Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force
[X] Catastrophe Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup
[ ] Health RBC (E) Working Group
[ ] Investment RBC (E) Working Group
[ ] P/C RBC (E) Working Group
[ ] Life RBC (E) Working Group
[ ] Operational Risk (E) Subgroup
[ ] Longevity Risk (A/E) Subgroup

	DATE: 10/19/2020	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Jean Buckley**	Agenda Item # 2020-08-CR
TELEPHONE:	**816-783-8406**	Year 2021
EMAIL ADDRESS:	**jbuckley@naic.org**	**DISPOSITION**
ON BEHALF OF:		[x] ADOPTED 03/23/2021
NAME:	**Sakman Luk**	[ ] REJECTED
TITLE:	**Supervising Actuary**	[ ] DEFERRED TO
AFFILIATION:	**New York State Department**	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	**One State Street**	[x] EXPOSED 10/19/20
	New York, NY 10004	[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks
[ ] Property/Casualty RBC Blanks
[ ] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions
[x] Property/Casualty RBC Instructions
[ ] Life and Fraternal RBC Blanks
[ ] OTHER ___________________________

DESCRIPTION OF CHANGE(S)

Add instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the Interrogatories.

REASON OR JUSTIFICATION FOR CHANGE **

Some insurers with no earthquake and/or hurricane exposure did not file PR027A, PR027B and the Interrogatories on PR027. This results with situation that it is not clear if the insurers fail to complete the exhibits or they simply have no gross exposure, thus creating cross-check problem. The clarification wording will reduce the cross-check problems experienced by NAIC.

Additional Staff Comments:

10/19/20 – The Cat Risk SG exposed the proposal for a thirty-day public comment period ending Nov. 18.
03/08/21 – The Cat Risk SG adopted the proposal.
03/15/21 – The P/C RBC WG adopted the proposal.
03/23/21 – The Capital Adequacy (E) Task Force adopted the proposal on the 03/23/2021 meeting in lieu of the Spring National Meeting.

**** This section must be completed on all forms.** **Revised 2-2019**

CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027

The catastrophe risk charge for earthquake (PR027A) and hurricane (PR027B) risks is calculated by multiplying the RBC factors by the corresponding modeled losses and reinsurance recoverables. The risk applies on a net basis with a corresponding contingent credit risk charge for certain categories of reinsurers. Data must be provided for the worst year in 50, 100, 250, and 500; however, only the worst year in 100 will be used in the calculation of the catastrophe risk charge. While projected losses modeled on an Aggregate Exceedance Probability basis is preferred, companies are permitted to report on an Occurrence Exceedance Probability basis if that is consistent with the company's internal risk management process.

The Grand Total (PR027) page includes an interrogatory to support an exemption from filing the catastrophe risk charge. Any company qualifying for exemption from the earthquake risk charge must identify the particular criteria from among (1a), (1b), (2) and (3) that provides its qualification for exemption, and may leave the other three items from this group of four possible qualifications for exemption blank; except identification of criteria (3) as the basis for the exemption requires a further answer to (3a) and (3b). If an insurer does not write or assume earthquake risks leaving no gross exposure, enter an "X" in interrogatory 3, with no need to fill in (3a) and (3b). Any company qualifying for exemption from the hurricane risk charge must identify the particular criteria from among (4a), (4b), (5) and (6) that provides its qualification for exemption, and may leave the other three items from this second group of four possible qualifications for exemption blank. If an insurer does not write or assume hurricane risks leaving no gross exposure, enter an "X" in interrogatory 6.

If the company qualifies for exemption from the earthquake risk charge, page PR027A and line (1) on this page may be left blank. If the company qualifies for exemption from the hurricane risk charge, page PR027B and line (2) on this page may be left blank.

In general, the following conditions will qualify a company for exemption: if it uses an intercompany pooling arrangement or quota share arrangement with U.S. affiliates covering 100% of its earthquake and hurricane risks such that there is no exposure for these risks; if it has a ratio of Insured Value – Property to surplus as regards policyholders of less than 50%; or if it writes Insured Value – Property that includes hurricane and/or earthquake coverage in catastrophe-prone areas representing less than 10% of its surplus as regards policyholders.

"Insured Value – Property" includes aggregate policy limits for structures and contents for policies written and assumed in the following annual statement lines – Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril.

"Catastrophe-Prone Areas in the U.S." include:

i. For hurricane risks, Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean and/or the Gulf of Mexico including Puerto Rico.
ii. For earthquake risk or for fire following earthquake, any of the following commonwealth or states: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.