

## 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"/> Longevity Risk (A/E) Subgroup |

<b>DATE:</b> <u>10/1/2021</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b> <u>Eva Yeung</u> <b>TELEPHONE:</b> <u>816-783-8407</u> <b>EMAIL ADDRESS:</b> <u>eyeung@naic.org</u> <b>ON BEHALF OF:</b> <u>P/C RBC (E) Working Group</u> <b>NAME:</b> <u>Tom Botsko</u> <b>TITLE:</b> <u>Chair</u> <b>AFFILIATION:</b> <u>Ohio Department of Insurance</u> <b>ADDRESS:</b> <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u>	Agenda Item # <u>2021-14-P</u> Year <u>2022</u>  <b style="text-align: center;"><u>DISPOSITION</u></b> <input checked="" type="checkbox"/> ADOPTED <u>CapAd 3/28/22</u> <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input checked="" type="checkbox"/> EXPOSED <u>10/25/21</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 and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Blanks       |
| <input type="checkbox"/> OTHER _____             |  |  |

#### DESCRIPTION OF CHANGE(S)

The proposed change would remove the embedded 2% operational risk contained in the R3 credit risk component.

#### REASON OR JUSTIFICATION FOR CHANGE \*\*

When the reinsurance recoverable credit risk charge was implemented in 2018, a load of operational risk was embedded in the charge. Now, the operational risk is separately addressed in RBC as a standard-alone capital add-on, it results with duplication of the operational risk charge on the reinsurance recoverable component. This proposal intends to eliminate the double-counting effect of the operational risk charge on the component.

#### Additional Staff Comments:

- 10/25/21 – The PCRBC WG exposed it for a 30-day public comment period ending Nov. 24.  
 3/23/22 – The PCRBCWG adopted the proposal on 3/23/22.  
 3/28/22 – The Capital Adequacy (E) Task Force adopted on 3/28/22.

\*\* This section must be completed on all forms.

Revised 2-2019

PR012 – Credit Risk for Receivables

Reinsurance Recoverables

Detail Eliminated To Conserve Space



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 Unrated
A.M. Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F
Standard & Poor's	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	<b>1.6%</b>	<b>2.1%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>
Uncollateralized Amounts Factors	<b>1.6%</b>	<b>2.1%</b>	<b>2.8%</b>	<b>3.3%</b>	<b>5.1%</b>	<b>12.0%</b>

Detail Eliminated To Conserve Space



**2020 P&C RBC - Comparison of Action Levels**

**Current RBC Action Levels vs Alternative RBC Action Level**

Alternative RBC: 2% Reduction on Reinsurance Recoverable RBC Charge for ALL Reinsurance Designation Equivalents

(Excluding Companies with Negative TAC)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL	9						9
	ACL		2					2
	RAL		1	2				3
	CAL			1	13			14
	Trend Test				2	22		24
	No Action			1		2	2,420	2,423
<b>Total</b>		<b>9</b>	<b>3</b>	<b>4</b>	<b>15</b>	<b>24</b>	<b>2,420</b>	<b>2,475</b>

(Companies with TAC Between \$0 and \$5 Million)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL	6						6
	ACL		1					1
	RAL			2				2
	CAL				6			6
	Trend Test				1	5		6
	No Action			1			236	237
<b>Total</b>		<b>6</b>	<b>1</b>	<b>3</b>	<b>7</b>	<b>5</b>	<b>236</b>	<b>258</b>

(Companies with TAC Between \$5 and \$25 Million)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL	3						3
	ACL							0
	RAL							0
	CAL			1	5			6
	Trend Test				1	8		9
	No Action					1	761	762
<b>Total</b>		<b>3</b>	<b>0</b>	<b>1</b>	<b>6</b>	<b>9</b>	<b>761</b>	<b>780</b>

(Companies with TAC Between \$25 Million and \$75 Million)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL							0
	ACL		1					1
	RAL		1					1
	CAL							0
	Trend Test					5		5
	No Action					1	578	579
<b>Total</b>		<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>578</b>	<b>586</b>

(Companies with TAC Between \$75 Million and \$250 Million)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL							0
	ACL							0
	RAL							0
	CAL				2			2
	Trend Test					2		2
	No Action						430	430
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>430</b>	<b>434</b>

(Companies with TAC Between \$250 Million and \$1 Billion)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL							0
	ACL							0
	RAL							0
	CAL							0
	Trend Test					1		1
	No Action						267	267
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>267</b>	<b>268</b>

(Companies with TAC Greater Than \$1 Billion)

		2020 RBC Action Level under Current RBC Formula						Total
		MCL	ACL	RAL	CAL	Trend Test	No Action	Total
2020 RBC Action Level under Alternative RBC Formula	MCL							0
	ACL							0
	RAL							0
	CAL							0
	Trend Test					1		1
	No Action						148	148
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>148</b>	<b>149</b>

**Distributions of Percentage Change in 2020 RBC Ratios by Company Size under Alternative RBC Formula**

Alternative RBC: 2.0% Reduction on Reinsurance Recoverable RBC Charge for ALL Reinsurance Designation Equivalents

RBC Ratio Change\TAC Range	\$0 to \$5	\$5 to \$25	\$25 to \$75	\$75 to \$250	\$250 to \$1,000	Over \$1,000	Total
Less than -50%	0	0	0	0	0	0	0
-50% to -25%	0	0	0	0	0	0	0
-25% to -15%	0	0	0	0	0	0	0
-15% to -5%	0	0	0	0	0	0	0
-5% to 5%	227	662	494	381	249	140	2,153
5% to 15%	12	56	33	22	9	8	140
15% to 25%	9	21	15	11	2		58
25% to 50%	5	18	21	12	5	1	62
Greater than 50%	5	23	23	8	3		62
<b>Subtotal</b>	<b>258</b>	<b>780</b>	<b>586</b>	<b>434</b>	<b>268</b>	<b>149</b>	<b>2,475</b>

**Comparison of 2020 RBC Charge under Alternative RBC Formula**

Alternative RBC: 2.0% Reduction on Reinsurance Recoverable RBC Charge for ALL Reinsurance Designation Equivalents

TAC Range (\$ Million)	\$0 to \$5	\$5 to \$25	\$25 to \$75	\$75 to \$250	\$250 to \$1,000	Over \$1,000	Total
R3 - Current	71,884,508	267,078,272	829,927,624	1,471,721,675	1,935,441,255	5,794,628,606	10,370,681,940
R3 - Alternative	56,439,676	183,797,021	536,125,852	916,477,625	1,278,922,632	4,052,194,696	7,023,957,502
Percentage Change	-21.5%	-31.2%	-35.4%	-37.7%	-33.9%	-30.1%	-32.3%
R4 - Current	394,872,924	798,332,703	2,428,351,877	7,678,683,209	19,336,240,504	99,340,612,630	129,977,093,847
R4 - Alternative	385,941,326	773,790,796	2,382,242,619	7,519,699,697	19,005,250,705	97,621,362,500	127,688,287,643
Percentage Change	-2.3%	-3.1%	-1.9%	-2.1%	-1.7%	-1.7%	-1.8%
RBC After Covariance (incl. Oper Risk) - Current	562,635,300	1,914,873,807	5,366,308,507	14,478,094,005	36,933,609,966	314,404,511,521	373,660,033,106
RBC After Covariance (incl. Oper Risk) - Alternative	547,596,925	1,852,681,348	5,154,973,034	14,028,875,322	36,390,326,203	312,701,382,248	370,675,835,080
Percentage Change	-2.7%	-3.2%	-3.9%	-3.1%	-1.5%	-0.5%	-0.8%