

Capital Adequacy (E) Task Force

RBC Proposal Form

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

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| <p style="text-align: right;">DATE: <u>04/01/2020</u></p> <p>CONTACT PERSON: <u>Crystal Brown</u></p> <p>TELEPHONE: <u>816-783-8146</u></p> <p>EMAIL ADDRESS: <u>cbrown@naic.org</u></p> <p>ON BEHALF OF: <u>Health RBC (E) Working Group</u></p> <p>NAME: <u>Steve Drutz</u></p> <p>TITLE: <u>Chief Financial Analyst/Chair</u></p> <p>AFFILIATION: <u>WA Office of Insurance Commissioner</u></p> <p>ADDRESS: <u>5000 Capitol Blvd SE</u> <u>Tumwater, WA 98501</u></p> | <p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # <u>2020-04-H</u></p> <p>Year <u>2021</u></p> <p style="text-align: center;"><u>DISPOSITION</u></p> <p><input checked="" type="checkbox"/> ADOPTED <u>7-30-20 WG, 11/19/20 TF</u></p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> EXPOSED _____</p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p> |
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION OF CHANGE(S)

Add a MAX function to the calculation of Line 17 – RBC Safe Growth Safe Harbor on Page XR021 to match the validation and start the calculation at 0.

REASON OR JUSTIFICATION FOR CHANGE **

NAIC staff received an inquiry from a software vendor on an inconsistency between the HRBC formula within the forecasting file and the validation for the MAX function in the validation of line 17 of the excessive growth charge. The attachment shows how the current calculation in the formula of the forecasting file is working without the MAX function while the validation includes the MAX function which will convert a negative amount to 0. The last screen shot shows the difference in the charge if the MAX function were incorporated into the formula within the forecasting file. The MAX function is included within other parts of the HRBC formula, while it is specifically excluded from the Underwriting portion on page XR012.

Additional Staff Comments:

- 4-3-2020 – cgb – exposed for comment until 5-4-2020
 7-8-2020 – cgb – no comments received during comment period.
 7-30-2020 – cgb – The Health RBC Working Group adopted the proposal the Virtual Summer National Meeting.
 11-19-2020 – cgb – The Capital Adequacy (E) Task Force adopted the proposal.

** This section must be completed on all forms.

Revised 11-2013

Current Forecasting with out the MAX function in Line 17 of the Excessive Growth Charge

| | | Company Name Cocode: 00000 | | | |
|----|--|---|--|----------------|-----------|
| 26 | Excessive Growth Risk | | | | |
| 27 | (13) UW Risk Revenue, Prior Year | 2018 XR012, Col (7), Line (6) (manual entry) † | | (\$20,000,000) | |
| 28 | (14) UW Risk Revenue, Current Year | 2019 XR012, Col (7), Line (6) | | \$1,500,000 | |
| 29 | (15) Net UW Risk RBC, Prior Year | 2018 XR012, Col (7), Line (21) (manual entry) † | | (\$1,000,000) | |
| 30 | (16) Net UW Risk RBC, Current Year | 2019 XR012, Col (7), Line (21) | | \$1,000,000 | |
| 31 | (17) RBC Growth Safe Harbor | [L(14)/L(13)+.10] x L(15) | | (\$25,000) | |
| 32 | (18) Excess of RBC Growth Over Safe Harbor | Max{0,L(16) - L(17)} | | \$1,025,000 | |
| 33 | (19) Excessive Growth Risk RBC | .5 x L(18) | | | \$512,500 |

Current validation for Line 17 that includes the MAX Function

X2019RBCBUSRSK (Table)

- XYARN000938 (RBCBUSRSKC1L17=((C1L14/L13)+0.1)*C1L15)
 - Rule Iteration: No Iteration
 - Test 1 - [X2019RBCBUSRSK, 13, amt] > [X2019RBCBUSRSK, 14, amt]
 - Test 2 - [X2019RBCBUSRSK, 17, amt] = 0
 - Test 3 - [X2019RBCBUSRSK, 13, amt] = 0
 - Test 4 - [X2019RBCBUSRSK, 17, amt] = Max(0, Round((((X2019RBCBUSRSK, 14, amt) / [X2019RBCBUSRSK, 13, amt]) + .1) * [X2019RBCBUSRSK, 15, amt], 0))
 - Test 5 - [X2019RBCBUSRSK, 17, amt] = 0

