limitations, and impact analyses, following a similar process to reviewing the wildfire peril. Since late 2022, the Ad Hoc Group has met with different vendor modelers to gain a better understanding of each vendor model and ensure that the model results are within a reasonable range. He also stated that the Ad Hoc Group follows *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)* as its guiding principles to ensure the appropriateness of the catastrophe models for the intended purposes. Chou said the vendor modelers collaborated to create a synthetic industry exposure database to perform the impact analysis in late 2023. The Ad Hoc Group identified no meaningful concerns or issues after vetting the methodology and assumptions for the impact analysis. He also stated that the severe convective storm Rcat structure was added to the RBC formula for informational purposes only during the Spring National Meeting. On April 16, the Ad Hoc Group met to conclude that there were no specific concerns related to the vendor models at that point. Chou indicated that the Ad Hoc Group planned to: 1) have another in-depth review based on the 2024 data; and 2) work with vendor modelers to re-run the impact analysis.

3. Discussed the Wildfire Peril Impact Analysis

Chou said, as mentioned during the April meeting, the Subgroup decided to invite the modelers to conduct another in-depth analysis of wildfire peril and share model results with the states that have signed nondisclosure agreements (NDAs) immediately following the Summer National Meeting. He also stated that his initial thought was to follow the previous review process, but he said he will share a more detailed review plan at the Summer National Meeting after discussing it with the vice chair.

4. Discussed CoreLogic's Wildfire Model Review

Chou said that CoreLogic was not ready for wildfire model review at the time when the Ad Hoc Group performed the reviewing process with other commercial vendors. Thus, the Subgroup decided to go through a similar process, conducting an in-depth analysis with CoreLogic soon so it can be included in the NAIC-approved third-party commercial vendor catastrophe model list. He also stated that Christy will take the lead on this process. Christy said the Model Review Ad Hoc Group will ask CoreLogic for a presentation and develop questions based on that presentation. She said that since the impact analysis for wildfire peril was only reviewed by a few state insurance regulators last year, those who signed the NDAs will be asked to help develop questions for CoreLogic in order to review and update its impact analysis by the 2025 Spring National Meeting.

5. Discussed the Possibility of Adding Flood Peril to the Rcat Component

Chou said that as the wildfire and severe convective storm perils are included in the Rcat component for informational purposes, the next peril the Subgroup will be focused on is flood. He said the flood peril will follow a similar reviewing process as the wildfire and severe convective storm perils, which will follow ASOP No. 38 as its guiding principle. Chou also stated that the Karen Clark & Company (KCC) flood model is currently the only one approved by the Florida Hurricane Commission; other commercial vendor flood models, such as Moody's Risk Management Solutions (RMS), AIR, and CoreLogic, are still under evaluation by the Florida Commission. Chou said he also planned to invite a the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) representative to discuss the flood model review process during the Summer National Meeting. Botsko commented that the flood peril in private industry is extremely small, and while monitoring its growth is important, the Subgroup still needs to analyze whether it should move forward with including this peril in the Rcat component.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

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Draft: 6/10/24

Catastrophe Risk (E) Subgroup
Virtual Meeting
April 23, 2024

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 23, 2024. The following Subgroup members participated: Wanchin Chou, Chair, Susan Gozzo Andrews, and Qing He (CT); Virginia Christy, Vice Chair (FL); Mitchell Bronson, Eric Unger, and Rolf Kaumann (CO); Travis Grassel and Kevin Clark (IA); Sandra Darby and Brock Bubar (ME); Harriette Resnick, Alexander Vajda, Rajesh Bhandula, Christopher Esteban, and HauMichael Ying (NY); Tom Botsko (OH); Will Davis (SC); and Miriam Fisk (TX). Also participating were: Giovanni Muzzarelli, Laura Clements, Mike Peterson, and Rabab Charafeddine (CA); Danny Chan (HI); Jennifer Niles (IL); Greg Ricci (MD); Danielle Smith, Cynthia Amann, and Julie Lederer (MO); Glorimar Santiago (PR); Dan Bumpus (VA); and Steve Drutz (WA).

1. Adopted Proposal 2023-17-CR (Climate Scenario Analysis)

Chou said the Working Group met April 1 and April 11 in regulator-to-regulator session and April 16 in joint regulator-to-regulator session with the Solvency Workstream of the Climate and Resiliency (EX) Task Force, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss proposal 2023-17-CR (Climate Scenario Analysis).

Chou said that after reviewing industry comments, the Subgroup and the Solvency Workstream of the Climate and Resiliency (EX) Task Force made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the line 7 question in PR027BI, PR027BII, PR027CI, and PR027CII. Chou reiterated that the intent of this proposal is to collect useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. The Subgroup and the Solvency Workstream have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also stated that the Subgroup will re-evaluate the information in the future to determine whether further enhancement should be made to these pages.

Ralph Blanchard (Retired Actuary) said there are three areas indicated in the comment letter (Attachment XXX) where the proposal should be modified if the data capture would remain in the current suggested format: 1) treatment of reinsurance; 2) identification of the geographic location of the risk concentration; and 3) impact of residual markets. Another modification that Blanchard suggested was removing the impact of ceded reinsurance from the current proposal for 2040 and 2050 projections, as ceded reinsurance programs are designed to fit the gross exposure and capital level existing for the period of the gross exposure. Chou said state insurance regulators decided to keep the current format during the regulator-to-regulator sessions. However, he said that Blanchard's comments deserve further review and should be considered in future enhancements.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, "the Associations") appreciated the modification of including a three-year sunset clause in the proposal. He stated that the comment letter (Attachment XXX) indicated that the Associations came up with an alternative proposal, which they believe will be less expensive to provide state insurance regulators with information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils.

Kelly Hereid (Liberty Mutual Insurance) said the alternative proposal requires insurers to use the catastrophe model they currently use to calculate the RCAT charge for hurricane and wildfire perils, using the following assumptions: 1) a 50% increase in the frequency of major hurricanes (Category 2 and higher, and for wind only); and 2) a 50% increase in all wildfire events. Eli Russo (NAIC) and Shaveta Gupta (NAIC) stated that the state insurance regulators were not in favor of performing big stress scenarios; rather, they would like to use what companies believe in the climate scenarios. Chou said there are many uncertainties on top of the assumptions. He reiterated that the intent of this proposal is to develop a tool to generate conversations between companies and state insurance regulators, and this tool will continue to be evaluated based on company reporting.

Darby made a motion, seconded by Botsko, to adopt proposal 2023-17-CR (Attachment XXX). The motion passed unanimously.

2. Discussed Severe Convective Storm Peril Impact Analysis

Chou said that the vendor modelers ran the industry exposure database through their respective models to obtain the average annual loss (AAL) and exceedance probability (EP) curve loss output by the sub-perils such as hail, tornado, and straight-line wind. This analysis included several key geographies across the U.S. He also stated that the Model Review Ad Hoc Group met April 16 to discuss its modeling results. Chou said he received no specific concerns from its members. He said the structure of adding severe convective storms as one of the catastrophe perils for informational purposes only in the Rcat component was adopted at the Spring National Meeting. Chou also said he planned to accomplish the following tasks next year: 1) have another in-depth review based on the received data; and 2) work with vendor modelers to review and update their impact analyses.

