

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

DATE: <u>12/3/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2018-19-P</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2020</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>P/C RBC WG</u>	<input checked="" type="checkbox"/> ADOPTED <u>6/30/20</u>
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u>	<input checked="" type="checkbox"/> EXPOSED <u>12/8/19</u>
	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|---|---|--|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life RBC Instructions |
| <input type="checkbox"/> Fraternal RBC Blanks | <input type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions |
| <input type="checkbox"/> Life RBC Blanks | <input type="checkbox"/> Fraternal RBC Instructions | <input type="checkbox"/> OTHER _____ |

DESCRIPTION OF CHANGE(S)

Modify the instruction to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

REASON OR JUSTIFICATION FOR CHANGE **

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.
2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

Additional Staff Comments:

12/8/19 – The PCRBC WG agreed to expose this proposal for a 45-day public comment period ending Jan. 21.
 1/9/20 – The RAA submitted a comment letter.
 1/21/20 – The APCIA submitted a comment letter.
 2/3/20 – The PCRBC WG adopted the proposal at the Joint Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup conference call. Also the Blank’s proposal has been forwarded to the Blank’s (E) Working Group.
 6/30/20 - The Capital Adequacy Task Force adopted the proposal on the 6/30/20 call.

** This section must be completed on all forms.

Revised 11-2013

PR012 - Credit Risk for Receivables

Reinsurance Recoverables

Detail Eliminated To Conserve Space

For the purpose of the credit risk-based capital charge, the equivalent rating category assigned will correspond to current financial strength rating received from an approved rating agency as outlined in the table below. Ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. If the reinsurer does not have at least one financial strength rating, it should be assigned the “Vulnerable 6 or Unrated Reinsurers” equivalent rating. Amounts recoverable from unrated voluntary pools should be assigned the “Secure 3” equivalent rating. An authorized association including incorporated and individual unincorporated underwriters or a member thereof may utilize the lowest financial strength group rating received from an approved rating agency. The table below shows the R3 reinsurer equivalent rating categories and corresponding factors for A.M. Best, Standard and Poor’s, Moody’s and Fitch ratings.

Reinsurer Designation Equivalent Rating Category and Corresponding Factors—For RBC R3 Credit Risk Charge							
Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unauthorized Unrated	
Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F	
S&P	AAA	AA+, AA-, AA	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	
Fitch	AAA	AA+, AA-, AA	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	
Collateralized Amounts Factors	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%	
Uncollateralized Amounts Factors	3.6%	4.1%	4.8%	5.3%	7.1%	14%	

Detail Eliminated To Conserve Space