Forecasting with the MAX function in Line 17 of the Excessive Growth Charge

| | | Company Name Cocode: 00000 | | | |
|----|--|---|--|----------------|-----------|
| 26 | Excessive Growth Risk | | | | |
| 27 | (13) UW Risk Revenue, Prior Year | 2018 XR012, Col (7), Line (6) (manual entry) † | | (\$20,000,000) | |
| 28 | (14) UW Risk Revenue, Current Year | 2019 XR012, Col (7), Line (6) | | \$1,500,000 | |
| 29 | (15) Net UW Risk RBC, Prior Year | 2018 XR012, Col (7), Line (21) (manual entry) † | | (\$1,000,000) | |
| 30 | (16) Net UW Risk RBC, Current Year | 2019 XR012, Col (7), Line (21) | | \$1,000,000 | |
| 31 | (17) RBC Growth Safe Harbor | [L(14)/L(13)+.10] x L(15) | | \$0 | |
| 32 | (18) Excess of RBC Growth Over Safe Harbor | Max{0,L(16) - L(17)} | | \$1,000,000 | |
| 33 | (19) Excessive Growth Risk RBC | .5 x L(18) | | | \$500,000 |

XR021 – Business Risk – Proposed Change

| | | | | (1) | | (2) |
|--|---|--|---|--------------------------------|---------|-----------------|
| | | | | Amount | Factor* | RBC Requirement |
| Company Name Code: 00000 | | | | | | |
| BUSINESS RISK | | | | | | |
| Administrative Expense Risk | | | | | | |
| | | | | <u>Annual Statement Source</u> | | |
| (1) | Claims Adjustment Expenses | | Page 4, Column 2 , Line 20 | | | |
| (2) | General Administrative Expenses | | Page 4, Column 2 , Line 21 | | | |
| (3) | Less the Net Amount of ASC Revenue and Expenses | | Company Records | | | |
| | Included in Lines 1 and 2 | | | | | |
| (4) | Less the Net Amount of ASO Revenue and Expenses | | Company Records | | | |
| | Included in Lines 1 and 2 | | | | | |
| (5) | Less Admin Expenses for Commission & Premium Taxes | | Underwriting & Investment Exhibit Part 3, Line 3, in part | | | |
| (6) | Administrative Expenses Base RBC | | Lines (1) + (2) - (3) - (4) - (5) | \$0 | 0.070 | \$0 |
| (7) | Proration of Admin Expense to Experience Fluctuation Risk | | Lines (6) x (20)/(Lines (21) + (22)) | | | \$0 |
| Non-Underwritten and Limited-Risk | | | | | | |
| (8) | Administrative Expenses for ASC Arrangements | | Company Records | | 0.020 | \$0 |
| (9) | Administrative Expenses for ASO Arrangements | | Company Records | | 0.020 | \$0 |
| (10) | Medical Costs Paid Through ASC Arrangements | | Company Records | | 0.010 | \$0 |
| | (Including Fee-For Service Received From Other Health Entities) | | | | | |
| (11) | Non-Underwritten and Limited Risk Business RBC | | | \$0 | | \$0 |
| Guaranty Fund Assessment Risk | | | | | | |
| (12) | Premiums Subject to Guaranty Fund Assessment | | Included in Sch T - Company Records | | 0.005 | \$0 |
| Excessive Growth Risk | | | | | | |
| (13) | UW Risk Revenue, Prior Year | | 2019 XR012, Column (7), Line (6) (manual entry) † | | | |
| (14) | UW Risk Revenue, Current Year | | 2020 XR012, Column (7), Line (6) | \$0 | | |
| (15) | Net UW Risk RBC, Prior Year | | 2019 XR012, Column (7), Line (21) (manual entry) † | | | |
| (16) | Net UW Risk RBC, Current Year | | 2020 XR012, Column (7), Line (21) | \$0 | | |
| (17) | RBC Growth Safe Harbor | | [Lines (14)/(13)+.10] x Line (15) | \$0 | | |
| (18) | Excess of RBC Growth Over Safe Harbor | | Max{0, Lines (16) - (17)} | \$0 | | |
| (19) | Excessive Growth Risk RBC | | .5 x Line (18) | | | \$0 |

=MAX(IF(+E27>+E28,0,IF(+E27=0,0,((E28/E27)+0.1)*E29)),0)