3. Discussed Wildfire Peril Impact Analysis

Chou said, as mentioned during the Spring National Meeting, the Subgroup decided to invite the modelers to conduct another in-depth analysis of wildfire and share model results with the states that have signed nondisclosure agreements (NDAs). He also stated that he will share the review plan at the next meeting after discussing it with the vice chair.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

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Draft Pending Adoption

Attachment Five
 Capital Adequacy (E) Task Force
 3/17/24

Draft: 3/20/24

Property and Casualty Risk-Based Capital (E) Working Group
 and the Catastrophe Risk (E) Subgroup
 Phoenix, Arizona
 March 17, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Phoenix, AZ, March 17, 2024, 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 (OH); Wanchin Chou, Vice Chair (CT); Rolf Kaumann (CO); Virginia Christy (FL); Sandra Darby and Vanessa Sullivan (ME); Melissa Robertson and Tim Vigil (NM); Will Davis (SC); and Miriam Fisk (TX). The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair (FL); Rolf Kaumann (CO); Travis Grassel (IA); Sandra Darby and Vanessa Sullivan (ME); Melissa Robertson and Tim Vigil (NM); Tom Botsko (OH); Will Davis (SC); and Miriam Fisk (TX). Also participating were: John Rehagen (MO); Christian Citarella (NH); John Tudino, Nicholas Illuzzi, and Ted Hurley (RI).

1. Adopted the Working Group and Subgroup's Jan. 30, 2024; Jan. 29, 2024; and 2023 Fall National Meeting Minutes

Botsko said the Working Group and Subgroup conducted an e-vote that concluded Jan. 30, 2024, to adopt proposal 2023-16-CR (2023 U.S. and Non-U.S. Catastrophe Risk Event Lists), which the Working Group and Subgroup had exposed for a seven-day public comment period that ended Jan. 23.

Botsko said the Catastrophe Risk (E) Subgroup met Jan. 29, 2024. During this meeting, the Subgroup took the following action: 1) exposed proposal 2023-17-CR (Climate Scenario Analysis) for a 30-day public comment period that ended Feb. 28; 2) discussed severe convective storm peril impact analysis; 3) discussed wildfire peril impact analysis; and 4) heard updates on the Geographic Concentration Ad Hoc Subgroup.

Davis made a motion, seconded by Darby, to adopt the Working Group and Subgroup's Jan. 30, 2024 (Attachment XXX); Jan. 29, 2024 (Attachment XXX); and Dec. 2, 2023, (see *NAIC Proceedings – Fall 2023, Capital Adequacy (E) Task Force, Attachment XX*) minutes. The motion passed unanimously.

2. Adopted Proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory)

Chou said the purpose of this proposal is to collect additional information from insurers on the structure of their catastrophe reinsurance program on an annual confidential basis. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period that ended Jan. 30, 2024. He also stated that the Subgroup received one comment letter during the exposure period, and the proposal was revised accordingly. Chou said the interrogatories in this proposal are intended for all property and casualty (P/C) filers that are exposed to natural catastrophe perils and are not limited to earthquake, hurricane, wildfire, and the associated RCAT exemptions. Insurance entities that participate in group reinsurance programs may respond to the interrogatory at a group level. Rehagen commented that the revised disclosures in the material reflect the supported changes from the Reinsurance (E) Task Force and provide some basic information that the Task Force may need to look at further. He said the Reinsurance (E) Task Force supports this proposal with the revised exhibit. Joseph Sieverling (Reinsurance Association of America—RAA) said the joint trades support state insurance regulators' need to understand insurers' natural catastrophe risk exposure and the reinsurance programs

Draft Pending Adoption

Attachment Five
Capital Adequacy (E) Task Force
3/17/24

designed to mitigate these risks on a confidential basis. He stated that joint trades support the updated exhibit in the materials.

Chou asked whether the members, interested state insurance regulators, and interested parties have any other immediate questions regarding this proposal. Without hearing any questions, Chou recommended adopting the proposal.

Christy made a motion, seconded by Grassel, to adopt proposal 2023-13-CR (**Attachment XXX**). The motion passed unanimously.

3. Adopted Proposal 2024-01-P (Schedule P Short Tails)

Botsko said that on Feb. 21, 2024, the Blanks (E) Working Group adopted proposal 2023-16BWG, which changes Schedule P short-tail lines to show 10 years of data beginning in 2024 reporting. He stated that the Schedule P risk-based capital (RBC) formulas will need to be updated to reflect the changes in the annual statement. Botsko said the Property and Casualty Risk-Based Capital (E) Working Group exposed proposal 2024-01-P for a 30-day public comment that ended Feb. 24, 2024. No comments were received.

Chou made a motion, seconded by Darby, to adopt proposal 2024-01-P (**Attachment XXX**). The motion passed unanimously.

4. Adopted Proposal 2023-14-P (Pet Insurance)

Botsko said proposal 2023-14-P would remove pet insurance from the inland marine line of business and add a new line of business to PR035, PR038, PR123, PR223, PR700, and PR701 to be consistent with the change in the annual statement. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period at the 2023 Fall National Meeting. No comments were received.

Darby made a motion, seconded by Davis, to adopt proposal 2023-14-P (**Attachment XXX**). The motion passed unanimously.

5. Adopted Proposal 2023-15-CR (Convective Storm for Information Purposes Only Structure)

Chou said this proposal provides the structure change for adding severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component. He stated that the Working Group and Subgroup exposed this proposal for a 60-day public comment period at the 2023 Fall National Meeting. No comments were received.

Kaumann made a motion, seconded by Grassel, to adopt proposal 2023-15-CR (**Attachment XXX**). The motion passed unanimously.

6. Adopted the Working Group and Subgroup's Working Agenda

Botsko summarized the changes of the Subgroup's 2024 working agenda, which included the following substantial changes: 1) changing the expected completion date to "2025 Summer" in item P5; 2) adding a hyperlink for the referral to the American Academy of Actuaries (Academy) in item P3; and 3) adding two items for the Subgroup and one item for the Working Group in the "New Item" section.

Draft Pending Adoption

Attachment Five
Capital Adequacy (E) Task Force
3/17/24

Davis made a motion, seconded by Kaumann, to adopt the Working Group and Subgroup's working agenda. The motion passed unanimously.

7. Exposed Proposal 2024-10-P (Other Health Line)

Botsko said proposal 2024-10-P would address the current double-counting issue for companies with stop-loss premium, as the stop loss premium is expected to be entered on line 9 of PR019.

The Working Group and Subgroup agreed to expose proposal 2023-10-P (**Attachment XXX**) for a 30-day public comment period ending April 16.

8. Re-Exposed Proposal 2023-17-CR (Climate Scenario Analysis)

Chou said that, as discussed in the last Subgroup meeting Jan. 29, 2024, the purpose of this proposal is to gather time horizon information to provide an estimate of climate change for hurricane and wildfire. He stated that this information is intended to be useful for state insurance regulators holding conversations with insurers that may have a greater degree of risk for these perils. Steve Broadie (American Property Casualty Insurance Association—APCIA) addressed the group and expressed his concerns regarding: 1) the data being collected and how it would be used; 2) the significant costs associated with this proposal; and 3) the lack of clarity on what state insurance regulators would consider to be a “problematic” risk level. He expressed his understanding that this information would not be used for any additional Rcat charges. Dan Daveline (NAIC) said the Solvency Workstream of the Climate and Resiliency (EX) Task Force believes this information would be valuable for comparing the information that is currently available in the RBC formula. He also stated that the Solvency Workstream anticipated this proposal would be adopted unless some concrete proposals were put forth. Once the other comments were addressed, Broadie returned to say he supported another exposure period and would provide a formal comment letter.

Ralph Blanchard (Retired) said he did not believe the current design of the proposal would be able to identify concentration due to: 1) the probable maximum loss (PML) amounts shown possibly being from different locations; 2) the reinsurance programs in place not having been updated for year 2040 and year 2050 event curves; 3) the major source of catastrophe loss growth being growth in exposures; 4) any mitigation efforts or changes possibly not be reflected; and 5) inflation not being captured in the proposal. Eli Russo (NAIC) commented that in reviewing approximately 300 Own Risk and Solvency Assessment (ORSA) files every year, there is very little disclosure of any quantification of climate risk. Also, only larger companies are required to file ORSA; therefore, it cannot provide a full picture of the companies' exposure and climate risk. Chou recommended that the Working Group and Subgroup re-expose this proposal for a 22-day public comment period, which would allow the interested parties to think practically to determine whether there are alternatives to make the information more useful to the state insurance regulators. He said another meeting will be scheduled next month to further consider this proposal.

Without hearing any objections, the Working Group and Subgroup agreed to re-expose proposal 2023-17-CR (**Attachment XXX**) for a 22-day public comment period ending April 8.

9. Discussed Convective Storm and Wildfire Impact Analysis

Draft Pending Adoption

Attachment Five
Capital Adequacy (E) Task Force
3/17/24

Chou said that, as indicated during the last Subgroup meeting Jan. 29, 2024, the vendor modelers collaborated to create a synthetic industry exposure database. Each modeler ran the industry exposure database through their respective models to obtain the average annual loss (AAL) and exceedance probability (EP) curve loss output by the sub-perils such as hail, tornado, and straight-line wind, and several key geographies across the U.S. He also stated that the members of the Model Review Ad Hoc Group held separate meetings with Karen Clark & Company (KCC) and Moody's RMS to discuss their convective storm model results since the last Subgroup meeting. Chou also indicated meetings with Verisk Analytics and CoreLogic will be scheduled shortly. Findings will be shared with the Subgroup in April.

Chou also said that because the previous wildfire impact analysis was only reviewed by a few state insurance regulators last year, the Subgroup decided to invite the modelers to conduct another in-depth analysis of wildfire and share model results with the states that have signed nondisclosure agreements (NDAs). He anticipated that the wildfire impact analysis would begin in May.

10. Exposed Underwriting Risk Factors and Investment Income Adjustment Factors

Botsko said he would like to express his appreciation for the Academy's hard work on this project. As indicated in the factor attachment (**Attachment XXX**), he recommended: 1) that the reserve factors for product and international lines and the premium factor for the financial mortgage and guarantee line be capped from the indicated factors, as these factors had some significant increases; and 2) implementing both reserve and premium factors over two years: halfway for 2024 reporting and the full indicated with the capped lines in 2025 reporting. Botsko encouraged all interested parties to consider this recommendation and provide feedback prior to the next meeting.

Without hearing any objections, the Working Group and Subgroup agreed to expose the: 1) 50% indicated change with capped international and product liability lines in 2024, and 100% indicated change with capped international and product liability lines in 2025 for reserve factors; and 2) 50% indicated change with capped financial mortgage guaranty line in 2024, and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors (Attachment XXX) for a 30-day public comment period ending April 16.

Botsko said the Working Group and the Subgroup plan to meet in April to continue the discussion.

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

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2024-Spring/PCRBWCG

Newsletter Items for Adoption for 2024 for Property and Casualty RBC:

Date: August 2024

Volume: 28.2

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2024 property/casualty (P/C) risk-based capital (RBC), hard copies of pages PR001-PR035, as well as pages PR038 and PR039, should be submitted to any state that requests a hard copy. Beginning with year-end 2011 RBC, a hard copy was not required to be submitted to the NAIC, but a portable document format (PDF) file representing the hard copy filing is part of the electronic filing with the NAIC.

Page 1+: Items Adopted for 2024:

Underwriting Risk

Pet Insurance

The Capital Adequacy (E) Task Force adopted proposal 2023-14-P during its March 17 meeting. This proposal removed pet insurance from the inland marine line of business and added a separate new line for pet insurance. This change is consistent with the change in the annual statement. However, the RBC charges calculation for pet insurance will still be included in the inland marine line of business.

Schedule P Short Tail Lines

During its March 17 meeting, the Capital Adequacy (E) Task Force adopted proposal 2024-01-P, which: 1) changed all the company record data to vendor link data for all RBC Schedule P short-tailed exhibits as the result of the adoption of the annual statement blanks proposal 2023-16BWG

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493

Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175

New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207

MOD; and 2) removed PR301 through PR306.

Underwriting Risk Factors Lines 4 and 8

As a result of the adoption of proposal 2024-11-P by the Capital Adequacy (E) Task Force during its April 30 meeting, Lines 4 and 8 factors were based on the 2023 American Academy of Actuaries' (Academy's) *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors* report. During the Property and Casualty Risk-Based Capital (E) Working Group's April 25 meeting, the Working Group decided to use 50% indicated change with capped international and product liability lines for reserves and 50% indicated change with capped financial mortgage guaranty line for premium for 2024 reporting.

PR017 Underwriting Risk - Reserves				PR017 Underwriting Risk - Reserves			
Proposed Line (4), Industry Loss & Expense RBC Factors				Proposed Line (8), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor	Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.220	0.213	(1)	H/F	0.945	0.938
(2)	PPA	0.192	0.179	(2)	PPA	0.933	0.928
(3)	CA	0.318	0.276	(3)	CA	0.919	0.911
(4)	WC	0.363	0.344	(4)	WC	0.807	0.830
(5)	CMP	0.485	0.494	(5)	CMP	0.887	0.876
(6)	MPL Occurrence	0.327	0.383	(6)	MPL Occurrence	0.863	0.865
(7)	MPL Claims Made	0.224	0.276	(7)	MPL Claims Made	0.890	0.883
(8)	SL	0.353	0.304	(8)	SL	0.887	0.890
(9)	OL	0.514	0.531	(9)	OL	0.858	0.852
(10)	Fidelity/Surety	0.479	0.371	(10)	Fidelity/Surety	0.924	0.940
(11)	Special Property / Pet Insurance Plan	0.259	0.246	(11)	Special Property / Pet Insurance Plan	0.960	0.966
(12)	Auto Physical Damage	0.146	0.155	(12)	Auto Physical Damage	0.977	0.976
(13)	Other (Credit A&H)	0.223	0.220	(13)	Other (Credit A&H)	0.952	0.967
(14)	Financial/Mortgage Guaranty	0.163	0.179	(14)	Financial/Mortgage Guaranty	0.921	0.926
(15)	INTL	0.514	0.359	(15)	INTL	0.878	0.874
(16)	REIN. P&F Lines	0.367	0.415	(16)	REIN. P&F Lines	0.907	0.901
(17)	REIN. Liability	0.626	0.656	(17)	REIN. Liability	0.816	0.838
(18)	PL	1.014	0.802	(18)	PL	0.843	0.841
(19)	Warranty	0.363	0.371	(19)	Warranty	0.951	0.940

PR018 Underwriting Risk - Premiums Proposed Line (4), Industry Losses & Loss Adjustment Expense Ratio				PR018 Underwriting Risk - Premiums Proposed Line (7), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor	Col.	Line of Business	2024 Factor	2023 Factor
(1)*	H/F	0.933	0.936	(1)*	H/F	0.960	0.954
(2)	PPA	0.970	0.969	(2)	PPA	0.931	0.925
(3)	CA	1.012	1.010	(3)	CA	0.897	0.890
(4)	WC	1.041	1.044	(4)	WC	0.836	0.839
(5)*	CMP	0.878	0.883	(5)*	CMP	0.909	0.896
(6)	MPL Occurrence	1.531	1.668	(6)	MPL Occurrence	0.781	0.767
(7)	MPL Claims Made	1.138	1.130	(7)	MPL Claims Made	0.845	0.827
(8)*	SL	0.908	0.922	(8)*	SL	0.911	0.898
(9)	OL	1.003	1.013	(9)	OL	0.827	0.816
(10)	Fidelity/Surety	0.756	0.854	(10)	Fidelity/Surety	0.913	0.904
(11)*	Special Property/Pet Insurance	0.829	0.863	(11)*	Special Property/Pet Insurance	0.953	0.949
(12)	Auto Physical Damage	0.836	0.836	(12)	Auto Physical Damage	0.975	0.971
(13)	Other (Credit A&H)	0.931	0.935	(13)	Other (Credit A&H)	0.953	0.947
(14)	Financial/Mortgage Guaranty	1.805	1.598	(14)	Financial/Mortgage Guaranty	0.888	0.884
(15)*	INTL	1.355	1.234	(15)*	INTL	0.915	0.905
(16)*	REIN. P&F Lines	1.072	1.170	(16)*	REIN. P&F Lines	0.906	0.893
(17)*	REIN. Liability	1.253	1.322	(17)*	REIN. Liability	0.794	0.777
(18)	PL	1.229	1.263	(18)	PL	0.788	0.774
(19)	Warranty	0.920	0.854	(19)	Warranty	0.938	0.904

New Industry Average Risk Factors - Annual Update

During its June 28 meeting, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors:

PR017 Underwriting Risk - Reserves			
Line (1), Industry Development Factors			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	1.020	0.999
(2)	PPA	1.061	1.047
(3)	CA	1.115	1.106
(4)	WC	0.882	0.873
(5)	CMP	1.024	1.026
(6)	MPL Occurrence	0.910	0.906
(7)	MPL Claims Made	0.996	0.984
(8)	SL	0.996	0.994
(9)	OL	0.993	0.969
(10)	Fidelity/Surety	0.875	0.852
(11)	Special Property / Pet Insurance	0.989	0.983
(12)	Auto Physical Damage	0.999	1.016
(13)	Other (Credit A&H)	0.942	0.946
(14)	Financial/Mortgage Guaranty	0.493	0.674
(15)	INTL	2.168	2.414
(16)	REIN. P&F Lines	0.930	0.924
(17)	REIN. Liability	1.054	1.024
(18)	PL	0.882	0.874
(19)	Warranty	0.991	0.995

PR018 Underwriting Risk - Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2024 Factor	2023 Factor
(1)*	H/F	0.695	0.679
(2)	PPA	0.799	0.791
(3)	CA	0.787	0.777
(4)	WC	0.646	0.651
(5)*	CMP	0.684	0.671
(6)	MPL Occurrence	0.752	0.767
(7)	MPL Claims Made	0.828	0.815
(8)*	SL	0.583	0.578
(9)	OL	0.649	0.641
(10)	Fidelity/Surety	0.375	0.363
(11)*	Special Property / Pet Insurance	0.559	0.550
(12)	Auto Physical Damage	0.733	0.727
(13)	Other (Credit A&H)	0.711	0.702
(14)	Financial/Mortgage Guaranty	0.158	0.209
(15)*	INTL	1.153	1.136
(16)*	REIN. P&F Lines	0.587	0.578
(17)*	REIN. Liability	0.760	0.743
(18)	PL	0.594	0.597
(19)	Warranty	0.641	0.652

* Cat Lines

Catastrophe Risk

Interrogatory on Catastrophe Risk Reinsurance Program (PR027INTA)

Given the recent catastrophe-related insolvencies and increasing cost of catastrophe reinsurance coverage, state insurance regulators have identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance programs on an annual basis. As such information could be viewed as confidential and proprietary and is closely related to the existing PR027 Rcat charge, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories. The Capital Adequacy (E) Task Force adopted proposal 2023-13-CR during its March 17 meeting, which added page PR027INTA to the P/C RBC blanks.

Convective Storm Structure in Rcat for Informational Purposes Only (PR027D)

The Capital Adequacy (E) Task Force adopted proposal 2023-15-CR during its March 17 meeting to add severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component. While the Catastrophe Risk (E) Subgroup reviewed the possibility of expanding the current catastrophe framework to include other perils that may experience a greater tail risk under projected climate-related trends, the severe convective storm has been identified as a catastrophe peril in the Rcat component.

Climate Scenario Analysis (PR027D)

As a result of the adoption of proposal 2023-17-CR MOD during the Financial Condition (E) Committee's August 2 meeting, the disclosure of climate-conditioned catastrophe exposure for hurricane and wildfire, which reflect adjusted frequency and severity for years 2040 and 2050, was added to the P/C RBC blanks. This information is intended to be useful for domestic regulators holding conversations with insurers who may have a greater degree of risk for these perils.

Affiliated Investments

Modification to the Affiliated Investment Blanks (PR003)

The Capital Adequacy (E) Task Force adopted proposal 2024-08-CA during its April 30 meeting to remove the "R0 Component" reference from the Column 12 heading on page PR003. The "R0"

references are misleading because only affiliate types 1, 2, 5, and 6 flow into R0, while affiliate types 3, 4, 7, 8, and 9 flow into R2.

In addition, the Task Force adopted proposal 2023-12-CA during its Dec. 2, 2023, meeting to adopt an editorial change made to remove the word "Common" in the heading of Column (13) of PR003 Details for Affiliated Stocks. A corresponding change was made to PR007 Unaffiliated Preferred and Common Stock and PR031 (Calculation of Total Risk-Based Capital After Covariance) by removing the word "Common" in line "Market Value in Excess Affiliated Stocks." This line includes the affiliated amounts for both preferred and common stock.

Accident and Health Business

Underwriting Risk Factors (PR020)

The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
\$0-\$3 Million	0.1427	0.0973	0.1143
\$3-\$25 Million	0.1427	0.0596	0.0706
Over \$25 Million	0.0832	0.0596	0.0706

Other Health Line (PR019)

During its April 30 meeting, the Capital Adequacy (E) Task Force adopted proposal 2024-10-P, which: 1) added "in part" to the Line 25 annual statement source; and 2) updated Column 1, Line 25 to "Company Record." These changes eliminated the double-counting issue for those companies that have stop-loss premium.

Receivable for Securities Factor

The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting, which updated the factor for the Receivables for Securities (Line (1), Page PR009) from 0.020 to 0.025.

Modification of Other Long-Term Assets (PR008) Structure for Residual Tranches or Interests

The Capital Adequacy (E) Task Force adopted proposal 2024-02-CA during its April 30 meeting to add a line in PR008 to include the total of residual tranches or interests on a stand-alone line with no factor proposed and, hence, deemed as structural change only.

Residual Tranches or Interests Factor

The Capital Adequacy (E) Task Force adopted proposal 2024-18-CA during its June 28 meeting to adopt a 20% factor for residual tranches or interests in PR008.

Last Page: RBC Forecasting and Warning:

Risk-Based Capital Forecasting and Instructions

The P/C RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 NAIC Property & Casualty Risk-Based Capital Report Including Overview & Instructions for Companies*. The entire RBC publication, including the forecasting spreadsheet, can be downloaded from the [NAIC Account Manager](#) through the NAIC Publications Department. This publication is available for purchase on or about Nov. 1 each year. The User Guide is no longer included in the RBC publications.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual financial statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2023 National Association of Insurance Commissioners:

2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Property and Casualty Risk-Based Capital Newsletter Volume **28.2**. Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

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AGGREGATED P&C RBC DATA
2023 Data as of June 27, 2024

	YR2023	YR2022	YR2021	YR2020	YR2019	YR2018
# OF COMPANIES FILED RBC	2,546	2,522	2,511	2,477	2,490	2,465
# OF COMPANIES FILED AST	2,634	2,626	2,626	2,599	2,593	2,607
% OF RBC COMPANIES	97%	96%	96%	95%	96%	95%
GRAND TOTAL OF CO'S AT AN ACTION LEVEL	LEVEL					
TREND TEST	1	23	19	17	24	17
COMPANY ACTION LEVEL	1	17	27	8	15	14
REGULATORY ACTION LEVEL	2	14	7	3	4	11
AUTHORIZED CONTROL LEVEL	3	4	3	6	3	1
MANDATORY CONTROL LEVEL	4	16	17	18	20	22
TOTAL		51	54	35	42	38
% OF ACTION LEVEL COMPANIES		2.00%	2.14%	1.39%	1.70%	1.53%
RRG'S AT AN ACTION LEVEL	LEVEL					
RRG'S TREND TEST	1	5	5	8	8	9
RRG'S AT COMPANY ACTION LEVEL	1	9	11	4	5	4
RRG'S AT REGULATORY ACTION LEVEL	2	6	4	2	2	3
RRG'S AT AUTHORIZED CONTROL LEVEL	3	0	1	1	2	0
RRG'S AT MANDATORY CONTROL LEVEL	4	4	7	5	6	4
TOTAL RRG'S AT AN ACTION LEVEL		19	23	12	15	11
TOTAL RRG'S		248	249	225	225	225
% OF RRG'S AT AN ACTION LEVEL		7.66%	9.24%	5.33%	6.67%	4.89%
TOTAL CO'S AT A LEVEL EXCLUDING RRG'S	LEVEL					
TREND TEST	1	18	14	9	16	13
COMPANY ACTION LEVEL	1	8	16	4	10	8
REGULATORY ACTION LEVEL	2	8	3	1	2	5
AUTHORIZED CONTROL LEVEL	3	4	2	5	1	2
MANDATORY CONTROL LEVEL	4	12	10	13	14	17
TOTAL CO'S AT AN ACTION LEVEL EXCL. RRG'S		32	31	23	27	30
TOTAL CO'S EXCLUDING RRG'S		2298	2273	2286	2252	2265
% OF ACTION LEVEL COMPANIES		1.39%	1.36%	1.01%	1.20%	1.19%
# OF COMPANIES WITH RBC RATIO > 10000%		395	378	364	542	540
# OF COMPANIES WITH RBC RATIO > 1,000 & < 10,000%		949	1,007	1,037	832	836
# OF COMPANIES WITH RBC RATIO > 500 & < 1,000%		628	611	634	620	627
# OF COMPANIES WITH RBC RATIO > 300 & < 500%		423	380	359		
# OF COMPANIES WITH RBC RATIO > 250 & < 300%		55	55	46		
# OF COMPANIES WITH RBC RATIO < 500% >250%					418	420
# OF COMPANIES WITH RBC RATIO > 200 & < 250%		45	37	36	23	29
# OF COMPANIES WITH RBC RATIO < 200 & <= 0%		51	54	35		
# OF COMPANIES WITH RBC RATIO OF ZERO		0	0	0		
TOTAL		2,546	2,522	2,511		
TOTAL ADJUSTED CAPITAL		1,305,188,051,389	1,211,723,945,518	1,295,396,441,237	1,147,914,269,354	1,073,407,595,862
AUTHORIZED CONTROL LEVEL RBC		225,770,759,221	206,730,000,454	209,812,119,487	186,945,420,616	171,329,036,103
AGGREGATE RBC %		578%	586%	617%		
MEDIAN RBC %		1097%	1145%	1167%		
Total R0 (R0 - asset risk-subsiary insurance companies)		92,893,237,492	82,520,919,036	84,025,196,294	76,046,027,452	68,455,409,790
Total R0A (R0A - asset risk-subsiary insurance companies)		N/A	N/A	N/A	N/A	N/A
Total R1 (R1 - asset risk-fixed income)		19,763,201,704	19,282,260,346	19,509,016,149	9,673,549,747	8,753,606,104
Total R1A (R1A - asset risk-fixed income)		N/A	N/A	N/A	N/A	N/A
Total R2 (R2 - asset risk-equity)		186,251,584,606	174,361,118,092	192,082,618,520	161,553,769,065	144,697,616,270
Total R2A (R2A - asset risk-equity)		N/A	N/A	N/A	N/A	N/A
Total R3 (R3- asset risk-credit)		8,800,279,481	8,287,161,773	11,388,107,162	10,387,430,318	9,357,397,726
Total R3A (R3A - asset risk-credit)		N/A	N/A	N/A	N/A	N/A
Total R4 (R4 - underwriting risk - reserves)		169,235,693,704	154,267,900,707	145,492,505,595	130,302,138,858	123,165,959,122
Total R4A (R4A - underwriting risk - reserves)		N/A	N/A	N/A	N/A	N/A
Total R5 (R5 - underwriting risk - net written premium)		95,802,981,865	88,254,096,856	81,117,342,335	78,327,294,222	74,813,906,575
Total R5A (R5A - Unerwriting Risk - net written premium)		N/A	N/A	N/A	N/A	N/A
Total R6 (R6 - Catastrophe Risk for Earthquake)		N/A	N/A	N/A	N/A	N/A
Total R7 (R7 - Catastrophe Risk for Hurricane)		N/A	N/A	N/A	N/A	N/A
Total Rcat		64,358,508,354	56,443,376,138	54,458,108,356	55,405,268,158	53,740,016,069
Net Basic Operational Risk		13,033,528,133				

Priority 1 – High Priority
 Priority 2 – Medium Priority
 Priority 3 – Low Priority

**CAPITAL ADEQUACY (E) TASK FORCE
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2024**

2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – P&C RBC							
P1	Cat Risk SG	1	Year-end 2024 or later	Continue development of RBC formula revisions to include a risk charge based on catastrophe model output: a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.	Referral from the Climate and Resiliency Task Force. March 2021	12/2/23- Proposal 2023-15-CR (Convective Storm for Informational Purposes-Only Structure) was exposed for a 30-day comment period at the Joint P/C RBC and Cat Risk SG meeting. 03/17/24 <u>Proposal 2023-15-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting 4/23/24</u> <u>Proposal 2023-17-CR was adopted during April 23 interim Cat</u>	4/26/2021

								Risk SG meeting. 4/25/24 Proposal was adopted during the April 25 PCRBC WG interim meeting.	
P2	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.					3/23/2023
Carryover Items Currently being Addressed – P&C RBC									
P3	P&C RBC WG	1	Year-end 2025 or later	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 reinsures that do not trigger growth risk in their own right. <i>Referral to the Academy:</i> https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2018%20Calls%20-%20PRBC/PCRBC/06_14/attC01_Growth%20Risk%20Referral%20to%20Academy.pdf	Refer from Operational Risk Subgroup		1) Sent a referral to the Academy on 6/14/18 conference call.		1/25/2018
P4	P&C RBC WG	1	2024 Summer Meeting or later	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.			11/16/23 The Academy provided a presentation on their Underwriting Risk Report at the Joint PCRBC And Cat Risk SG meeting. 3/17/23 Proposal 2024-11-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal 2024-		6/10/2019

							11-P was adopted during the PCRBCWG interim meeting.	
P5	P&C RBC WG	1	2025 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.				7/30/2020
P6	Cat Risk SG	1	2025 Spring Meeting	Quantify the R5 Ex-cat Factors for wildfire peril (for informational purposes only) Evaluate the possibility of adding PR018A to determine the R5 including-excluding the wildfire peril <u>in additional to earthquake, and hurricane.</u>				3/21/2023
P7	Cat Risk SG	2	2025 Spring Meeting	Evaluate the impact of flood peril to the insurance market				3/21/2023
P8	PCRBCWG	1	2024 Spring Meeting	Adding pet insurance line in the RBC PR017, 018, 035 and RBC Schedule P, parts due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.s			12/2/23 Proposal 2023-14 P (Pet Insurance) was exposed for a 60-day comment period at the Joint P/C RBC and Cat Risk SG meeting- 7/27/23 Proposal 2023-01BWG was adopted at the BWG Interim Meeting- 3/17/24 Proposal 2023-14-P was adopted by the Subgroup, Working Group, and the Task Force	7/27/2023

							during the Spring National Meeting.	
P9	Cat Risk SG	1	2024 Summer Meeting	<p>Create a new disclosure to collect more information about insurers catastrophe reinsurance programs.</p> <p><i>Referral from Reinsurance (E) Task Force:</i></p> <p>https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2024%20Calls%20-%20Joint/03_17_NM/Att2c_%20Referral%20from%20RTF%20to%20PCRBCWG%20(1).docx</p>	Refer from Reinsurance (E) Task Force	<p>11/16/23 Received a referral and proposal from RTF.</p> <p>12/2/23 Proposal 2023-13 CR (Cat Risk Insurance Program Interrogatory) was exposed for a 60-day comment period at the Joint PCRBC and Cat Risk SG meeting.</p> <p>3/17/24 Proposal 2023-13-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.</p>	2/20/2024	

P10	PCRBCWG	1	2024 Summer Meeting	Update PR019, Line 25 Annual Statement Source and the Statement Value to avoid double-counting on Stop-Loss premium.		3/17/24 Proposal 2024-10-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal was adopted during 4/25 PCRBCWG interim meeting.	2/20/2024
P11	Cat Risk SG	1	2024 Summer Meeting	Create additional Rcat pages to collect commercial Cat modelers product information known as “Climate Conditioned Catalogs”, which would provide an estimate of climate change for hurricane and wildfire.	Refer from Solvency Workstream of the Climate & Resiliency (EX) Task Force	1/29/24 Proposal 2023-17-CR was exposed for a 30-day public comment period at the Cat Risk SG Interim Meeting on Jan. 29. 3/17/24 Proposal 2024-10-P was re-exposed for a 22-day public comment period during the Spring National Meeting.	1/29/2024

P12	PCRBCWG	1	2024 Spring Meeting	Change the RBC Schedule P short-tail lines to vendor link, which will pull directly from the Annual Statement, Schedule P short-tail lines as the adopted blanks proposal 2023-16BWG modified the Schedule P short-tail lines to show 10 years of data beginning in 2024.		2/21/24 Blanks Proposal 2023-16BWG was adopted at the BWG meeting. 3/17/24 Proposal 2024-01-P was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.		
New Items – P&C RBC								
P13	Cat Risk SG	2	2025 Fall Meeting	Consider: 1) further investigating all geographic concentration related issues. 2) possibly modifying the property and casualty (P/C) risk-based capital formulas		6/10/24 Exposed a referral from the Tas Force for a 30-day comment period ending July 10.		

Historical Comments:

P1:

4/26/21 - The SG exposed the referral for a 30-day period.

6/1/21 - The SG forwarded the response to the Climate and Resiliency Task Force.

2/22/22 - The SG adopted proposal 2021-17-CR (adding the wildfire peril for informational purposes only). The SG continues reviewing other perils for possible inclusion in the Rcat.

8/11/22 – The TF adopted Proposal 2022-04-CR (2013-2021 Wildfire Event Lists)

9/26/22 – The SG formed an ad hoc group to conduct review on severe convective storm models.

7/18/23-The SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC, and Corelogic.

[12/2/23-Proposal 2023-15-CR \(Convective Storm for Informational Purposes Only Structure\) was exposed for a 30-day comment period at the Joint P/C RBC and Cat Risk SG meeting.](#)

DRAFT

FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY

NAIC Summer National Meeting
August 14, 2024

THE COMMISSION

Created by the Florida Legislature as an independent commission in 1995

Housed within the State Board of Administration of Florida

Funded out of the Florida Hurricane Catastrophe Fund

- Annual budget \$1.65 million

Structure and processes designed to address proprietary nature of the models

COMPOSITION OF THE COMMISSION

Twelve-member panel of experts to provide the most actuarially sophisticated guidelines and standards for the projection of hurricane and flood losses

- Actuary: Industry
- Actuary: Office of Insurance Regulation
- Actuary: Florida Hurricane Catastrophe Fund (FHCF) Advisory Council
- Insurance Consumer Advocate
- Executive Director of the Division of Emergency Management
- FHCF Chief Operating Officer
- Executive Director of Citizens Property Insurance Corporation
- Insurance Finance Expert*
- Statistics Expert*
- Computer System Design Expert*
- Meteorology Expert*
- Licensed Professional Structural Engineer*

*Full-time faculty member of the State University System

PROFESSIONAL TEAM

Composition – Actuary, Statistician, Meteorologist, Hydraulic Engineer, Computer/Information Scientist, Structural Engineer, Coastal Engineer

Participates in all phases of the Commission's activities

Conducts on-site audits – full access to the model, data, documentation, and source codes

ROLE OF THE COMMISSION

Defined in Section 627.0628(3)(a), Florida Statutes

- *The Commission shall consider any actuarial methods, principles, standards, models, or output ranges that have the potential for improving the accuracy of or reliability of hurricane loss projections used in residential property insurance rate filings and flood loss projections used in rate filings for personal lines residential flood insurance coverage*
- *The Commission shall revise previously adopted actuarial methods, principles, standards, models, or output ranges every odd-numbered year for hurricane loss projections and no less than every 4 years for flood loss projections*

COMMISSION IMPLICATIONS

No other state has a process like Florida

“We very much value this process. And as you know, many states look to Florida and this review as not every state has been able to dedicate the resources or have the same professional review. We feel the process is very valuable for us as a company, but certainly for the entire U.S. insurance industry.”

Karen Clark & Company, July 19, 2023

COMMISSION FLOOD STANDARDS

Seven Categories

- General
- Meteorological
- Hydrological and Hydraulic
- Statistical
- Vulnerability
- Actuarial
- Computer/Information

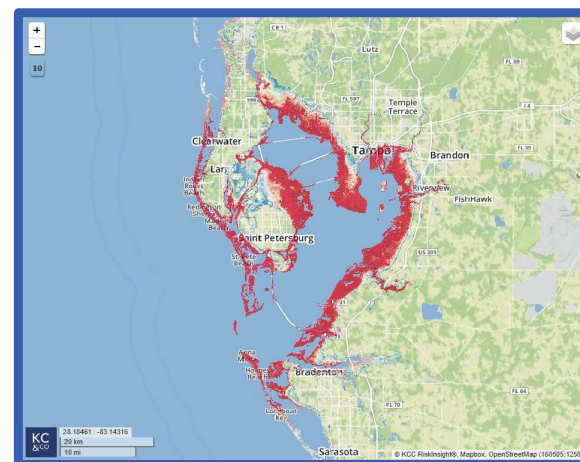
Flood Standards Report of Activities as of November 1, 2021



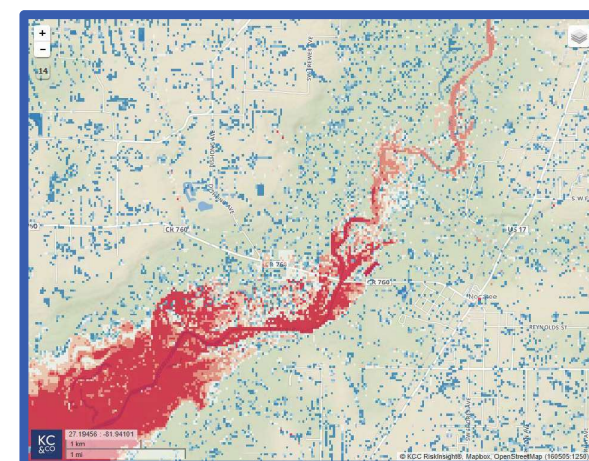
Florida Commission on Hurricane Loss Projection Methodology

FLOOD STANDARDS

- General
 - Model scope
 - Modeler expertise
 - Data
 - Independent, sound components
- Meteorological
- Hydrological and Hydraulic
- Statistical
- Vulnerability
- Actuarial
- Computer/Information



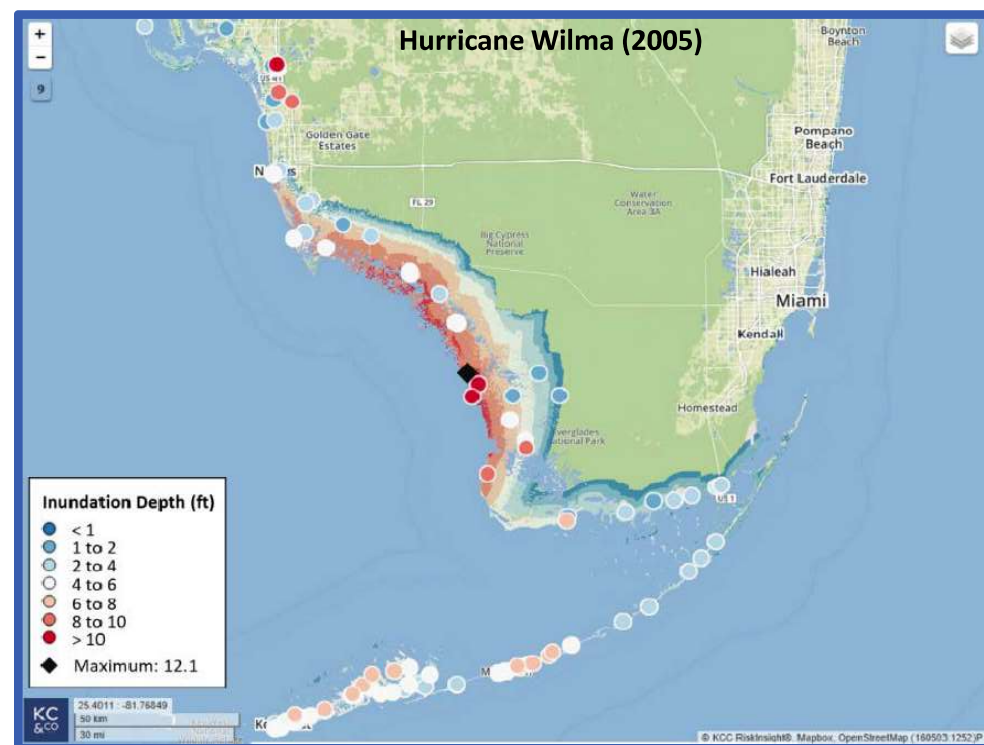
Coastal
Flooding



Inland
Flooding

FLOOD STANDARDS

- General
- Meteorological
 - Flood event data sources
 - Flood model inputs
 - Wind and pressure fields for storm surge
 - Flood model outputs (extent, elevation, etc.)
 - Flood probability distributions
- Hydrological and Hydraulic
- Statistical
- Vulnerability
- Actuarial
- Computer/Information



Storm surge intensity footprint

FLOOD STANDARDS

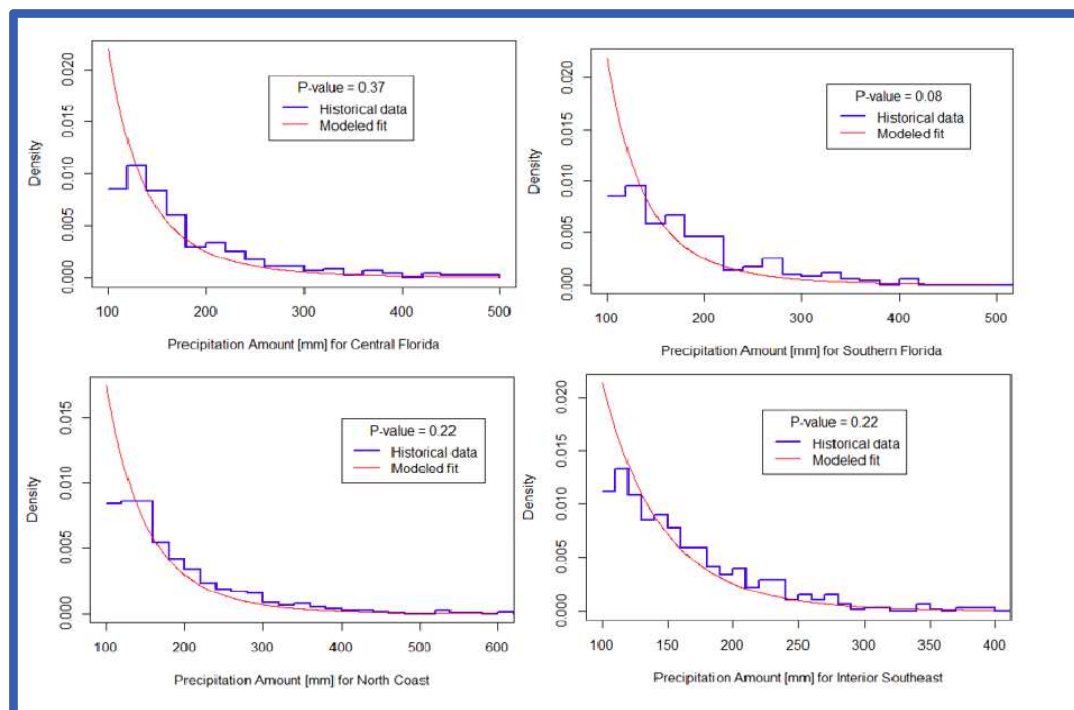
- General
- Meteorological
- Hydrological and Hydraulic
 - Land use/land cover
 - H&H model inputs (flow, depth, etc.)
 - H&H model outputs (velocity, duration, etc.)
 - Flood control measures
- Statistical
- Vulnerability
- Actuarial
- Computer/Information



Image credit: USGS

FLOOD STANDARDS

- General
- Meteorological
- Hydrological and Hydraulic
- **Statistical**
 - Fitting distributions to historical data
 - Goodness-of-fit tests
 - Sensitivity and uncertainty analyses
- Vulnerability
- Actuarial
- Computer/Information



PDFs of historical total precipitation compared to the fitted distribution for four modeled regions

Image Credit: KCC

FLOOD STANDARDS

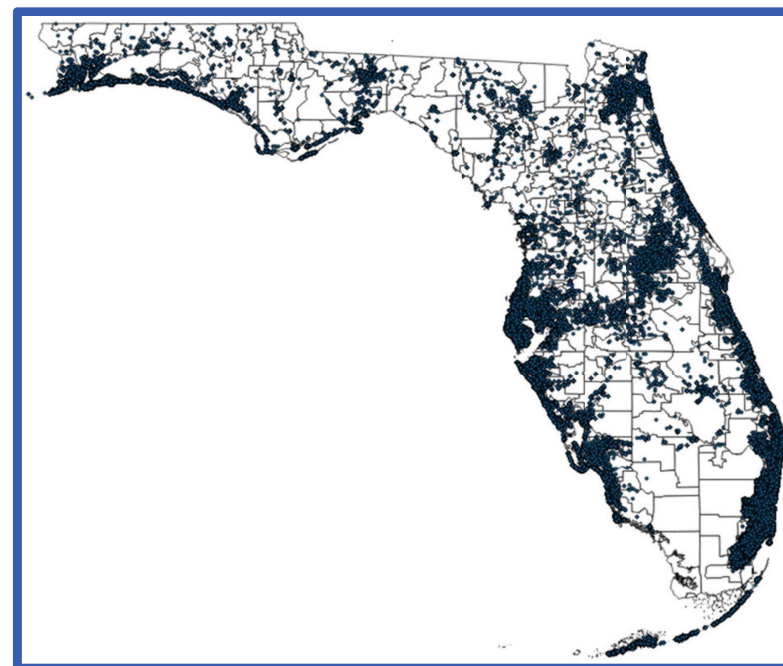
- General
- Meteorological
- Hydrological and Hydraulic
- Statistical
- Vulnerability
 - Damage functions (buildings, contents, appurtenant structures, time element)
 - Damaging wave action
 - Mitigation measures
 - Consideration of Florida Building Code and floodplain management regulations
- Actuarial
- Computer/Information



Hurricane Michael (2018)
Image credit: FEMA

FLOOD STANDARDS

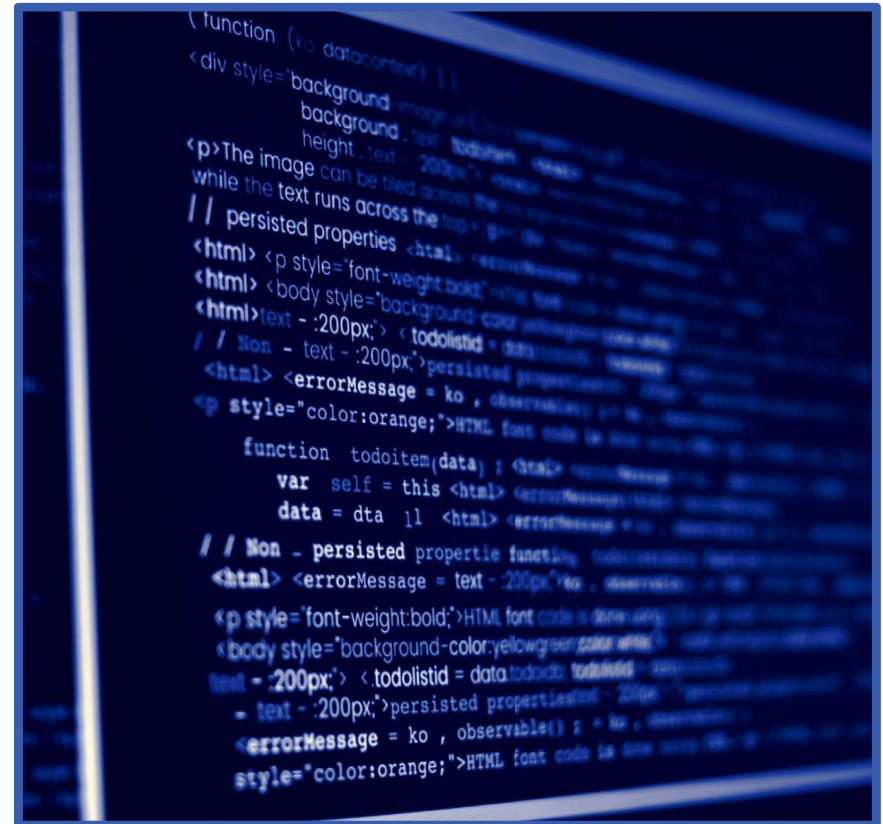
- General
- Meteorological
- Hydrological and Hydraulic
- Statistical
- Vulnerability
- Actuarial
 - Loss costs and PMLs – actuarially sound
 - Demand Surge
 - Law and Ordinance
 - Claims Data
- Computer/Information



NFIP paid claims data in Florida
(July 1975 – January 2014)
Image credit: Shin et al. 2022

FLOOD STANDARDS

- General
- Meteorological
- Hydrological and Hydraulic
- Statistical
- Vulnerability
- Actuarial
- Computer/Information
 - Documentation
 - Specification of requirements
 - Implementation
 - Testing of components and data
 - Human-computer interaction and interface options
 - Procedures to maintain code, data, and documentation
 - Security procedures



MODEL APPROVAL

Model must pass all standards to be found acceptable

Current Accepted Flood Model – 2017 Flood Standards

- Karen Clark & Company US Flood Reference Model Version 1.0

CURRENT WORK OF THE COMMISSION

2021 Flood Standards

- Model submissions were originally due November 1, 2023; an extension to January 31, 2024, was granted in August 2023
- Received 3 flood model submissions – Karen Clark & Company, Impact Forecasting, Florida Public Model
- Professional Team on-site reviews were held in May and June, with additional verification reviews scheduled in September
- Commission meetings to review the models for acceptability: October 31 & November 1, 2024
- Commission added an additional submission date of June 1, 2025

OBSERVATIONS

Flood models are intricate and must include both coastal and inland flooding

- Tropical cyclone induced flooding
 - Fluvial (riverine)
 - Pluvial (precipitation)
 - Storm surge
- Non-tropical system induced flooding
 - Fluvial (riverine)
 - Pluvial (precipitation)
- Account for waves (storm surge) and flood velocity (storm surge and fluvial/pluvial)
- Basins and Catchments
- Major Flood Control Measures
- Mitigation Measures

CHALLENGES

- Flood is a highly localized hazard
- Availability of flood hazard and flood loss data is limited
- Uniform comprehensive exposure dataset is needed
- Modeling of tropical cyclone and non-tropical cyclone flood hazards may require different methods
- There are differences in modeling the fluvial, pluvial, and storm surge hazards
- There is no accepted convention for determining the direct coupling between the flood and hurricane models

QUESTIONS



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